



**FINANCIAL REPORT AND PERFORMANCE AUDIT  
2012 MEASURE H FUND  
JUNE 30, 2019**

**CUPERTINO UNION SCHOOL DISTRICT**



**FINANCIAL REPORT**  
**2012 MEASURE H FUND**  
**JUNE 30, 2019**

**CUPERTINO UNION SCHOOL DISTRICT**

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

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JUNE 30, 2019**

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***INDEPENDENT AUDITOR'S REPORT***

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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, 2019, 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, 2019, 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 of the Building Fund specific to 2012 Measure H 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 December 5, 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  
December 5, 2019

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

**BALANCE SHEET  
JUNE 30, 2019**

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**ASSETS**

Cash and investments	\$ 31,221,918
Accounts receivable	193,252
Total Assets	<u>\$ 31,415,170</u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Vendor payable	\$ 4,229,347
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**FUND BALANCE**

Restricted for capital projects	27,185,823
Total Liabilities and Fund Balance	<u>\$ 31,415,170</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, 2019**

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REVENUES

Interest \$ 517,357

EXPENDITURES

Current expenditures

Classified salaries 588,002

Employee benefits 141,959

Supplies and equipment 66,464

Services and operating expenditures 1,170,126

Capital outlay 15,470,874

Debt Service - Cost of Issuance 162,450

Total Expenditures 17,599,875

Deficiency Of Revenues Over Expenditures (17,082,518)

Other financing sources - Proceeds from issuance of bonds 15,005,000

Net Change in Fund Balance (2,077,518)

Fund Balance - Beginning 29,263,341

Fund Balance - Ending \$ 27,185,823

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, 2019**

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***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.

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.

**Fund Balances**

As of June 30, 2019, 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.

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

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

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***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, 2019, the investment has book value of \$31,221,918. The fair values of the investment is approximately book 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. 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 436 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.

**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.

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

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

**NOTE 3 - COMMITMENTS AND CONTINGENCIES**

**Construction Commitments**

As of June 30, 2019, 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	06/30/20
District	3,210	06/30/19
Eaton	45,966	09/30/19
Eisenhower, Faria, Lincoln, Nimitz, Stockmeir, West Valley and Portal	4,437,572	12/31/19
Kennedy	44,087	10/31/19
Lawson	52,200	09/30/19
Lincoln	2,983,187	12/31/19
Nimitz	2,769,828	12/31/19
Stevens Creek	59,990	09/30/19
Stockmeir	2,728,901	12/31/19
	<u>\$ 13,283,602</u>	

**NOTE 4 - GENERAL LONG-TERM DEBT**

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 the repair, upgrading, acquisition, construction and equipping of certain District property and facilities.

The following schedule presents the District's 2012 Measure H bonded debt:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding June 30, 2018	Issued/ Accreted	Redeemed	Outstanding June 30, 2019
2012	2037	2.00-5.00%	\$ 50,000,000	\$ 32,350,000	\$ -	\$ 360,000	\$ 31,990,000
2014	2038	2.00-5.00%	99,995,000	85,650,000	-	590,000	85,060,000
2016	2040	3.00-5.00%	55,000,000	50,560,000	-	4,620,000	45,940,000
2019	2041	2.50-5.00%	15,005,000	-	15,005,000	-	15,005,000
				<u>\$ 168,560,000</u>	<u>\$ 15,005,000</u>	<u>\$ 5,570,000</u>	<u>\$ 177,995,000</u>

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

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

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Principal and interest outstanding as of June 30, 2019, on the total District bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2020	\$ 1,230,000	\$ 11,815,297	\$ 13,045,297
2021	1,635,000	11,531,048	13,166,048
2022	2,015,000	11,133,874	13,148,874
2023	2,485,000	10,769,787	13,254,787
2024	2,980,000	10,332,788	13,312,788
2025-2029	23,970,000	44,569,999	68,539,999
2030-2034	44,080,000	30,496,152	74,576,152
2035-2039	71,045,000	13,694,715	84,739,715
2040-2041	28,555,000	1,118,200	29,673,200
Total	<u>\$ 177,995,000</u>	<u>\$ 145,461,860</u>	<u>\$ 323,456,860</u>

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***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, 2019, and have issued our report thereon dated December 5, 2019.

***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Building Fund specific to 2012 Measure H 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.

**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.

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

Palo Alto, California  
December 5, 2019

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***SCHEDULE OF FINDINGS***

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

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2019**

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None reported.

**PERFORMANCE AUDIT  
2012 MEASURE H FUND  
JUNE 30, 2019**



**CUPERTINO UNION SCHOOL  
DISTRICT**

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

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JUNE 30, 2019**

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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, 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 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.

### ***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. All authorized bonds have been issued as of June 30, 2019.

### ***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.

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

**JUNE 30, 2019**

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***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 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, 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.

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

**JUNE 30, 2019**

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***METHODOLOGY***

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1, 2018 through June 30, 2019. 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, 2018 and ending June 30, 2019, 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 64 transactions totaling \$13,344,730, plus payroll testing of \$363,531. This represents 78 percent of the total expenditures of \$17,599,875.

***CONCLUSION***

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.

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 Sully LLP*

Palo Alto, California  
December 5, 2019

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

**SCHEDULE OF FINDINGS  
JUNE 30, 2019**

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None reported.