

CUPERTINO UNION SCHOOL DISTRICT

**2012 MEASURE H
GENERAL OBLIGATION BOND FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2013

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**TABLE OF CONTENTS
JUNE 30, 2013**

FINANCIAL SECTION

Independent Auditor's Report	1
Building Fund (General Obligation Bonds, Measure H)	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balance	4
Notes to Financial Statements	5

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	11
--	----

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Financial Statement Findings	14
Summary Schedule of Prior Audit Findings	15



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 General Obligation Bond Fund (the Fund) of the Cupertino Union School District (the District), as of and for the year ended June 30, 2013, 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 our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Fund as of June 30, 2013, and the results of its operations for the period 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 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 November 8, 2013, 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* and should be considered with the results of our audit.



Palo Alto, California
November 8, 2013

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**BALANCE SHEET
JUNE 30, 2013**

ASSETS

Cash and investments	\$ 43,107,418
Accounts receivable - interest	44,485
Total Assets	<u>\$ 43,151,903</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 4,372,009
Due to other funds	6,401
Total Liabilities	<u>4,378,410</u>

FUND BALANCE

Restricted	38,773,493
Total Liabilities and Fund Balance	<u>\$ 43,151,903</u>

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

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

REVENUES AND OTHER SOURCES	
Proceeds from issuance of bonds	\$ 49,570,000
Interest and other revenues	177,629
Total Revenues and Other Sources	<u>49,747,629</u>
EXPENDITURES	
Current expenditures	
Classified salaries	228,589
Employee benefits	60,179
Supplies and equipment	1,953,816
Services and operating expenditures	600,816
Capital outlay	7,814,436
Total Expenditures	<u>10,657,836</u>
EXCESS OF REVENUES OVER EXPENDITURES	39,089,793
FUND BALANCE, BEGINNING OF YEAR	(316,300)
FUND BALANCE, END OF YEAR	<u>\$ 38,773,493</u>

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

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2012 Measure H General Obligation Bond 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.

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 are liquidated at June 30 since they do not constitute expenditures or liabilities.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State: U.S. Treasury instrument; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreement; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security, and collateralized mortgage obligations.

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 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.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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 District manages its exposure to interest rate risk by investing in the County Pool. The \$43,107,418 of investments on June 30 has a fair value of \$43,144,059 and a weighted average maturity of 374 days, as reported by the County Treasurer.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013, consist of interest receivable of \$44,485.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consist of vendor payables of \$4,372,009.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of June 30, 2013, the General Obligation Bond Fund had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Roofing Inspection Service	\$ 90,086	12/2013
District Office Demo	172,000	11/2013
Corp. Yard Storage	19,000	10/2013
LMS Site Utilities	279,000	9/2013
Geotech. Service - Corp. Yard Storage	3,205	10/2013
Exterior Painting at Blue Hills and McAuliffe	273,000	9/2013
Corp. Yard Storage Building	206,427	10/2013
LMS Interim Housing	226,752	9/2013
Site Utility Repairs and Upgrades	1,024,885	9/2013
DSA Inspection (Interim Housing)	5,695	9/2013
DSA Inspection (District Office Demo)	386	11/2013
DSA Inspection (Summer 2013)	38,794	9/2013
LMS - Interim Housing Move	3,947	9/2013
CEQA (LMS and CMS New Construction)	23,457	10/2013
Murdock-Portal Domestic Water Piping	193,600	9/2013
CMS Site Infrastructure - Move Gym Equipment at CMS	1,450	9/2013
Corp. Yard Plan Review	2,000	9/2013
CMS Modernization - Special Inspection	4,850	9/2013
LMS Modernization - Special Inspection	4,925	9/2013
CMS Interim Housing - Special Inspection	14,503	9/2013
CMS Site Utilities & Demolition	1,217,600	10/2013
CMS - Interim Housing	597,600	10/2013
Master Planning	21,126	12/2013
LMS Design and Construction Administration	887,921	12/2014
CMS Site Infrastructure	1,880	8/2014
LMS Interim Housing - Storage Containers	1,518	9/2013
CMS Master Planning	4,399	12/2013
Portal-Murdock Water Line	6,807	9/2013
Site Utility Improvement (Summer 2013)	65,080	9/2013

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

CMS Design and Construction Administration	1,233,582	12/2014
Corp. Yard Storage Building - Rental Container	1,697	10/2013
Data Infra. Upgrade	325,248	12/2013
Data Infr Upgrade at Dilworth, Mcaul, Mey.	374,244	12/2013
Network Infrastructure Upgrade	496,721	9/2013
Middle Schools Construction Management	2,359,471	12/2014
Security Design	395	9/2013
IT Data Infrastructure Upgrade	36,371	12/2013
Sedgwick Modernization	327,932	12/2014
Regnart Modernization	306,454	12/2014
CMS/LMS Classroom, Music Building	16,608,500	11/2014
Haz Mat - Data Infr. Upgrade	1,251	9/2013
Summer 2013	32,550	9/2013
West Valley Modernization	466,553	12/2014
Site Lighting Fixtures at Six Campuses	239,081	10/2013
EADOC	113,577	12/2017
Data Infrastructure Upgrade	38,514	12/2013
Summer 2013	68,827	12/2013
Elementary Schools (Phase 1)	1,042,376	12/2013
CM at Regnart	369,153	12/2014
Meyerholz Modernization	513,017	12/2014
	\$ 30,347,408	

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 Fund as of June 30, 2013.

INDEPENDENT AUDITOR'S REPORT



**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 General Obligation Bond Fund (the Fund), as of and for the year ended June 30, 2013, and have issued our report thereon dated November 8, 2013, 2013.

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 conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the Fund internal control over financial reporting as a basis for designing our auditing procedures 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 internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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
November 8, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2013**

None reported.

**CUPERTINO UNION SCHOOL DISTRICT
2012 MEASURE H GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013**

None reported.