



**2014 Measure K Fund
Annual Financial Report and Performance Audit
For the Year Ended
June 30, 2019
Fremont Union High School District**



**2014 Measure K Fund
Annual Financial Report
For the Year Ended
June 30, 2019**

Fremont Union High School District

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens' Oversight Committee
Fremont Union High School District
Sunnyvale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Fremont Union High School District (District), 2014 Measure K Fund (Fund), as of and for the year ended June 30, 2019, 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 opinions 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 from 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 the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund of the Fremont Union High School District, as of June 30, 2019, 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 of the Building Fund specific to 2014 Measure K 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, 2019, and the changes in its 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 November 20, 2019 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.



Palo Alto, California
November 20, 2019

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**BALANCE SHEET
JUNE 30, 2019**

ASSETS

Cash and investments	\$ 132,747,415
Accounts receivable	531,029
Due from the District	3,196,822
Total Assets	<u>\$ 136,475,266</u>

LIABILITIES AND FUND BALANCE

Liabilities

Vendor payable	\$ 14,494,177
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Fund Balance

Restricted for capital projects	121,981,088
Total Liabilities and Fund Equity	<u>\$ 136,475,265</u>

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

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2019**

REVENUES	
Interest	\$ 1,482,142
EXPENDITURES	
Current Expenditures	
Classified salaries	852,011
Employee benefits	297,022
Supplies	154,864
Services and operating expenditures	683,964
Capital Outlay	<u>62,657,284</u>
Total Expenditures	<u>64,645,145</u>
Deficiency of Revenues Over Expenditures	(63,163,003)
Other Financing Sources	
Proceeds from sale of bonds	<u>95,000,000</u>
NET CHANGE IN FUND BALANCE	31,836,997
Fund Balance - Beginning	<u>90,144,091</u>
Fund Balance - Ending	<u><u>\$ 121,981,088</u></u>

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

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fremont Union High School District's (District) 2014 Measure K Fund (Fund) conforms 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 only the Fund used to account for 2014 Measure K projects. This Fund was established to account for the expenditures of general obligation bonds issued under 2014 Measure K. These financial statements are not intended to present fairly the financial position and results of operations of the Fremont Union School District in compliance with accounting principles generally accepted in the United States of America.

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 2014 Measure K Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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.

On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred.

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.

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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.

Fund Balance - 2014 Measure K Fund

As of June 30, 2019, the fund balance is classified as follows:

Restricted - 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. The fund balance can only be used for construction projects authorized by measure K.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

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, 2019, 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.

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - INVESTMENTS

Investment in County Treasury

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. The Fund maintains all of its investment with the Santa Clara County Investment Pool.

Fair Value Measurement

The Fund recognizes the fair value measurement of its investments on a recurring basis, based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investment in the county treasury investment pool are not measured using the input levels above because the participant's transactions are based on amortized cost which approximate fair value.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Fund manages its exposure to interest rate risk by investing in the Santa Clara County Investment Pool. The Fund's investment has an average maturity of 436 days.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019, consisted of the following:

	<u>Amount</u>
Local vendor receivable	\$ 136,750
Interest receivable	394,279
Total Accounts Receivable	<u>\$ 531,029</u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2019**

None reported.



2014 Measure K

Performance Audit Report

For the Year Ended

June 30, 2019

Fremont Union High School District

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

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JUNE 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens' Oversight Committee
Fremont Union High School District
Sunnyvale, California

We were engaged to conduct a performance audit of the Fremont Union High School District's (District), 2014 Measure K Fund (Fund) for the year ended June 30, 2019.

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 Fund'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 Fund's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the 2014 Measure K 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, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

AUTHORITY FOR ISSUANCE

The 2014 Measure K General Obligation 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 District received authorization at an election held on November 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$295,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. Measure K required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2014 Authorization). The funds represent all series of the authorized bonds to be issued under the 2014 Authorization.

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

JUNE 30, 2019

PURPOSE OF ISSUANCE

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 building the new classrooms and facilities needed to serve a growing student population for Cupertino, Fremont, Homestead, Lynbrook, and Monta Vista High Schools.

The funds will be used to build new classrooms and facilities to avoid overcrowding; upgrade science labs and technology; update computer network capability and replace, acquire, construct and renovate school 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 K.
2. Determine whether salary transactions, charged to the Fund were in support of 2014 Measure K and not for District general administration or operations.

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

JUNE 30, 2019

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2018 to June 30, 2019. 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, 2019 were not reviewed or included within the scope of our audit or in this report.

FINANCIAL SUMMARY

1. The funds were authorized at an election of the registered voters of the District held on November 4, 2014. The bonds were authorized at an issuance of \$295,000,000 for the purpose of financing the addition and modernization of school facilities. The first series of the bonds were issued in April 2015, with a face value of \$100,000,000. The second series of the bonds were issued in June 2017, with a face value of \$100,000,000. The remaining series of the bonds were issued in May 2019, with a face value of \$95,000,000.
2. Total expenditures and commitments through June 30, 2019, were \$207,151,297 since inception.
3. An analysis of expenditures as of June 30, 2019 is as follows:

EXPENDITURES	Prior Periods	Current Year	Total
Current Expenditures			
Classified salaries and benefits	\$ 3,084,029	\$ 1,149,033	\$ 4,233,062
Supplies	611,004	154,864	765,868
Services and operating expenditures	1,753,444	683,964	2,437,408
Bond issuance costs	225,000	-	225,000
Capital outlay	107,726,978	62,657,284	170,384,262
Total Expenditures	\$ 113,400,455	\$64,645,145	178,045,600
Contracted commitments as of June 30, 2019			29,105,697
Total Expenditures and Commitments			\$ 207,151,297

