ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT

MEASURE J GENERAL OBLIGATION BONDS PERFORMANCE AUDIT

June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alum Rock Union Elementary School District
San Jose, California

We have conducted a performance audit of the Alum Rock Union Elementary School District (the "District") Measure J General Obligation Bond funds for the year ended June 30, 2022.

We conducted our performance audit in accordance with *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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit was limited to the objectives listed on page 3 of this report which includes determining the compliance with the performance requirements for the Proposition 39 Measure J General Obligation Bonds under the applicable provisions of Section 1(b)(3)(C) of Article XIIIA of the California Constitution and Proposition 39 as they apply to the bonds and the net proceeds thereof. Management is responsible for Alum Rock Union Elementary School District's compliance with those requirements.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of Alum Rock Union Elementary School District to determine the audit procedures that are appropriate for the purpose of providing a conclusion on the District's compliance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our procedures indicated that, in all significant respects, Alum Rock Union Elementary School District expended Measure J General Obligation Bond funds for the year ended June 30, 2022 only for the specific projects developed by the District's Governing Board and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution.

[redacted]

Sacramento, California
<>, 2022

LEGISLATIVE HISTORY

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, "for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities", upon approval by 55% of the electorate.

Education Code Section 15278 provides additional accountability measures:

1. A requirement that the school district establish and appoint members to an independent citizens' oversight committee.
2. A requirement that the school district expend bond funds only for the purposes described in Section 1(b)(3) of Article XIII A of the California Constitution, and ensuring that no funds are used for any teacher or administrative salaries or other school operating expenses.
3. A requirement to conduct an annual independent performance audit required by Section 1(b)(3)C of Article XIII A of the California Constitution.
4. A requirement to conduct an annual independent financial audit required by Section 1(b)(3)D of Article XIII A of the California Constitution.

ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT MEASURE J GENERAL OBLIGATION BONDS

On November 6, 2012, the electorate of the Alum Rock Union Elementary School District approved the $125,000,000 Measure J general obligation bonds with greater than 55% of the votes in favor. The summarized text of the ballot language was as follows:

> "*To improve neighborhood schools by removing mold and asbestos; fix leaky, deteriorated roofs; replacing inefficient/aging heating, ventilation, and electrical systems to save money; improving fire safety/ security; updating computer technology/ science labs for 21st century learning; repairing aging restrooms; and acquiring, constructing, and repairing sites/ facilities, shall Alum Rock Union Elementary School District issue $125 million in bonds at legal rates with required independent financial audits, citizens oversight and no money for administrators' salaries…"*

All bond expenditures are subject to review by a Citizens' Oversight Committee which reports to the public, as provided in Education Code Section 15278 *et seq.*

The financial activity related to the Measure J General Obligation Bonds is recorded in the Fund 21 (Building Fund) in the District's audited financial statements.

On July 18, 2013, the District issued General Obligation Bonds, 2012 Series A, in the amount of $32,400,000. The Bonds mature in varying amounts through August 2043 with interest rates from 4.0% to 4.25%.

On August 15, 2013, the district issued General Obligation Bonds, 2012 Series B, in the amount $3,600,000. The Bonds mature in varying amounts through August 2023 with interest rates from 0.496% to 2.641%.

On January 14, 2016 the District issued General Obligation Bonds, 2012 Series C in the amount of $17,500,000. The Bonds mature in varying amounts through August 2040 with interest rates from 2.0% to 5.25%.

OBJECTIVES

The objective of our performance audit was to determine that the District expended Measure J General Obligation Bond funds for the year ended June 30, 2022 only for the purposes approved by the voters and only on the specific projects developed by the District's Board of Trustees, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)C of Article XIII A of the California Constitution.

SCOPE

The District provided to us a list of all Measure J General Obligation Bond project expenditures for the year ended June 30, 2022 (the "List"). A total of $819,797 in expenditures from July 1, 2021 through June 30, 2022 were identified.

METHODOLOGY

We performed the following procedures to the List of Measure J General Obligation Bond project expenditures for the year ended June 30, 2022:

- Verified the mathematical accuracy of the List.
- Reconcile the list to total bond expenditures as reported by the District in the District's audited Measure J General Obligation Bonds financial statements for the year ended June 30, 2022.
- Selected a sample of $409,699 non-payroll expenditures and $18,712 payroll expenditures totaling $428,411. The sample was selected to provide a representation across specific construction projects, vendors, expenditure amounts, and other activity. The sample represented approximately 52% of the total expenditure value. Verified that the funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects. Verified that the funds used to pay the salaries of district employees were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our procedures indicated that, in all significant respects, Alum Rock Union Elementary School District expended Measure J General Obligation Bond funds for the year ended June 30, 2022 only for the specific projects developed by the District's Governing Board and approved by the voters, in accordance with the requirements of Proposition 39, as specified by Section 1(b)(3)(C) of Article XIIIA of the California Constitution.