



Financial and Performance Audits
2014 Measure E Fund
June 30, 2021

Los Gatos-Saratoga Joint Union High School District

Financial Audit

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Financial Audit
2014 Measure E Fund
June 30, 2021

Los Gatos-Saratoga Joint Union High School District



Independent Auditor's Report

Governing Board and
Citizens' Oversight Committee
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Gatos-Saratoga Joint Union High School District's (the "District"), 2014 Measure E Fund (the "Fund"), as of and for the year ended June 30, 2021, 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 fraud or error. 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 presentation of financial statement.

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 2014 Measure E Fund of Los Gatos-Saratoga Joint Union High School District as of June 30, 2021, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Building Fund specific to 2014 Measure E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Management has omitted the management, discussion, and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2022 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 solely 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 effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Menlo Park, California
January 31, 2022

Los Gatos-Saratoga Joint Union High School District

2014 Measure E Fund

Balance Sheets

June 30, 2021

Assets	
Deposits and investments	\$ 24,726,625
Interest receivable	29,191
Due from other funds	<u>93,023</u>
Total assets	<u>\$ 24,848,839</u>
Liabilities and Fund Balance	
Liabilities	
Vendor payable	\$ 300,783
Fund Balance	
Restricted for capital projects	<u>24,548,056</u>
Total liabilities and fund balance	<u>\$ 24,848,839</u>

Los Gatos-Saratoga Joint Union High School District
2014 Measure E Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2021

Revenues		
Interest income		<u>\$ 216,300</u>
Expenditures		
Current		
Materials and supplies		67,739
Contracted services		5,193
Capital Outlay		
Building and improvements to buildings		4,141,373
Equipment		<u>30,445</u>
Total expenditures		<u>4,244,750</u>
Net Change in Fund Balance		(4,028,450)
Fund Balance - Beginning		<u>28,576,506</u>
Fund Balance - Ending		<u><u>\$ 24,548,056</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the 2014 Measure E Fund (the Fund) 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 (AICPA). The Los Gatos-Saratoga Joint Union High School District Building 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 only 2014 Measure E Fund (the Fund) used to account for 2014 Measure E projects. This Fund was established to account for the expenditures of general obligation bonds issued under 2014 Measure E Fund. These financial statements are not intended to present fairly the financial position and results of operations of the Los Gatos-Saratoga Joint Union High School District in compliance with accounting principles generally accepted in the United States of America. Measure E authorized the District to issue \$99 million of general obligation bonds to provide for repairing, upgrading, acquiring, constructing and equipping of District sites and facilities. As of June 30, 2021, the District has issued all the authorized \$99 million.

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

The Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are accrued for, if measurable and available, within 365 days of fiscal year-end. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances lapse at June 30.

Fund Balance - 2014 Measure E Fund

As of June 30, 2021, the fund balance is classified as follows:

Restricted for construction - amounts that can be spent only 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Cash and Investments

Investments held at June 30, 2021, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Fair values of investments in county investment pools are determined by the program sponsor.

Note 2 - Investments

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.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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 Santa Clara County Treasury Pool. The County Pool has an average maturity of 615 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measure by the assignment of a rating by a nationally recognized statistical rating organization. Investments with the County Treasurer are not rated.

Note 3 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2021, between governmental funds are as follows:

The balance of \$89,091 due to the general fund from the building fund and a balance of \$3,932 due to the Cafeteria fund from building fund resulted from payments between funds are made.

Note 4 - Commitments and Contingencies

Litigation

The District 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 District at June 30, 2021.



Independent Auditor's Report
June 30, 2021

**Los Gatos-Saratoga Joint Union High
School District**



**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' Oversight Committee
Los Gatos-Saratoga Joint Union High School District
Los Gatos, 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 accompanying financial statements of the Los Gatos-Saratoga Joint Union High School District's (the "District") 2014 Measure E Fund (the "Fund"), as of and for the year ended June 30, 2021, and the related notes of the financial statements, and have issued our report thereon dated January 31, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund specific to 2014 Measure E are intended to present the financial position and the changes in financial position attributable to the transactions of that Fund. They do not purport to, and do not, present fairly the financial position of the District as of June 30, 2021, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing 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 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 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Los Gatos-Saratoga Joint Union High School District's 2014 Measure E Fund's 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 financial statements. 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 cursive script that reads "Eide Bailly LLP".

