
SAN JOSE UNIFIED SCHOOL DISTRICT

**MEASURE F BOND FUND
ANNUAL FINANCIAL REPORT
JUNE 30, 2011**

SAN JOSE UNIFIED SCHOOL DISTRICT

MEASURE F BOND FUND

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INDEPENDENT AUDITOR'S REPORT

Governing Board of the San Jose Unified School District
Citizen's Bond Oversight Committee
San Jose, California

We have audited the accompanying financial statements of the San Jose Unified School District (the District), 2002 General Obligation Bond Fund (Measure F), 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 Building Fund specific to Measure F and are not intended to present fairly the financial position and results of operations of San Jose Unified 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 2002 General Obligation Bond Fund (Measure F) of the San Jose Unified 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 October 11, 2011, on our consideration of the 2002 General Obligation Bond Fund's (Measure F) 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.

Varinck Trime Day + Co. LLP

Palo Alto, California
October 11, 2011

SAN JOSE UNIFIED SCHOOL DISTRICT

**MEASURE F BOND FUND
BALANCE SHEET
JUNE 30, 2011**

ASSETS

| | |
|--------------------------|----------------------------|
| Deposits and investments | \$ 4,667,014 |
| Accounts receivable | 8,731 |
| Due from other funds | <u>110,562</u> |
| Total Assets | <u><u>\$ 4,786,307</u></u> |

LIABILITIES AND FUND BALANCES

LIABILITIES

| | |
|------------------|------------|
| Accounts payable | \$ 159,664 |
|------------------|------------|

FUND BALANCES

| | |
|------------|------------------|
| Restricted | <u>4,626,643</u> |
|------------|------------------|

| | |
|-------------------------------------|----------------------------|
| Total Liabilities and Fund Balances | <u><u>\$ 4,786,307</u></u> |
|-------------------------------------|----------------------------|

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

SAN JOSE UNIFIED SCHOOL DISTRICT

**MEASURE F BOND FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

REVENUES

| | |
|-----------------------------|------------------|
| Interest income | \$ 40,848 |
| Transfers and contributions | 8,502,828 |
| Total Revenues | <u>8,543,676</u> |

EXPENDITURES

| | |
|------------------------|-------------------|
| Current Expenditures | |
| Classified salaries | 93,283 |
| Employee benefits | 39,265 |
| Materials and supplies | 453,195 |
| Professional services | 363,647 |
| Capital outlay | 9,340,336 |
| Total Expenditures | <u>10,289,726</u> |

EXCESS OF EXPENDITURES OVER REVENUES (1,746,050)

OTHER FINANCING (USES)

| | |
|---------------|------------------|
| Transfers out | <u>(467,757)</u> |
|---------------|------------------|

EXCESS OF EXPENDITURES AND FINANCING USES

OVER REVENUES AND OTHER FINANCING SOURCES (2,213,807)

FUND BALANCE, BEGINNING OF YEAR 6,840,450

FUND BALANCE, END OF YEAR \$ 4,626,643

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

SAN JOSE UNIFIED SCHOOL DISTRICT

MEASURE F BOND FUND NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the San Jose Unified School District Bond 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. The San Jose Unified School District Measure F Bond 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 the Measure F Bond Fund of the San Jose Unified School District. This fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2002. The authorized issuance amount of the bonds is \$429,000,000. The first series of bonds (2002 Series A) in the amount of \$84,000,000, the second series of bonds (2005 Series B) in the amount of \$91,000,000, the third series of bonds (2006 Series C) in the amount of \$149,999,026, and the fourth series of bonds (2008 Series D) in the amount of \$104,000,000 have been sold. These financial statements are not intended to present fairly the financial position and results of operations of the San Jose Unified School District, as a whole, in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Measure F Bond Building 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 San Jose Unified School District Measure F Bond Fund are accounted for under the modified accrual basis of accounting. 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 (when goods are received or services rendered), except for unmatured interest on general long-term debt, which is recognized when due.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. No amounts were reserved or designated at June 30, 2011.

SAN JOSE UNIFIED SCHOOL DISTRICT

MEASURE F BOND FUND NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2011

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Supplemental taxes for repayment of bond proceeds are collected by the County of Santa Clara from all taxable property within the District. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10, and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County Santa Clara bills and collects the taxes for the District. The District recognizes tax revenues when received. The tax revenues collected for repayment of the bonds is accumulated in the bond interest and redemption fund of the San Jose Unified School District, which has not been included in these financial statements.

