

**CUPERTINO UNION  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

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

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# CUPERTINO UNION SCHOOL DISTRICT

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JUNE 30, 2018

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***FINANCIAL SECTION***

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

VALUE THE *difference*

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Cupertino Union School District  
Cupertino, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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 opinions 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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the 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 policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Cupertino Union School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedule, schedule of the District's proportionate share of net pension liability, and the schedule of district pension contributions, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cupertino Union School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the other supplementary information as listed on the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2018, on our consideration of the Cupertino Union School District'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 Cupertino Union School District'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 Cupertino Union School District's internal control over financial reporting and compliance.



Palo Alto, California  
November 14, 2018



# CUPERTINO UNION SCHOOL DISTRICT

## Management's Discussion and Analysis

### DISTRICT PROFILE

THE MISSION OF THE CUPERTINO UNION SCHOOL DISTRICT IS TO PROVIDE A CHILD-CENTERED ENVIRONMENT THAT CULTIVATES CHARACTER, FOSTERS ACADEMIC EXCELLENCE, AND EMBRACES DIVERSITY. DISTRICT FAMILIES, COMMUNITY, AND STAFF JOIN AS PARTNERS TO DEVELOP CREATIVE, EXEMPLARY LEARNERS WITH THE SKILLS AND ENTHUSIASM TO CONTRIBUTE TO A CONSTANTLY CHANGING GLOBAL SOCIETY.

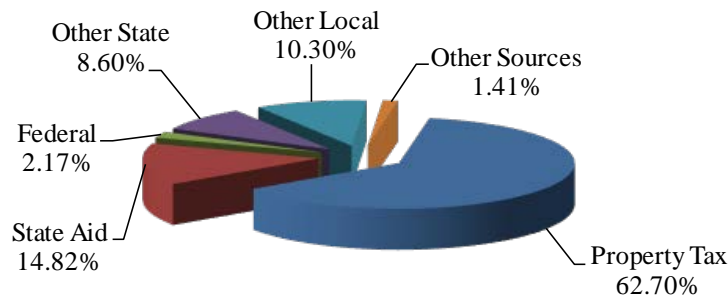
The Cupertino Union School District (the District) was established in 1916. The District operates twenty elementary schools, and five middle schools. The District serves over 18,000 K-8 students in a 26-square mile area that includes the City of Cupertino and portions of five other cities in California's Silicon Valley. The student population is richly diverse.

### FINANCIAL HIGHLIGHTS

#### Local Control Funding Formula School District

The District has been a revenue limit school district since its inception. A revenue limit school district is a district whose local property tax revenues are less than the state calculated "revenue limit" amount and the state therefore back-fills the difference. Starting 2013-2014, the State changed its funding calculation to Local Control Funding Formula (LCFF). The LCFF combined principal apportionment and previous flexed categorical program into one funding. In 2017-2018, the District has not met its target entitlement. The composition of the District's sources of General fund revenue can be illustrated in Chart - 1:

**Chart - 1**  
**Cupertino Union School District**  
**General Fund Revenue Sources**  
**FY 2017-2018**



# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### 2018 Results of Operations

As of June 30, 2018, the District's general fund recorded total revenue of \$190,595,055 and total expenditures of \$191,833,163, resulting in an ending fund balance of \$31,973,893. Of this amount, \$5,754,995 is the required three percent statutory reserves and \$5,754,995 is the additional reserves for future downturn. Other components of the ending fund balance include \$431,995 nonspendable, \$9,165,655 restricted for categorical programs and \$10,866,253 for various school and program carryovers.

The total general fund revenues of \$190,595,055 are from the following sources: 77.52% local control funding formula (62.70% property tax and 14.82% state aid), 2.17% federal programs, 8.60% state programs, 10.30% local revenue (parcel tax, interest, rental and fees), 1.41% other sources from Building fund for routine restricted maintenance and from Self-Insurance fund for health and welfare excess charges.

### Local Control Funding Formula

In fiscal year 2017-2018 the District's LCFF Transition Entitlement was \$140,609,416, increased \$523,074 from prior year's \$140,086,342. The LCFF funding model provides "Current Year Adjusted Based Grant per ADA" for the following grade levels: \$7,941 for K-3, \$7,301 for 4-6, and \$7,518 for 7-8. LCFF also provides 20% supplemental grant and 50% concentration grant if qualified. The supplemental and concentration grant increases are calculated based on the percentage of total enrollment accounted for by English learners, free and reduced-price meal program eligible students and foster youth. The 2017-2018 LCFF funding includes the following: COLA 0.0156%, ADA (average daily attendance) – 18,249, and gap funding rate 42.97%.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer financial information about the activities the District operates on a cost reimbursement basis, such as the self-insurance fund.
- Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget, both the adopted and final version, with year-end actual results.

# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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### Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional factors such as the economy of the State, and hence, the State's budget, the local economy, which could impact student enrollment and the condition of school buildings and other facilities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, we provide reconciliations between the governmental funds statements and the government-wide statements that explain the relationships (or differences) between them.
- Proprietary funds - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements, i.e., using full accrual accounting. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund - the self-insurance fund.
- Fiduciary funds - The District is the trust, or fiduciary, for assets that belong to others, such as the private purpose trust and student funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

**CUPERTINO UNION SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

As of June 30, 2018, the District's combined net position decreased \$11,284,113 from prior year with a negative \$158.1 million. (See Table A - 1)

