

CUPERTINO UNION SCHOOL DISTRICT

**2012 MEASURE H FUND
FINANCIAL REPORT AND PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

CUPERTINO UNION SCHOOL DISTRICT

**2012 MEASURE H FUND
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board and
Citizens' Oversight Committee
Cupertino Union School District
Cupertino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the 2012 Measure H Fund (the Fund) of the Cupertino Union School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic 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 error or fraud. 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 financial statement presentation.

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 above present fairly, in all material respects, the financial position of the Fund of the Cupertino Union School District at June 30, 2018, and the respective changes in financial position for 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 present only the financial position of the Fund and are not intended to present fairly the financial position and results of operations of District in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, 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 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* in considering the Fund's internal control over financial reporting and compliance.


Palo Alto, California
October 12, 2018

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**BALANCE SHEET
JUNE 30, 2018**

ASSETS

Cash and investments	\$ 29,544,631
Accounts receivable	130,538
Due from other funds	221,192
Prepaid expenditures	33,833
Total Assets	<u>\$ 29,930,194</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Vendor payable	\$ 666,608
Due to District	245
Total Liabilities	<u>666,853</u>

FUND BALANCE

Restricted for capital projects	<u>29,263,341</u>
Total Liabilities and Fund Balance	<u>\$ 29,930,194</u>

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

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018**

REVENUES	
Interest	\$ 519,500
EXPENDITURES	
Current expenditures	
Classified salaries	633,588
Employee benefits	152,302
Supplies and equipment	103,519
Services and operating expenditures	804,023
Capital outlay	<u>16,810,853</u>
Total Expenditures	<u>18,504,285</u>
NET CHANGE IN FUND BALANCE	(17,984,785)
FUND BALANCE, BEGINNING OF YEAR	<u>47,248,126</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 29,263,341</u></u>

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

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2012 Measure H Fund (the Fund) of the Cupertino Union School District (the District), 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 the Fund used to account for Measure H projects. This Fund was established to account for the expenditures and proceeds from general obligation bonds authorized under Measure H. These financial statements are not intended to present fairly the financial position and results of operations of the 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 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.

Fund Balances

As of June 30, 2018, fund balances of the Measure H fund is classified as restricted. Restricted amount 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.

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 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.

The District has deposit all the Fund's investment in the Santa Clara County Treasury. As of June 30, 2018, the investment has book value of \$29,307,319. The fair values of the investment is approximately book value.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Fund manages its exposure to interest rate risk by depositing substantially all of its cash in the County Pool. The weighted average maturity of the Pool is 479 days, as reported by the Santa Clara County Treasurer.

Fair Value Measurement

Investment in the County Treasury Investment Pool are not measure using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share. Accordingly, the Fund's investment in the Santa Clara County Pool is uncategorized.

NOTE 3 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2018, the Fund had the following carryover construction commitments with respect to the following capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Blue Hills	\$ 158,661	6/30/2019
Cupertino Middle School	53,327	8/31/2018
Collins	24,650	8/31/2018
Corp Yard	5,108	8/31/2018
De Vargas	6,440	8/31/2018
District	1,229,576	6/30/2019
Eisenhower, Lincoln, Nimitz, Stocklmeir, West Valley and Portal	1,223,247	6/30/2019
Faria	382,303	6/30/2019
Kennedy	127,233	8/31/2018
Lincoln	247,641	6/30/2019
Lincoln and Stocklmeir	279,360	6/30/2019
Montclair	1,531,039	9/30/2018
Montclair and Nimitz	267,213	6/30/2019
Muir	35,941	8/31/2018
Murdock-Portal	44,852	8/31/2018
Nimitz	1,101,765	6/30/2019
Stocklmeir	358,573	6/30/2019
	\$ 7,266,537	

INDEPENDENT AUDITOR'S REPORT



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**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
Cupertino Union School District
Cupertino, 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 2012 Measure H Fund (the Fund), as of and for the year ended June 30, 2018, and have issued our report thereon dated October 12, 2018.

As discussed in Note 1, the financial statements present only the Fund and are not intended to present fairly the financial position and results of operations of the Cupertino Union School District (the District) in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund internal control over financial reporting. 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 the 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 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*.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Palo Alto, California
October 12, 2018

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2018**

None reported.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

None reported.

CUPERTINO UNION SCHOOL DISTRICT

**2012 MEASURE H FUND
PERFORMANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2018**

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Cupertino Union School District
Cupertino, California

We were engaged to conduct a performance audit of the 2012 Measure H Fund (the Fund) of the Cupertino Union School District (the District) for the year ended June 30, 2018.

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 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 internal control.

The results of our tests indicated that the District, in all significant respects, expended bond proceeds only for the specific projects approved by Measure H, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Palo Alto, California
October 12, 2018

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

JUNE 30, 2018

AUTHORITY FOR ISSUANCE

The Measure H 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 June 5, 2012, to issue bonds of the District in an aggregate principal amount not to exceed \$220,000,000 to finance specific construction and renovation projects approved by eligible voters. The proposition required approval by at least 55 percent of the votes. The Bonds represent the first, second and third series of the authorized bonds to be issued under the 2012 Authorization.

PURPOSE OF ISSUANCE

The proceeds from the bonds are used to finance the design, acquisition, installation, restoration and construction of the District's public schools.

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.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

JUNE 30, 2018

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Fund are consistent with the project list approved by the voters through the approval of Measure H.
2. Determine whether salary transactions, charged to the Fund are in support of the approved project list and not for district general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2017 to June 30, 2018. 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, 2018, 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, 2017 through June 30, 2018. From the population of expenditures, we obtained the 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 approved project list authorized by Measure H. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2017 and ending June 30, 2018, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot test.
2. Our sample included 42 transactions, including payrolls, totaling \$13,710,942. This represents 74 percent of the total expenditures of \$18,504,285.

CONCLUSION

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized projects as stipulated in Measure H.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018**

None reported.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

None reported.