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, consist of the following:

| | |
|--------------------------------|----------------------------|
| Deposits with county treasurer | <u><u>\$ 4,667,014</u></u> |
|--------------------------------|----------------------------|

Investments at June 30, 2011, held on behalf of the Measure F Bond Fund of the San Jose Unified School District consist of deposits in the County of Santa Clara Treasury:

| | <u>Reported Amount</u> | <u>Fair Value</u> |
|--------------------------------|----------------------------|----------------------------|
| Deposits with county treasurer | <u><u>\$ 4,667,014</u></u> | <u><u>\$ 4,683,255</u></u> |

SAN JOSE UNIFIED SCHOOL DISTRICT

MEASURE F BOND FUND NOTES TO FINANCIAL STATEMENTS AS OF JUNE 30, 2011

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 instruments; 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 agreements; 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 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 statements 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 to changes in the 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 the deposits for the Bond fund with the County Treasurer at June 30, 2011 was \$4,683,255 and the weighted average of the pool was 1.24 years.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

SAN JOSE UNIFIED SCHOOL DISTRICT

**MEASURE F BOND FUND
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011**

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2011, consist of the following:

Interest receivable \$ 8,731

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consists of the following:

Vendor payables \$ 159,664

NOTE 5 – LONG-TERM DEBT

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Assets in the Government - Wide financial statements of the San Jose Unified School District. The following information is provided for informational purposes.

General obligation bonds related to Measure F have been issued and are outstanding as follows:

| <u>Issue Date</u> | <u>Maturity Date</u> | <u>Interest Rate</u> | <u>Original Issue</u> | <u>July 1, 2010</u> | <u>Accreted Interest</u> | <u>Redeemed</u> | <u>June 30, 2011</u> |
|-------------------|----------------------|----------------------|-----------------------|------------------------------|----------------------------|----------------------------|------------------------------|
| 8/1/02 | 8/1/28 | 2.25-5.375% | \$ 84,000,000 | \$ 52,620,000 | \$ - | \$ 450,000 | \$ 52,170,000 |
| 4/20/05 | 4/20/29 | 3.0-5.0% | 91,000,000 | 82,210,000 | - | 225,000 | 81,985,000 |
| 6/1/06 | 6/1/30 | 4.0-5.0% | 103,680,000 | 96,410,000 | - | 2,045,000 | 94,365,000 |
| 6/1/06 | 6/1/31 | 4.86-4.98% | 46,319,026 | 56,334,184 | 2,818,309 | - | 59,152,493 |
| 4/24/08 | 8/1/32 | 4.0-5.0% | 104,000,000 | 104,000,000 | - | - | 104,000,000 |
| | | | | <u><u>\$ 391,574,184</u></u> | <u><u>\$ 2,818,309</u></u> | <u><u>\$ 2,720,000</u></u> | <u><u>\$ 391,672,493</u></u> |

SAN JOSE UNIFIED SCHOOL DISTRICT

**MEASURE F BOND FUND
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011**

Debt Service Requirements:

The general obligation bonds mature through 2033 as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest to Maturity</u> | <u>Total</u> |
|--------------------|-----------------------|---------------------------------|-----------------------|
| 2012 | \$ 3,520,000 | \$ 16,205,027 | \$ 19,725,027 |
| 2013 | 4,390,000 | 16,051,672 | 20,441,672 |
| 2014 | 5,330,000 | 15,862,114 | 21,192,114 |
| 2015 | 6,350,000 | 15,613,698 | 21,963,698 |
| 2016 | 7,480,000 | 15,288,226 | 22,768,226 |
| 2017-2021 | 62,980,000 | 68,763,866 | 131,743,866 |
| 2022-2026 | 106,690,000 | 46,950,055 | 153,640,055 |
| 2027-2031 | 118,973,720 | 68,879,561 | 187,853,281 |
| 2032-2033 | 63,125,306 | 38,787,398 | 101,912,704 |
| Sub Total | <u>378,839,026</u> | <u>\$ 302,401,617</u> | <u>\$ 681,240,643</u> |
| Accretion to-date | 12,833,467 | | |
| Total | <u>\$ 391,672,493</u> | | |

**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 of the San Jose Unified School District
Citizen's Bond Oversight Committee
San Jose, California

We have audited the accompanying financial statements of the San Jose Unified School District (the District) 2002 General Obligation Bond Fund (Measure F), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. 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 San Jose Unified School District'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 San Jose Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Jose Unified School District'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 the 2002 General Obligation Bond Fund (Measure F) 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, and the Measure F Citizens Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Vasinek Trime Day + Co. LLP

Palo Alto, California
October 11, 2011