<b>Table A - 1</b>			
<b>Cupertino Union School District</b>			
<b>Net Position</b>			
<b>(in millions of dollars)</b>			
	<b>Governmental Activities</b>		<b>Percent Changes</b>
	<b>2017</b>	<b>2018</b>	
Current and other assets	\$ 122.9	\$ 103.7	-15.6%
Capital assets	219.9	223.3	1.5%
<b>Total Assets</b>	<b>342.8</b>	<b>327.0</b>	<b>-4.6%</b>
Deferred charge on refunding	4.0	3.1	-22.5%
Deferred outflows of resources related to pensions	60.0	63.9	6.5%
<b>Total Deferred Outflows of Resources</b>	<b>64.0</b>	<b>67.0</b>	<b>4.7%</b>
Current liabilities	31.9	32.5	1.9%
Long-term debt	497.1	500.7	0.7%
<b>Total Liabilities</b>	<b>529.0</b>	<b>533.2</b>	<b>0.8%</b>
Difference between actual and expected rate of investment return	24.5	18.9	-22.9%
<b>Total Deferred Inflows of Resources</b>	<b>24.5</b>	<b>18.9</b>	<b>100.0%</b>
Net investment in capital assets	(38.3)	(41.6)	8.6%
Restricted	29.4	30.8	4.8%
Unrestricted	(137.8)	(147.3)	6.9%
<b>Total Net Position</b>	<b>\$ (146.7)</b>	<b>\$ (158.1)</b>	<b>7.8%</b>

# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

The changes in the District's financial position include the following: the decrease of \$3.3 million in net investment in capital assets, the increase of \$1.4 million in restricted net position, and the decrease of \$9.5 million in the unrestricted net position. In 2017-2018, the District's total assets decreased by \$15.8 million, or 4.6%, which resulted from the decrease of \$19.2 million, or 15.6% in current assets and an increase of \$3.4 million, or 1.5% in capital assets. The total liabilities increased by \$4.2 million, or 0.8%, which resulted from an increase of \$0.6 million in current liabilities, and an increase of \$3.6 million in long-term debt. The decrease in current liabilities was mostly from the decrease in accounts payable at the end of the year and the current portion of the long-term obligation. The increase in long-term debt was due to the increase in pension liability see Note 9 for more details.

### Changes in Net Position

The District's total revenues increased by 0.2%, or \$0.4 million to \$219.9 million. (See Table A - 2) The increase mostly resulted from the combination of \$3.2 million increase in property taxes and \$3.8 million decrease in federal and state revenues.

	<b>Governmental Activities</b>		<b>Percent Changes</b>
	<b>2017</b>	<b>2018</b>	
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 3.4	\$ 3.5	2.9%
Operating grants and contributions	15.9	17.9	12.6%
General revenues			
Property taxes	146.2	149.4	2.2%
Federal and State aid	38.2	34.4	-9.9%
Interest and investment earnings	0.5	0.6	20.0%
Miscellaneous	15.3	14.1	-7.8%
Total revenues	<u>219.5</u>	<u>219.9</u>	0.2%
<b>Expenses</b>			
Instruction	143.2	149.4	4.3%
Instruction related activities	25.2	25.1	-0.4%
Pupil services	14.5	14.7	1.4%
General administration	10.0	10.0	0.0%
Plant services	20.8	20.4	-1.9%
Ancillary and community services	0.5	0.4	-20.0%
Interest on long-term debt	12.0	11.2	-6.7%
Total expenses	<u>226.2</u>	<u>231.2</u>	2.2%
<b>Increase (decrease) in net assets</b>	<u>\$ (6.7)</u>	<u>\$ (11.3)</u>	68.7%

# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2018**

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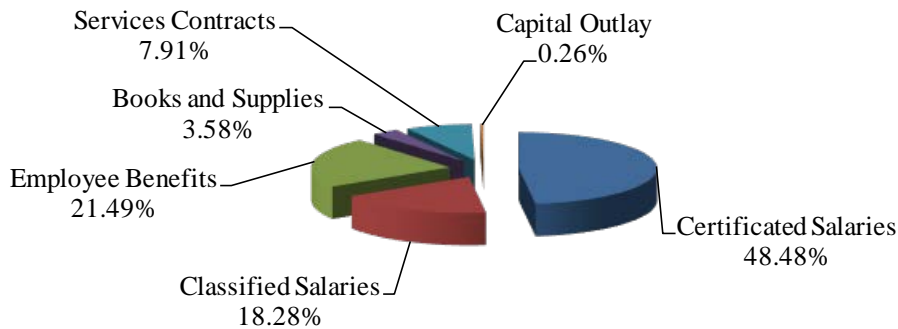
The total cost of all programs and services increased \$4.8 million to \$231 million. The District's expenses are predominantly related to instruction and instruction related activities (67.43%). (See Chart - 3) During 2017-2018, instruction and instruction related activity expenses rose by \$5.9 million, or 3.5%, plant services decreased by \$0.4 million, or 1.9% and the interest on long-term debt also decreased by \$0.8 million, or 6.7%.

Total expenses exceeded total revenues by \$11.3, which decreased net position to \$158.1 in 2017-2018.

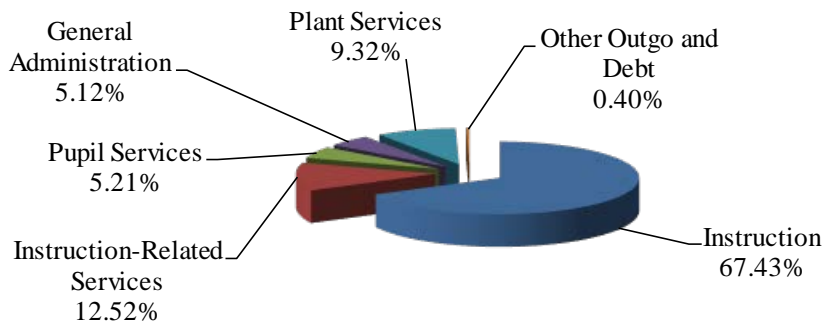
### Governmental Activities

Charts 2 and 3 below illustrate the composition of the District's general fund expenditures, both by object and by function codes. As is common with other school districts, the majority of expenditures are for personnel salaries and the related benefits (approximately 88.70%).

