

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

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**2002 MEASURE G  
GENERAL OBLIGATION BOND FUND  
ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2011**

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2002 MEASURE G BOND FUND**

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**JUNE 30, 2011**

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## INDEPENDENT AUDITOR'S REPORT

Governing Board and  
Citizen's 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), Measure G Bond Fund (the Fund), as of and for the year ended June 30, 2011, 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 Measure G Bond Fund and are not intended to present fairly the financial position and results of operations of East Side Union High School 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 Measure G Bond Fund of the East Side Union High School District at June 30, 2011, 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 12, 2012

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G BOND FUND

### BALANCE SHEET

JUNE 30, 2011

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#### ASSETS

Deposits and investments	\$	47,775,361
Accounts receivable		85,602
Total Assets	\$	<u>47,860,963</u>

#### LIABILITIES AND FUND BALANCES

##### LIABILITIES

Accounts payable	\$	1,066,994
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##### FUND BALANCES

Restricted for capital projects		46,793,969
Total Liabilities and Fund Balances	\$	<u>47,860,963</u>

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, 2011

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REVENUES	
Interest income	\$ 418,504
Transfers and contributions	2
Total Revenues	<u>418,506</u>
EXPENDITURES	
Current Expenditures	
Classified salaries	71,781
Employees benefits	32,053
Supplies	16,819
Services and other operating expenses	920,193
Capital outlay	4,519,347
Total Expenditures	<u>5,560,193</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(5,141,687)
FUND BALANCE - BEGINNING	<u>51,935,656</u>
FUND BALANCE - ENDING	<u>\$ 46,793,969</u>

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

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G BOND FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

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

The accounting policies of the 2002 Measure G General Obligation Bond Fund (the Fund) of the East Side Union High School 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 2002 Measure G General Obligation Bond Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure G Bond Election of 2002. 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 Measure G Bond 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

## 2002 MEASURE G BOND FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

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

As of June 30, 2011, fund balances of the Measure G Bond Fund are 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.

### **Changes in Accounting Principles**

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The District has implemented the provisions of this statement for the year ended June 30, 2011.

### **New Accounting Pronouncements**

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Adoption of the statement is not expected to materially impact the Bond Fund's financial statement.

### **NOTE 2 - INVESTMENTS**

#### **Policies and Practices**

The District 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.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G BOND FUND  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011**

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**Investment in County Treasury**

The District 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.

**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 District 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 \$47,941,619 with an average maturity of 1.238 years.

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$ 47,775,361</u>	<u>\$ 47,941,619</u>

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2011 consisted of interest receivable of \$85,602.

**NOTE 4 – ACCOUNTS PAYABLE**

Payables at June 30, 2011 consisted of vendor payables of \$1,066,994.



# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G BOND FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

### NOTE 5 – GENERAL LONG-TERM DEBT

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

Issue Title	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2011
<b>Current Interest Bond</b>							
1999 Refunding	2013	3.7%-4.8%	\$ 20,900,000	\$ 3,485,000	\$ -	\$ 1,090,000	\$ 2,395,000
2002B	2027	2.5%-5.5%	30,000,000	25,555,000	-	25,555,000	-
2003 Refunding	2022	3.0%-4.6%	36,795,000	27,130,000	-	1,745,000	25,385,000
1999C	2024	3.1%-5.0%	24,500,000	20,895,000	-	20,895,000	-
2003 Refunding	2025	2.0%-5.3%	97,160,000	77,015,000	-	2,205,000	74,810,000
2002 Series C	2029	4.0%-5.0%	50,000,000	43,925,000	-	1,450,000	42,475,000
2002 Series D	2030	3.5%-5.0%	70,000,000	64,460,000	-	2,055,000	62,405,000
2003 Series F	2036	4.0%-5.0%	50,000,000	47,410,000	-	1,025,000	46,385,000
2006 Refunding	2036	4.0%-5.25%	42,665,000	42,665,000	-	-	42,665,000
2007 Refunding	2020	4.0%-5.0%	11,545,000	11,510,000	-	340,000	11,170,000
2008 Series A	2039	4.0%-5.0%	50,000,000	49,500,000	-	790,000	48,710,000
2002 Series H	2034	5.1%-6.0%	18,000,000	17,950,000	-	125,000	17,825,000
2008 Series B	2040	3.0%-5.0%	100,000,000	100,000,000	-	-	100,000,000
2010 Refunding	2028	2.0%-5.0%	46,160,000	-	46,160,000	-	46,160,000
Sub-Total			<u>601,565,000</u>	<u>531,500,000</u>	<u>46,160,000</u>	<u>57,275,000</u>	<u>520,385,000</u>
<b>Capital Appreciation</b>							
1991 Series F	2011	4.9%	2,999,956	2,475,000	-	2,475,000	-
1999 Series A	2025	5.3%-6.5%	25,499,993	6,108,262	399,883	-	6,508,145
2002 Series E	2030	4.2%-5.1%	29,999,529	39,427,397	2,168,280	-	41,595,677
2002 Series G	2032	4.60%-6.9%	19,997,739	23,148,654	1,172,871	-	24,321,525
Sub-Total			<u>78,497,217</u>	<u>71,159,313</u>	<u>3,741,034</u>	<u>2,475,000</u>	<u>72,425,347</u>
Total General Obligation Bonds			<u>\$ 680,062,217</u>	<u>\$ 602,659,313</u>	<u>\$ 49,901,034</u>	<u>\$ 59,750,000</u>	<u>\$ 592,810,347</u>

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G BOND FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

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Principal and interest outstanding as of June 30, 2011, on the total District bonds are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 15,133,582	\$ 23,962,509	\$ 39,096,091
2013	17,485,877	23,662,670	41,148,547
2014	17,990,000	21,164,726	39,154,726
2015	19,005,000	20,470,623	39,475,623
2016	21,145,977	20,725,157	41,871,134
2017-2021	123,777,850	97,312,431	221,090,281
2022-2026	168,627,389	78,788,809	247,416,198
2027-2031	100,201,721	72,612,167	172,813,888
2032-2036	57,509,332	23,028,695	80,538,027
2037-2040	32,790,000	3,148,750	35,938,750
subtotal	<u>573,666,728</u>	<u>\$384,876,536</u>	<u>\$958,543,264</u>
Accretion to date	19,143,619		
Total	<u>\$592,810,347</u>		

### Debt Service Requirements

The general obligation bonds mature through 2040. 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 under the control of the Santa Clara County Controller's Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## 2002 MEASURE G BOND FUND NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011

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### *NOTE 6 - COMMITMENTS AND CONTINGENCIES*

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects which are partially funded by Measure G:

<u>CAPITAL PROJECT</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Program Management Fees - All sites	\$ 1,548,017	6/30/2013
JL Fire Science Academy	655,324	6/30/2012
JL Relocate Child Care	1,156,765	6/30/2012
ST HVAC Project	153,034	6/30/2012
Charter School- KIPP	437,773	6/30/2012
	<u>\$ 3,950,913</u>	

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***INDEPENDENT AUDITOR'S REPORT***

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the East Side Union High School District (the District) Measure G Bond Fund (the Fund), as of and for the year ended June 30, 2011, and have issued our report thereon dated January 12, 2012. 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 East Side Union High School District's Measure G Bond 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, the California Department of Education, the State Controller's Office, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California  
January 12, 2012

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

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**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G BOND FUND  
FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2011**

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None reported.



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G BOND FUND  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2011**

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None reported.