

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

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EAST SIDE UNION HIGH SCHOOL DISTRICT

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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), 2016 Measure Z Fund (the Fund), as of and for the year ended June 30, 2017, 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 2016 Measure Z Fund of the East Side Union High School District as of June 30, 2017, 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 2016 Measure Z Fund, as of June 30, 2017, 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 6, 2017, 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 6, 2017

EAST SIDE UNION HIGH SCHOOL DISTRICT

2016 MEASURE Z FUND BALANCE SHEET JUNE 30, 2017

ASSETS

Deposits and investments	\$ 71,837,983
Interest receivable	20,094
Total Assets	<u>\$ 71,858,077</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Vendor payable	\$ 2,344
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FUND BALANCE

Restricted for capital projects	71,855,733
Total Liabilities and Fund Balance	<u>\$ 71,858,077</u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Investment income	\$ 20,094
Proceeds from sale of bond	<u>72,000,000</u>
Total Revenues	<u>72,020,094</u>

EXPENDITURES

Current Expenditures	
Services and other operating expenses	161,842
Capital Outlay	<u>2,519</u>
Total Expenditures	<u>164,361</u>

NET CHANGE IN FUND BALANCE	71,855,733
FUND BALANCE - BEGINNING	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 71,855,733</u></u>

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

EAST SIDE UNION HIGH SCHOOL DISTRICT

2016 MEASURE Z FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2016 Measure Z 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 Z Election of 2016 (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 \$510,000,000. The first series of bonds in the amount of \$72,000,000 were sold on May 31, 2017.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balance - Governmental Funds

As of June 30, 2017, fund balance of the Fund is classified as restricted for capital 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.

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.

	Reported Amount	Fair Value
Deposits with County Treasurer	<u>\$ 71,837,983</u>	<u>\$ 71,671,591</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 \$71,671,591 with an average maturity of 528 days.

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.

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 - GENERAL LONG-TERM DEBT

The 2016 Measure Z general obligation bonds are outstanding as follows:

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds		Defeased/ Redeemed	Bonds	
				Outstanding July 1, 2016	Issued		Outstanding June 30, 2017	
2016 A	2021	2%-4%	\$ 72,000,000	\$ -	\$ 72,000,000	\$ -	\$ 72,000,000	

The debt service requirements of 2016 Measure Z bond programs are outstanding as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 19,865,000	\$ 2,342,961	\$ 22,207,961
2019	21,160,000	1,716,650	22,876,650
2020	15,260,000	1,081,850	16,341,850
2021	15,715,000	471,450	16,186,450
Total	\$ 72,000,000	\$ 5,612,911	\$ 77,612,911

Debt Service Requirements

The general obligation bonds mature through the 2021 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

Construction Commitments

As of June 30, 2017, the District had construction commitments which are partially funded by the 2016 Measure Z Fund as follows:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
District Program Cost	\$ 22,657	6/30/2018

Litigation

The Fund is not involved in any known litigation as of June 30, 2017.

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***

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) 2016 Measure Z Fund (the Fund), as of and for the year ended June 30, 2017, 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 6, 2017.

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.


Palo Alto, California
December 6, 2017

SCHEDULE OF FINDINGS

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2016 MEASURE Z FUND
FINANCIAL STATEMENT FINDINGS
JUNE 30, 2017**

None reported.