**Chart - 2**  
**Cupertino Union School District**  
**General Fund Expenditures by Object**  
**FY 2017-2018**



**Chart - 3**  
**Cupertino Union School District**  
**General Fund Expenditures by Function**  
**FY 2017-2018**



# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

### General Fund Budgetary Highlights

The original adopted budget projected an ending fund balance of \$22,413,585. The final budget projected an ending fund balance of \$31,973,892. There are several major factors that contributed to the variance in the projected fund balances: (1) The District's original budget was based on the Governor's May Revision, and was adopted on June 13, which was before the State adopted its budget in late June. (2) The one-time fund per ADA amount was \$23 lower in the State adopted budget vs. Governor's May Revision, which results in a decrease of \$431,550.90 in one-time fund for the district in the final budget. (3) The final budget showed a decrease of 131 ADA in the 2017-2018 P-2 vs. the district's Adoption budget, which resulted in a decrease of \$121,832.00 in the LCFF fund. (4) The original budget did not include any school or program carryovers from the closing fiscal year. The final budget included the carryovers from the school sites and the categorical programs from the year-end closing which was completed after the District's budget adoption.

The actual ending fund balance as of June 30, 2018 is \$31,973,893 with \$20,031,906 reserved for school/program carryover and assigned balances. The final budget projected an ending fund balance of \$26,195,749, with \$13,011,606 reserved for school/program carryover and assigned balances.

The overall difference between the actual ending fund balance and final budget has a favorable variance of \$5,778,144, which includes an increase of \$2,888,962 in unrestricted ending balance, and an increase of \$2,889,181 in reserves for unspent categorical programs. The higher unrestricted ending balance of \$2,888,962 resulted from the following variances: \$994,283 from higher unrestricted revenue, and \$1,894,669 from lower unrestricted expenditures and transfer out. The lower than projected unrestricted expenditures resulted from saving in personnel costs, other operating expenses, and higher unspent balance from the school and program carryovers. The unspent balance of the carryovers is projected to be spent in 2018-2019.

The overall difference between the actual ending fund balance and final budget in the restricted program was \$2,889,181. It was a result of \$818,973 higher restricted revenue and \$2,070,209 from lower restricted expenditures, resulting in higher unspent balances at the end of the year. Also, in the past the District recognized any unspent categorical local donation dollars as a deferred revenue. Beginning this FY 2017-2018, the District recognized any unspent categorical local donation as carryovers in 2018-2019.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2018 the District had \$502.3 million invested in a broad range of capital assets, including land, school buildings, modulators, computers and audio-visual equipment. (See Table A - 3) This amount represents a net increase of \$17.4 million or 3.59 percent over 2016-2017, which was mostly from the facilities modernization projects completed and several modulators installed at various schools. The major funding sources for these projects were from the proceeds from the sale of General Obligation Bonds and developer fees.

	<b>Governmental Activities</b>		<b>Changes</b>
	<b>2017</b>	<b>2018</b>	
Land	\$ 8.6	\$ 8.6	\$ -
Site improvements	34.5	34.9	0.4
Building and improvements	434.3	451.3	17.0
Furniture and equipment	7.5	7.5	-
<b>Totals</b>	<b>\$ 484.9</b>	<b>\$ 502.3</b>	<b>\$ 17.4</b>



# CUPERTINO UNION SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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### Capital Facilities Projects

In June 2012 voters approved Measure H, a \$220 million general obligation bond for facility improvements. Additional District staff was hired to manage the Measure H bond program and selections of Architects, Construction Managers and other consultants were finalized and approved. As of June 30, 2018, approximately 72% of the \$220 million program total has been spent.

The District has sold three bond series, one for \$50,000,000 in October 2012, the second for \$99,995,000 in April 2014 and the third for \$55,000,000 in March 2016. The Board of Education approved the initial Measure H Bond Program Implementation Plan in January 2013 and has approved five annual updates since. The Board also approves all changes to the approved bond project list on a quarterly basis.

The Measure H Bond Program undergoes financial and performance audits on a yearly basis. The bond program is also overseen by the Measure H Citizens Bond Oversight Committee (CBOC) which meets quarterly.

In 2018 approximately \$21.4 million of construction work was awarded.

### Long-Term Debt

As of June 30, 2018, the District had a total of \$514.6 million in total long-term debt outstanding, of which \$298.9 million in general obligation bonds, \$213.6 million in pension liabilities and \$2.1 million in other long-term debts. (See Table A - 4) This amount represents a net increase of \$4.7 million or 0.9% from 2016-2017. The net increase includes the combination of \$12.5 million decrease in the General Obligation Bonds, and \$16.6 million increase in pension liabilities.

	<b>Governmental Activities</b>		<b>Changes</b>
	<b>2017</b>	<b>2018</b>	
General obligation bonds	\$ 311.4	\$ 298.9	\$ (12.5)
Capital leases	0.1	0.5	0.4
Compensated absences	1.4	1.6	0.2
Pension liabilities	197.0	213.6	16.6
<b>Totals</b>	<b>\$ 509.9</b>	<b>\$ 514.6</b>	<b>\$ 4.7</b>

### FACTORS BEARING ON THE DISTRICT'S FUTURE

FY 2017-2018 saw the State budget adopted on time. The State Budget incorporated many of the Governor's May Revision provisions with a few minor changes. For school districts, this will be the fifth year of implementing the Local Control Funding Formula (LCFF). It is estimated that the change in LCFF funding will close 43.97% of the "gap" toward the funding target for each school district in 2017-2018. The target base grant by grade span for 2017-2018 have increased from 2016-2017 because the statutory COLA is 1.56%. The State has started a 7-year implementation schedule to retire the \$73.7 billion STRS shortfall. Over the span, the employer and employee contribution rates will increase over their previous rates of 8.25% and 8.0% respectfully. The employer contributions rates will increase to 19.1% by 2020-2021. The employee contribution rates will increase to 10.25% by 2017-2018. The employer contribution to CalPERS will increase from 13.88% to 15.53% in 2017-2018, and to 23.8% by 2020-2021. The District continues to operate with a conservative budget philosophy. This is reflective by the District's ending reserve balance in addition to the mandated fund balance reserve for economic uncertainties.