Menlo Park, California
January 31, 2022

Los Gatos-Saratoga Joint Union High School District

2014 Measure E Fund

Financial Statement Findings

June 30, 2021

None reported.



Performance Audit
2014 Measure E Fund
June 30, 2021

Los Gatos-Saratoga Joint Union High School District



Independent Auditor's Report on Performance

Governing Board and
Citizens' Oversight Committee
Los Gatos-Saratoga Joint Union High School District
Los Gatos, California

We were engaged to conduct a performance audit of the Los Gatos-Saratoga Joint Union High School District's (District), 2014 Measure E Fund (the "Fund") for the year ended June 30, 2021.

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 and Appendix A contained in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel. 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 the procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The results of our tests indicated that the District, in all significant respects, expended 2014 Measure E fund 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.

This report is intended solely for the information and use of the governing board, citizens' oversight committee, and management of the District, and is not intended to be and should not be used by anyone other than this specified party.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Menlo Park, California
January 31, 2022

Authority for Issuance

The general obligation bonds associated with 2014 Measure E Fund were authorized pursuant to the Constitution and laws of the State of California (the State), including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the State Government Code, commencing with Section 53506 et seq., as amended, Article XIII A of the State Constitution and pursuant to a resolution adopted by the Board.

The District received authorization at an election held on June 3, 2014 by the requisite 55% of the votes cast by eligible voters within the District to issue \$99 million aggregate principal amount of general obligation bonds (the "2014 Authorization"). The New Money Bonds represent the first series of bonds issued under the 2014 Authorization. The remaining \$54 million of the 2014 Authorization was issued in the fiscal year 2016-2017.

Purpose of Issuance

The general obligation bond funds of the District would be used to finance the repairing, upgrading, acquiring, constructing and equipping of District sites and facilities.

Authority for the Audit

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 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.
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 2014 Measure E.
2. Determine whether salary transactions, charged to the Fund were in support of 2014 Measure E and not for District general administration or operations.

Scope of the Audit

The scope of our performance audit covered the period of July 1, 2020 to June 30, 2021. 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, 2021, were not reviewed or included within the scope of our audit or in this report.

Methodology

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1 2020 through June 30, 2021, for the 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 the Measure as to the approved bond projects list. We performed the following procedures:

1. We identified expenditures and projects charged to the general obligation bond proceeds by obtaining the general ledger and project listing.
2. We selected a sample of expenditures using the following criteria:
 - a. We considered all expenditures recorded in all object codes.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2020 through June 30, 2021 from 2014 Measure E bond proceeds.
 - c. We selected all expenditures that were individually significant expenditures. Individually significant expenditures were identified as individual transactions (expenditures) that exceeded approximately four percent of the total expenditures incurred.
 - d. For all items below the individually significant threshold identified in item 2c, judgmentally selected expenditures based on risk assessment and consideration of coverage of all object codes, and projects for period starting July 1, 2020 and ending June 30, 2021.
3. Our sample included transactions totaling \$3,571,838. This represents 84 percent of the total expenditures of \$4,244,750.

4. We reviewed the actual invoices and other supporting documentation to determine that:
 - a. Expenditures were supported by invoices with evidence of proper approval and documentation of receipting goods or services.
 - b. Expenditures were supported by proper bid documentation, as applicable.
 - c. Expenditures were expended in accordance with voter-approved bond project list.
 - d. Bond proceeds were not used for salaries of school administrators or other operating expenses of the District.

5. We determined that the District has met the compliance requirement of 2014 Measure E if the following conditions were met:
 - a. Supporting documents for expenditures were aligned with the voter-approved bond project list.
 - b. Supporting documents for expenditures were not used for salaries of school administrators or other operating expenses of the District.

Conclusion

The results of our tests indicated that, in all significant respects, the Los Gatos-Saratoga Joint Union High School District has properly accounted for the expenditures held in the 2014 Measure E Fund and that such expenditures were made for authorized Bond projects in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.