

EAST SIDE UNION HIGH SCHOOL DISTRICT

**2002 MEASURE G
GENERAL OBLIGATION BONDS
PERFORMANCE AUDIT**

JUNE 30, 2011

**EAST SIDE UNION HIGH SCHOOL DISTRICT
2002 MEASURE G
GENERAL OBLIGATION BOND FUND**

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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 General Obligation Bond fund (the Fund) for the year ended June 30, 2011.

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 District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. 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 District's internal control.

The results of our tests indicated that the District expended Measure G General Obligation Bond 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.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 12, 2012

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AUTHORITY FOR ISSUANCE

The 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 2002 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 ISSUE

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the 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 Bond language, 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.

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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 Measure G Bond 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 Measure G Bond 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, 2010 to June 30, 2011. 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, 2011 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, 2011 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, 2010 and ending June 30, 2011, 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 \$ 4,229,824. This represents 76 percent of the total expenditures of \$5,560,193, including expenditures related to transferred funds.
3. We verified that funds from the Measure G Bond Fund were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held in the Measure G Bond Fund 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.

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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 Measure G Bond Fund and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Measure G Bond Fund (Proposition 39), 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.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

None reported.