# **CUPERTINO UNION SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018**

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### **Net Pension Liability (NPL)**

Per GASB 68, districts are required to recognize the STRS and PERS employer costs and obligation for pensions on the financial statements, effective 2013-2014. The STRS on-behalf pension contribution for the District is calculated to be \$7,247,002, which is recorded as the state revenue and the expenditures in the new resource code 7690.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Jeff Bowman, Chief Operations Officer, Business Services  
10301 Vista Drive, Cupertino, CA 95014

Dorothy Reconose, Director of Fiscal Services  
10301 Vista Drive, Cupertino, CA 95014

**CUPERTINO UNION SCHOOL DISTRICT**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 100,114,150
Receivables	3,104,809
Prepaid expenses	342,984
Stores inventories	123,752
Capital assets not depreciated	8,638,085
Capital assets, net of accumulated depreciation	214,660,725
<b>Total Assets</b>	<u>326,984,505</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	3,102,738
Deferred outflows of resources related to pensions	63,914,549
<b>Total Deferred Outflows of Resources</b>	<u>67,017,287</u>
<b>LIABILITIES</b>	
Accounts payable	8,869,619
Interest payable	5,425,596
Unearned revenue	1,364,491
Claim liabilities	3,015,275
Current portion of long-term obligations other than pensions	13,779,422
Noncurrent portion of long-term obligations other than pensions	287,161,176
Aggregate net pension liability	213,576,743
<b>Total Liabilities</b>	<u>533,192,322</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to pensions	18,872,219
<b>Total Deferred Inflows of Resources</b>	<u>18,872,219</u>
<b>NET POSITION</b>	
Net investment in capital assets	(41,551,530)
Restricted for:	
Debt services	14,172,852
Capital projects	1,391,293
Educational program	9,165,358
Food services	795,332
Insurance programs	5,247,853
Unrestricted	(147,283,907)
<b>Total Net Position</b>	<u>\$ (158,062,749)</u>

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

**CUPERTINO UNION SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Change in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 149,196,945	\$ -	\$ 12,961,522	\$ (136,235,423)
Instruction-related activities:				
Supervision of instruction	9,680,167	-	1,928,192	(7,751,975)
Instructional library, media, and technology	2,287,115	-	166,149	(2,120,966)
School site administration	13,137,687	-	483,171	(12,654,516)
Pupil services:				
Home-to-school transportation	4,036,120	-	4,343	(4,031,777)
Food services	4,082,384	3,289,747	707,793	(84,844)
All other pupil services	6,592,114	-	674,457	(5,917,657)
Administration:				
Data processing	1,748,154	-	-	(1,748,154)
All other administration	8,240,830	148,058	373,221	(7,719,551)
Plant services	20,357,911	11,956	446,466	(19,899,489)
Ancillary services	288,997	-	107,020	(181,977)
Community services	154,765	-	-	(154,765)
Enterprise services	243,239	-	1,875	(241,364)
Interest on long-term obligations	11,177,657	-	-	(11,177,657)
<b>Total Governmental Activities</b>	<b>\$ 231,224,085</b>	<b>\$ 3,449,761</b>	<b>\$ 17,854,209</b>	<b>(209,920,115)</b>
General revenues and subventions:				
Property taxes, levied for general purposes				119,499,493
Property taxes, levied for debt service				21,370,246
Taxes levied for other specific purposes				8,559,525
Federal and State aid not restricted to specific purposes				34,445,742
Interest and investment earnings				637,485
Interagency revenues				14,031
Miscellaneous				14,109,480
<b>Subtotal, General Revenues</b>				<b>198,636,002</b>
<b>Change in Net Position</b>				<b>(11,284,113)</b>
Net Position - Beginning				(146,778,636)
Net Position - Ending				<b>\$ (158,062,749)</b>

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

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**CUPERTINO UNION SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b>ASSETS</b>			
Deposits and investments	\$ 36,929,834	\$ 32,017,101	\$ 19,547,832
Receivables	2,835,992	143,200	50,616
Due from other funds	19,750	81,938	-
Prepaid expenditures	309,151	33,833	-
Stores inventories	48,141	-	-
<b>Total Assets</b>	<u>\$ 40,142,868</u>	<u>\$ 32,276,072</u>	<u>\$ 19,598,448</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 7,989,717	\$ 846,581	\$ -
Due to other funds	81,938	-	-
Unearned revenue	97,320	-	-
<b>Total Liabilities</b>	<u>8,168,975</u>	<u>846,581</u>	<u>-</u>
<b>Fund Balances:</b>			
Nonspendable	431,995	-	-
Restricted	9,165,655	31,429,491	19,598,448
Assigned	10,866,253	-	-
Unassigned	11,509,990	-	-
<b>Total Fund Balances</b>	<u>31,973,893</u>	<u>31,429,491</u>	<u>19,598,448</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 40,142,868</u>	<u>\$ 32,276,072</u>	<u>\$ 19,598,448</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 2,111,812	\$ 90,606,579
26,048	3,055,856
-	101,688
-	342,984
75,611	123,752
<u>\$ 2,213,471</u>	<u>\$ 94,230,859</u>

\$ 7,318	\$ 8,843,616
19,528	101,466
-	97,320
<u>26,846</u>	<u>9,042,402</u>

77,570	509,565
2,109,055	62,302,649
-	10,866,253
-	11,509,990
<u>2,186,625</u>	<u>85,188,457</u>