**FREMONT UNION HIGH SCHOOL DISTRICT
2014 MEASURE K FUND**

JUNE 30, 2019

Available unspent funds from the bonds as of June 30, 2019 are:

	<u>Prior Periods</u>	<u>Current Year</u>	<u>Total</u>
Bond proceeds	\$ 200,000,000	\$95,000,000	\$ 295,000,000
Interest income	3,516,421	1,482,143	4,998,564
Other local sources	28,125	-	28,125
Total expenditures	<u>(113,400,455)</u>	<u>(64,645,145)</u>	<u>(178,045,600)</u>
Total	<u>\$ 90,144,091</u>	<u>\$31,836,998</u>	<u>121,981,089</u>
Contracted commitments as of June 30, 2019			<u>(29,105,697)</u>
Amount available			<u>\$ 92,875,392</u>

METHODOLOGY

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2019 for the 2014 Measure K. 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 2014 Measure K as to the approved bond projects list. We performed the following procedures:

1. We verified the 2014 Measure K Fund expenditures were accounted for in Fund 216 and Fund 217 (2014 Measure K Fund) of the District.
2. We examined non-payroll related expenditures aggregating \$54,659,363 which is 86 percent of the total Measure K non-payroll related expenditures for the year ended June 30, 2019. Our review did not reveal any items that were paid from the Measure K General Obligation Bond proceeds that did not comply with the intended use of bond proceeds approved by the voters of the District on November 4, 2014. See Appendix A for a list of expenditures reviewed.
3. We examined payroll related expenditures aggregating \$1,149,033 which is 100 percent of the total Measure K Fund payroll related expenditures for the year ended June 30, 2019. Our review did not reveal any items that were paid from the Measure K General Obligation Bond proceeds that did not comply with the intended use of bond proceeds approved by the voters of the District on November 4, 2014.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Fremont Union High School District has properly accounted for the expenditures held in the Measure K resources and that such expenditures were made for authorized Bond projects.

This report is intended solely for the information and use of the governing board, the Citizens' Oversight Committee and management of the District, and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the report, which is a matter of public record.

Eide Bailly LLP
Palo Alto, California
November 20, 2019

FREMONT UNION HIGH SCHOOL DISTRICT

**BUILDING FUND – 2014 MEASURE K GENERAL OBLIGATION BOND
RESOURCE**

**APPENDIX A – NONPAYROLL EXPENDITURES REVIEWED (Continued)
FOR THE YEAR ENDED JUNE 30, 2019**

Date	Reference	Vendor	School Site	Project Description	Amount
8/10/2018	PO-181544	Blach Construction	Fremont High School	Cafe/Gym	771,140
4/5/2019	PO-181544	Blach Construction	Lynbrook High School	Cafe/Quad	760,178
10/9/2018	PO-181544	Blach Construction	Fremont High School	Cafe/Quad	733,405
10/9/2018	PO-181544	Blach Construction	Fremont High School	Cafe/Quad	729,922
9/7/2018	PO-180574	Blach Construction	Fremont High School	Educational Options Facility	604,661
1/4/2019	PO-181544	Blach Construction	Lynbrook High School	Café/Quad	596,318
3/8/2019	PO-181094	Swinerton Builders	Homestead High School	Innovation Hub	576,054
1/15/2019	PO-172024	Lathrop Construction	Fremont High School	New GSS and Classroom	569,247
9/14/2018	PO-181144	Lathrop Construction	Monta Vista High School	Gym Mod, Amphitheatre, Dance	446,633
1/23/2019	PO-181144	Lathrop Construction	Monta Vista High School	Gym	364,104
1/23/2019	PO-181144	Lathrop Construction	Monta Vista High School	Gym	117,890
11/6/2018	PO-181744	One Workplace L. Fe	Fremont High School	Furniture	115,664
8/21/2018	PO-180334	Quattrocchi Kwok Ar	Homestead High School	GSS	112,538
11/20/2018	PO-190014	Blach Construction	Fremont High School	Construction Management	109,137
11/30/2018	PO-191074	Division Of State A	Homestead High School	Guidance, Support and Student Service Building	108,750
10/19/2018	PO-190014	Blach Construction	Fremont High School	Construction Management	108,601

FREMONT UNION HIGH SCHOOL DISTRICT

**BUILDING FUND – 2014 MEASURE K GENERAL OBLIGATION BOND
RESOURCE**

**APPENDIX A – NONPAYROLL EXPENDITURES REVIEWED (Continued)
FOR THE YEAR ENDED JUNE 30, 2019**

Date	Reference	Vendor	School Site	Project Description	Amount
4/2/2019	PO-190014	Blach Construction	Fremont High School	Construction Management	107,353
10/9/2018	PO-190614	One Workplace L. Fe	Fremont High School	Furniture and Fixture	105,628
2/22/2019	PO-190614	One Workplace L. Fe	Fremont High School	Furniture and Fixture	105,628
9/28/2018	PO-190554	Inside Source Inc	Fremont High School	Furniture and Fixture	105,566
6/30/2019	EP-900438	Blach Construction	CHS	Exhaust Fan	25,963
6/30/2019	EP-900437	Blach Construction	Lynbrook High School	GSS Building	21,620
6/30/2019	EP-900598	Troxell Communicati	Monta Vista High School	Technology-Ed Opts	21,210
8/21/2018	PO-190014	Blach Construction	Fremont High School	Construction Management	99,179
3/5/2019	PO-190554	Inside Source Inc	Fremont High School	Furniture and Fixture	97,231
2/12/2019	PO-181974	Ninyo & Moore	Lynbrook High School	Café	62,456
Amount Tested					\$ 54,659,363
Non Payroll Expenditures					\$ 63,496,112
Percent Tested					86%