



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

Evergreen School District

FINANCIAL AUDIT

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Financial Audit
2014 Measure M Fund
June 30, 2021

Evergreen School District



Independent Auditor's Report

Governing Board and
Citizens' Oversight Committee
Evergreen School District
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Evergreen School District's (the "District"), 2014 Measure M 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 statements.

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 M Fund of Evergreen 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 M 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
February 2, 2022

Evergreen School District
2014 Measure M Fund
Balance Sheet
June 30, 2021

| | |
|------------------------------------|----------------------|
| Assets | |
| Deposits and investments | \$ 20,628,896 |
| Interest receivable | <u>38,477</u> |
| Total assets | <u>\$ 20,667,373</u> |
| Liabilities and Fund Balance | |
| Liabilities | |
| Vendors payable | \$ 343,306 |
| Fund Balance | |
| Restricted for capital projects | <u>20,324,067</u> |
| Total liabilities and fund balance | <u>\$ 20,667,373</u> |

Evergreen School District
 2014 Measure M Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Year Ended June 30, 2021

Revenues

| | |
|---------------------------------|------------------|
| Interest income | \$ 241,649 |
| Proceeds from issuance of bonds | 0 |
| Unrealized loss on county cash | <u>(313,667)</u> |
| Total revenue | <u>(72,018)</u> |

Expenditures

| | |
|---|------------------|
| Current | |
| Salaries and benefits | 333,708 |
| Supplies | |
| Services and other operating expenditures | 6,537 |
| Capital outlay | 4,300,893 |
| Debt Service | |
| Bond issuance costs | <u>-</u> |
| Total expenditures | <u>4,664,088</u> |

| | |
|----------------------------|-----------------------------|
| Net Change in Fund Balance | (4,736,106) |
| Fund Balance - Beginning | <u>25,060,173</u> |
| Fund Balance - Ending | <u><u>\$ 20,324,067</u></u> |

Note 1 - Summary of Significant Accounting Policies

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

2014 Measure M authorized the District to issue \$100 million of general obligation bonds to provide for modernizing and constructing the District's classrooms. The District issued first series of general obligation bonds on February 16, 2016 in the amount of \$50 million. The second series of general obligation bonds were issued on May 3, 2018 in the amount of \$35 million. The last series of general obligation bonds were issued on January 28, 2021 in the amount of \$15 million. The Bonds are being issued to finance specific construction and modernization projects approved by the voters of the District and to pay the costs of issuance of the Bonds.

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. 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

As of June 30, 2021, 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.

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.

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.

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 depositing substantially all of its funds in the County Treasury Pool. The fair value of this investment is approximately cost with an average maturity of 615 days.

Note 3 - Commitments and Contingencies

Construction Commitments

As of June 30, 2021, the 2014 Measure M Fund had the following commitments with respect to unfinished projects:

| Project Names | Remaining Construction Commitment | Expected Date of Completion |
|--|---|-----------------------------------|
| Cadwallader Construction Roofing Project | \$ 4,062,848 | 10/01/22 |
| Carolyn Clark Kinder CR Expansion | 1059754 | To be determined |
| Carolyn Clark STEM CR Project | 62,332 | 03/01/22 |
| Chaboya Carport Solar Project | 65,242 | 12/01/22 |
| District & CNS Projects | 17,449 | 12/01/21 |
| Holly Oak STEM CR Project | 55,468 | 12/01/22 |
| J. F. Smith Kinder CR Expansion | 200,879 | 12/01/21 |
| J. F. Smith STEM Classroom | 66758.85 | 12/01/21 |
| K. R. Smith Playmatting Project | 84325.83 | 12/01/21 |
| Millbrook STEM CR Project | 78,376 | 12/01/22 |
| Montgomery STEM CR Project | 64,125 | 12/01/22 |
| Norwood Creek STEM CR Project | 504,638 | 03/01/22 |
| O. B. Whaley AEDIS Fees For STEM CR | 57,897 | 12/01/21 |
| Silver Oak Roofing & Solar Project | 73,259 | To be determined |
| Tom Matsumoto Kinder CR Expansion | 134,696 | 08/01/21 |
| Tom Matsumoto Matting & Shade | 31,759 | 08/01/21 |
| Tom Matsumoto STEM Classroom | 178,584 | 08/01/21 |
| Total | <u>\$ 6,798,392</u> | |

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 as June 30, 2021.



Independent Auditor's Report
June 30, 2021

Evergreen 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
Evergreen School District
San Jose, 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 Evergreen School District (the "District") 2014 Measure M 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 February 2, 2022.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund specific to 2014 Measure M 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 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.

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 Evergreen School District's 2014 Measure M 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 statement. 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 Sully LLP".

Menlo Park, California
February 2, 2022

None reported.



Performance Audit
2014 Measure M Fund
June 30, 2021

Evergreen School District



Independent Auditor's Report on Performance

Governing Board and
Citizens' Oversight Committee
Evergreen School District
San Jose, California

We were engaged to conduct a performance audit of the Evergreen School District (District), 2014 Measure M 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. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District'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 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 M 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 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
February 2, 2022

Authority for Issuance

The general obligation bonds associated with 2014 Measure M Fund were authorized 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 bonds are authorized to be issued by the Santa Clara County Board of Supervisors pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on July 23, 2014.

The District received authorization from an election held on November 4, 2014, to issue bonds of the District in an aggregate principal amount not to exceed \$100 million to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55% of the votes cast by eligible voters within the District.

The District issued new general obligation bonds dated February 16, 2016 in the amount of \$50 million and new general obligation bonds dated May 3, 2020 in the amount of \$35 million. The Bonds are being issued to finance specific construction and modernization projects approved by the voters of the District and to pay the costs of issuance of the Bonds

Purpose of Issuance

The general obligation bond funds of the District would be used to finance a safe, modern learning environment that supports academic achievement by upgrading and constructing classrooms and hands-on science and technology labs that meet modern academic and safety standards, repairing electrical systems, aging roofs, plumbing and restrooms, increasing campus security and improving overall energy efficiency.

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% of the electorate. In addition to reducing the approval threshold from two-thirds to 55%, 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 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 Fund have been made in accordance with the bond project list approved by the voters through the approval of 2014 Measure M.
2. Determine whether salary transactions, charged to the Building Fund were in support of 2014 Measure M 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 Measure. 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 fiscal year ended 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 charge 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, including transfers out.
 - b. We considered all expenditures recorded in all projects that were funded from July 1, 2020 through June 30, 2021 from 2014 Measure M bond proceeds.

- c. We selected all expenditures that were individually significant expenditures. Individually significant expenditures were identified as individual transactions (expenditures) that exceeded approximately 2% 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, including transfers out, and projects for period starting July 1, 2020 and ending June 30, 2021.
3. Our sample included payroll and benefit transactions totaling \$236,935 and non-payroll transactions aggregating \$3,295,806. This represents 76% of the total expenditures of \$4,664,088.
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 M 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 Districts.

Conclusion

The results of our tests indicated that the District expended the 2014 Measure M 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.