<u>\$ 2,213,471</u>	<u>\$ 94,230,859</u>
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**CUPERTINO UNION SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

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<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 85,188,457</b>
<b>Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 502,289,463	
Accumulated depreciation is	<u>(278,990,653)</u>	
Net Capital Assets		223,298,810
Deferred outflows related to refunding and pension activities are not recorded in the governmental funds because they are not current resources.		67,017,287
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(5,425,596)
An internal service fund is used by the District's management to charge for the costs of various insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		5,247,853
Deferred inflows from pension activities are not recorded on the governmental funds but are recognized on the government-wide statement of net position.		(18,872,219)
Long-term obligations are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable and premiums	298,916,811	
Capital leases payable	465,758	
Compensated absences (vacations)	1,558,029	
Net pension liability	<u>213,576,743</u>	
Total Long-Term Obligations		(514,517,341)
<b>Total Net Position - Governmental Activities</b>		<b><u>\$ (158,062,749)</u></b>

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



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**CUPERTINO UNION SCHOOL DISTRICT**

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>
<b>REVENUES</b>			
Local control funding formula	\$ 147,744,860	\$ -	\$ -
Federal sources	4,141,201	-	-
Other state sources	16,396,939	-	85,205
Other local sources	19,627,028	3,597,736	21,434,313
<b>Total Revenues</b>	<u>187,910,028</u>	<u>3,597,736</u>	<u>21,519,518</u>
<b>EXPENDITURES</b>			
Current			
Instruction	129,336,355	-	-
Instruction-related activities:			
Supervision of instruction	9,262,135	-	-
Instructional library, media and technology	2,188,827	-	-
School site administration	12,573,098	-	-
Pupil services:			
Home-to-school transportation	3,689,755	-	-
Food services	-	-	-
All other pupil services	6,308,819	-	-
Administration:			
Data processing	1,669,899	-	-
All other administration	8,157,930	-	-
Plant services	17,140,594	-	-
Ancillary services	276,577	-	-
Community services	148,114	-	-
Facility acquisition and construction	737,279	18,947,620	-
Debt service			
Principal	91,776	-	10,685,000
Interest and other	16,927	-	12,291,344
<b>Total Expenditures</b>	<u>191,830,871</u>	<u>18,947,620</u>	<u>22,976,344</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(3,920,843)</u>	<u>(15,349,884)</u>	<u>(1,456,826)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	2,453,509	-	-
Other sources	231,518	-	-
Transfers out	(2,292)	(2,453,509)	-
<b>Net Financing Sources</b>	<u>2,682,735</u>	<u>(2,453,509)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(1,238,108)</u>	<u>(17,803,393)</u>	<u>(1,456,826)</u>
<b>Fund Balance - Beginning</b>	33,212,298	49,232,884	21,055,274
<b>Fund Balance - Ending</b>	<u>\$ 31,974,190</u>	<u>\$ 31,429,491</u>	<u>\$ 19,598,448</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 147,744,860
698,353	4,839,554
34,255	16,516,399
4,137,675	48,796,752
<u>4,870,283</u>	<u>217,897,565</u>
-	129,336,355
-	9,262,135
-	2,188,827
-	12,573,098
-	3,689,755
3,877,305	3,877,305
-	6,308,819
-	1,669,899
194,010	8,351,940
14,091	17,154,685
-	276,577
-	148,114
414,662	20,099,561
-	10,776,776
-	12,308,271
<u>4,500,068</u>	<u>238,254,903</u>
<u>370,215</u>	<u>(20,357,338)</u>
2,292	2,455,801
-	231,518
-	(2,455,801)
<u>2,292</u>	<u>231,518</u>
372,507	(20,125,820)
1,813,821	105,314,277
<u>\$ 2,186,328</u>	<u>\$ 85,188,457</u>

**CUPERTINO UNION SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018**

---

<b>Total Net Change in Fund Balances - Governmental Funds</b>		<b>\$ (20,125,820)</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	\$ 17,787,194	
Depreciation expense	<u>(14,429,315)</u>	
Net Income Adjustment		3,357,879
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(2,772)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used.		(142,455)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(6,986,475)
Accreted interest is not an expenditure in the governmental funds, but it increases the long term liabilities in the Statement of Net Position and is reflected as additional interest expense in the Statement of Activities.		(206,319)
Payment of principal on general obligation bonds is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		10,685,000
Payment of principal on capital leases is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.		91,776

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

# CUPERTINO UNION SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2018

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Proceeds received from Capital Leases are recorded as revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and amortized to operations in the Statement of Activities.	(486,936)
Amortization of bond premium is not recorded in the governmental funds, but is amortized over the life of the bond in the Statement of Activities.	2,021,944
Amortization of defeasance cost is not recorded in the governmental funds, but is amortized over the life of the bond in the Statement of Activities.	(858,595)
Interest on long-term obligation is recorded as an expenditure in the governmental funds when it is due; however, in the Statment of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	173,584
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation and other employee benefit programs to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.	1,195,076
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (11,284,113)</u></b>

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

**CUPERTINO UNION SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 9,507,571
Receivables	48,953
<b>Total Current Assets</b>	<u>9,556,524</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	26,003
Due to other funds	222
Unearned revenue	1,267,171
<b>Non-Current Liabilities</b>	
Claim liabilities	3,015,275
<b>Total Current Liabilities</b>	<u>4,308,671</u>
<b>NET POSITION</b>	
Restricted for insurance programs	5,247,853
<b>Total Net Position</b>	<u>\$ 5,247,853</u>

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

**CUPERTINO UNION SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
In-District premiums	\$ 23,053,820
<b>Total Operating Revenues</b>	<u>23,053,820</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	117,894
Insurance	21,707,125
Other operating cost	121,280
<b>Total Operating Expenses</b>	<u>21,946,299</u>
<b>Operating Income</b>	<u>1,107,521</u>
<b>NONOPERATING REVENUES</b>	
Interest income	87,555
<b>Total Nonoperating Revenues</b>	<u>87,555</u>
<b>Change in Net Position</b>	1,195,076
<b>Total Net Position - Beginning</b>	4,052,777
<b>Total Net Position - Ending</b>	<u>\$ 5,247,853</u>

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

**CUPERTINO UNION SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 23,035,439
Cash payments to employees for services	(117,894)
Cash payments for insurance claims	(21,902,634)
Cash payments to suppliers for goods and services	(57,042)
Net Cash Provided for Operating Activities	<u>957,869</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	77,053
Transfers out	222
Net Cash Provided from Investing Activities	<u>77,275</u>
Net increase in cash and cash equivalents	1,035,144
Cash and cash equivalents - Beginning	8,472,427
Cash and cash equivalents - Ending	<u><u>\$ 9,507,571</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	
Operating income	\$ 1,107,521
Changes in assets and liabilities:	
Receivables	(23,856)
Accounts payable	(131,271)
Unearned revenue	5,475
<b>NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	<u><u>\$ 957,869</u></u>

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



**CUPERTINO UNION SCHOOL DISTRICT**

**FIDUCIARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

---

	<u>Agency Fund</u>
<b>ASSETS</b>	
Deposits and investments	\$ 99,923
<b>Total Assets</b>	<u>\$ 99,923</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 99,923
<b>Total Liabilities</b>	<u>\$ 99,923</u>

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

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The Cupertino Union School District was organized in 1916 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and Federal agencies. The District operates twenty elementary and five middle schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Cupertino Union School District, this includes general operations, food service, and student related activities of the District.

#### Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

#### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for the District. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

#### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

---

**Cafeteria Fund** The Cafeteria Fund is used to account separately for federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

**Internal Service Fund** The Internal Service Fund may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insurance fund that is accounted for in an internal service fund.

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The District has only an agency fund.

**Agency Fund** Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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The government-wide Statement of Activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

**Governmental Funds** All governmental funds are 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 Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements prepared on the accrual basis of accounting, using the economic resources measurement focus and the statements for the governmental funds prepared on a modified accrual basis of accounting using the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Proprietary Funds** Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in net total position. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. 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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

### **Cash and Cash Equivalents**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the Statement of Cash Flows.

### **Investments**

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in state or county investment pools are determined by the program sponsor.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **Prepaid Expenditures (Expenses)**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures over the benefiting period.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average cost basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds. In the government-wide Statement of Net Position and Statement of Activities, such amounts are capitalized and their cost is amortized to operations over their useful lives by an annual depreciation expense charge. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the Statement of Net Position.

### **Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest, from bonds, capital leases or other long-term loans, are recognized as expenditures in the governmental fund financial statements when paid.

### **Debt Issuance Costs, Premiums and Discounts**

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds, current year pension contributions, difference between expected and actual experience in the measurement of the total pension liability, and change of District's proportionate share of net pension liabilities.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability, difference between expected and actual experience in the measurement of the total pension liability, change of assumptions and change of District's proportionate share of net pension liabilities.

### **Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

### **Fund Balances - Governmental Funds**

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**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.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

When 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 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.



# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **Minimum Fund Balance Policy**

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 3 percent of General Fund expenditures and other financing uses.

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are primarily interfund insurance premiums. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

### **Interfund Activity**

Transfers between governmental and proprietary activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

### **Estimates**

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### New Accounting Pronouncements Effective This Fiscal Year

**GASB Statement No. 86** – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The District has implemented the provisions of this Statement as of June 30, 2018.

### New Accounting Pronouncements Effective in Future Fiscal Years

**GASB Statement No. 83** – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-2019 fiscal year. The District has not determined the effect of the statement.

**GASB Statement No. 84** – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-2020 fiscal year. The District has not determined the effect of the statement.

**GASB Statement No. 87** – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The District has not determined the effect of the statement.

**GASB Statement No. 88** – In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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**GASB Statement No. 89** – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 90,606,579
Proprietary fund	9,507,571
Fiduciary fund	99,923
Total Deposits and Investments	<u><u>\$ 100,214,073</u></u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 2,499,489
Cash in revolving	76,959
Investments	97,637,625
Total Deposits and Investments	<u><u>\$ 100,214,073</u></u>

#### 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 instruments; 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 agreements; 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 accounting financial statements at amounts based upon the District's pro-rata share of the amortized cost which approximates 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 pool is not registered with the U.S. Securities and Exchange Commission.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### 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 to changes in market interest rates. The District 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, but the District adheres to the California Government Code as summarized above. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The fair value of the deposits with the County Treasurer at June 30, 2018 was \$97,637,625, and the weighted average life of pool investments was 479 days.

### Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in County Pool is not rated as of June 30, 2018.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. As of June 30, 2018, the District's amount excess of federal depository insurance coverage was approximately of \$2,085,468.

### Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets.

Level 2 inputs – quoted prices in active or inactive for the same or similar assets.

Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized – 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. As of June 30, 2018, all of the District's investment is in the Santa Clara county Treasury.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total	Proprietary Fund
Federal Government						
Categorical aid	\$ 1,080,358	\$ -	\$ -	\$ 15,644	\$ 1,096,002	\$ -
State Government						
Categorical aid	238,605	-	-	750	239,355	-
Lottery	813,983	-	-	-	813,983	-
Local Government						
Interest	160,633	143,200	50,616	9,654	364,103	25,060
Other Local Sources	542,413	-	-	-	542,413	23,893
Total	<u>\$ 2,835,992</u>	<u>\$ 143,200</u>	<u>\$ 50,616</u>	<u>\$ 26,048</u>	<u>\$ 3,055,856</u>	<u>\$ 48,953</u>

**CUPERTINO UNION SCHOOL DISTRICT**

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

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 8,600,683	\$ 37,402	\$ -	\$ 8,638,085
Capital Assets Being Depreciated:				
Land Improvements	34,492,704	434,256	-	34,926,960
Buildings and Improvements	366,244,599	16,373,026	-	382,617,625
Modulars	68,024,120	631,603	-	68,655,723
Machinery and Equipment	7,504,849	310,907	364,686	7,451,070
Total Capital Assets Being Depreciated	<u>476,266,272</u>	<u>17,749,792</u>	<u>364,686</u>	<u>493,651,378</u>
Total Capital Assets	<u>484,866,955</u>	<u>17,787,194</u>	<u>364,686</u>	<u>502,289,463</u>
Less Accumulated Depreciation:				
Land Improvements	14,656,145	1,170,746	-	15,826,891
Buildings and Improvements	219,871,800	10,359,577	-	230,231,377
Modulars	24,917,783	2,504,747	-	27,422,530
Machinery and Equipment	5,477,524	394,245	361,914	5,509,855
Total Accumulated Depreciation	<u>264,923,252</u>	<u>14,429,315</u>	<u>361,914</u>	<u>278,990,653</u>
Governmental Activities Capital Assets, Net	<u>\$ 219,943,703</u>	<u>\$ 3,357,879</u>	<u>\$ 2,772</u>	<u>\$ 223,298,810</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

<b>Governmental Activities</b>	
Instruction	\$ 14,052,801
Supervision of instruction	2,120
Pupil transportation	180,678
Food services	30,970
All other general administration	38,941
Data processing	3,269
Plant maintenance and operations	120,536
Total Depreciation Expense Governmental Activities	<u>\$ 14,429,315</u>

**CUPERTINO UNION SCHOOL DISTRICT**

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

**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service fund are as follows:

		Due From		
		General Fund	Building Fund	Total
Due To	General Fund	\$ -	\$ 81,938	\$ 81,938
	Non-Major Governmental Funds	19,528	-	19,528
	Proprietary Fund	222	-	222
	Total	<u>\$ 19,750</u>	<u>\$ 81,938</u>	<u>\$ 101,688</u>

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2018, consisted of the following:

		Transfer In		
		General Fund	Non-Major Governmental Funds	Total
Transfer Out	General Fund	\$ -	\$ 2,292	\$ 2,292
	Building Fund	2,453,509	-	2,453,509
	Total	<u>\$ 2,453,509</u>	<u>\$ 2,292</u>	<u>\$ 2,455,801</u>

The Building Fund transferred to the General Fund for the Routine Restricted Maintenance Account (RRMA).	\$ 2,453,509
The General Fund transferred to the Cafeteria Fund to cover the deficit fund balance.	<u>2,292</u>
Total	<u>\$ 2,455,801</u>

**CUPERTINO UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**NOTE 6 - DEFERRED CHARGES ON REFUNDING**

Deferred outflows of resources are a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the negative net investment in capital assets amount of \$41,551,530 includes the effect of deferring the recognition of loss of \$3,102,738 from advance refunding. The loss will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The changes in the District's deferred charges on refunding during the year are as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Bond defeasance costs	\$ 3,961,333	\$ -	\$ 858,595	\$ 3,102,738

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Governmental Funds Total	Proprietary Fund
Vendor payables	\$ 2,224,288	\$ 534,230	\$ 7,189	\$ 2,765,707	\$ 26,003
State principal apportionment	792,661	-	-	792,661	-
Salaries and benefits	4,426,819	152,681	129	4,579,629	-
Other payables	545,949	159,670	-	705,619	-
Total	<u>\$ 7,989,717</u>	<u>\$ 846,581</u>	<u>\$ 7,318</u>	<u>\$ 8,843,616</u>	<u>\$ 26,003</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	Proprietary Fund
Employee health care benefits withheld	\$ -	\$ 1,267,171
Parent prepaid bus pass fees	97,320	-
Total	<u>\$ 97,320</u>	<u>\$ 1,267,171</u>



**CUPERTINO UNION SCHOOL DISTRICT**

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

**NOTE 9 - LONG-TERM OBLIGATIONS OTHER THAN PENSION**

**Summary**

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
General obligation bonds	\$ 282,712,820	\$ 206,319	\$ 10,685,000	\$ 272,234,139	\$ 11,670,000
Bond premium	28,704,616	-	2,021,944	26,682,672	2,021,944
Compensated absences	1,415,574	142,455	-	1,558,029	-
Capital leases	70,598	486,936	91,776	465,758	87,478
Total	<u>\$ 312,903,608</u>	<u>\$ 835,710</u>	<u>\$ 12,798,720</u>	<u>\$ 300,940,598</u>	<u>\$ 13,779,422</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. The accumulated vacation will be paid by the fund for which the employee worked. Payments on the capital leases are made by the General Fund.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Original Issue	Bonds Outstanding July 1, 2017	Accreted Interest	Redeemed	Bonds Outstanding June 30, 2018
2007	8/1/32	\$ 374,615	\$ 721,422	\$ 49,452	\$ -	\$ 770,874
2010	8/1/34	3,398,760	960,818	75,417	-	1,036,235
2010	8/1/23	13,490,000	2,735,000	-	625,000	2,110,000
2011	8/1/26	21,090,000	16,315,000	-	1,275,000	15,040,000
2011	8/1/20	14,640,000	6,820,000	-	1,775,000	5,045,000
2011	8/1/25	4,505,000	1,530,000	-	40,000	1,490,000
2011	8/1/27	490,086	860,580	81,450	-	942,030
2012	8/1/37	50,000,000	32,635,000	-	285,000	32,350,000
2013	8/1/27	35,485,000	35,485,000	-	-	35,485,000
2013	8/1/24	22,320,000	18,610,000	-	1,840,000	16,770,000
2014	8/1/38	99,995,000	86,055,000	-	405,000	85,650,000
2016	8/1/40	55,000,000	55,000,000	-	4,440,000	50,560,000
2016	8/1/34	25,090,000	24,985,000	-	-	24,985,000
			<u>\$ 282,712,820</u>	<u>\$ 206,319</u>	<u>\$ 10,685,000</u>	<u>\$ 272,234,139</u>

**CUPERTINO UNION SCHOOL DISTRICT**

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

**Debt Service Requirements to Maturity**

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 11,670,000	\$ 12,292,364	\$ 23,962,364
2020	7,920,000	11,865,614	19,785,614
2021	8,865,000	11,497,201	20,362,201
2022	9,540,000	11,099,676	20,639,676
2023	10,670,000	10,647,863	21,317,863
2024-2028	68,933,426	45,680,639	114,614,065
2029-2033	47,697,877	32,842,561	80,540,438
2034-2038	67,105,000	15,681,155	82,786,155
2039-2041	38,475,000	2,227,900	40,702,900
Sub Total	<u>270,876,303</u>	<u>\$ 153,834,970</u>	<u>\$ 424,711,273</u>
Accretion to date	1,357,836		
Total	<u>\$ 272,234,139</u>		

**Capital Leases**

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Copiers
Balance, June 30, 2017	\$ 70,598
Additions	486,936
Payments	91,776
Balance, June 30, 2018	<u>\$ 465,758</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	\$ 112,882
2020	112,882
2021	112,882
2022	112,882
2023	84,792
Total	<u>536,320</u>
Less: Amount Representing Interest	70,562
Present Value of Minimum Payments	<u>\$ 465,758</u>

**CUPERTINO UNION SCHOOL DISTRICT**

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

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**Accumulated Unpaid Compensated Absences**

The total accumulated unpaid compensated absences for the District at June 30, 2018, amounted to \$1,558,029.

**NOTE 10 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 75,000	\$ -	\$ -	\$ 1,959	\$ 76,959
Stores inventories	48,141	-	-	75,611	123,752
Prepaid expenditures	308,854	-	-	-	308,854
<b>Total Nonspendable</b>	<b>431,995</b>	<b>-</b>	<b>-</b>	<b>77,570</b>	<b>509,565</b>
<b>Restricted</b>					
Educational programs	9,165,655	-	-	-	9,165,655
Capital projects	-	31,429,491	-	1,391,293	32,820,784
Debt services	-	-	19,598,448	-	19,598,448
Food services	-	-	-	717,762	717,762
<b>Total Restricted</b>	<b>9,165,655</b>	<b>31,429,491</b>	<b>19,598,448</b>	<b>2,109,055</b>	<b>62,302,649</b>
<b>Assigned</b>					
Program carryover	10,866,253	-	-	-	10,866,253
<b>Total Assigned</b>	<b>10,866,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,866,253</b>
<b>Unassigned</b>					
Reserve for economic uncertainties	11,509,990	-	-	-	11,509,990
<b>Total Unassigned</b>	<b>11,509,990</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,509,990</b>
<b>Total</b>	<b>\$ 31,973,893</b>	<b>\$ 31,429,491</b>	<b>\$ 19,598,448</b>	<b>\$ 2,186,625</b>	<b>\$ 85,188,457</b>

**CUPERTINO UNION SCHOOL DISTRICT**

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

**NOTE 11 - RISK MANAGEMENT**

**Workers' Compensation and Property and Liability**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. Employee workers' compensation, dental and medical programs are administered by the Self-Insurance Fund. During fiscal year ending June 30, 2018, the District contracted with the Northern California RELIEF public entity risk pool for property and liability, fidelity and boiler insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Insurance Program / Company Name	Type of Coverage	Limits	
<u>Property and Liability</u>			
North California ReLIEF	Property	\$	250,250,000
North California ReLIEF	Liability	\$	1,000,000
<u>Protected Insurance Programs for Schools Joint</u>			
Power Authority (PIPS)	Workers' Compensation	\$	155,000,000

**Claims Liabilities**

The District is self-insured for dental, medical and claims incurred for the workers' compensation program prior to the termination of workers' compensation self-insurance program in fiscal year 2006. The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

	Workers' Compensation	Dental	Medical	Total
Liability Balance, June 30, 2016	\$ 2,234,452	\$ 107,803	\$ 733,910	\$ 3,076,165
Claims and changes in estimates	(34,138)	(148,370)	(4,211,149)	(4,393,657)
Claims payments	17,753	164,814	4,224,429	4,406,996
Liability Balance, June 30, 2017	2,218,067	124,247	747,190	3,089,504
Claims and changes in estimates	(23,559)	(158,588)	(4,854,646)	(5,036,793)
Claims payments	23,630	153,398	4,785,536	4,962,564
Liability Balance, June 30, 2018	<u>\$ 2,218,138</u>	<u>\$ 119,057</u>	<u>\$ 678,080</u>	<u>\$ 3,015,275</u>

Assets available to pay claims at June 30, 2018 totaled \$8,263,128.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 150,636,953	\$ 44,822,590	\$ 17,711,145	\$ 13,975,589
CalPERS	62,939,790	19,091,959	1,161,074	11,183,189
Total	<u>\$ 213,576,743</u>	<u>\$ 63,914,549</u>	<u>\$ 18,872,219</u>	<u>\$ 25,158,778</u>

The details of each plan are as follows:

#### California State Teachers' Retirement System (CalSTRS)

##### **Plan Description**

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: [www.calstrs.com/member-publications](http://www.calstrs.com/member-publications).

##### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

**CUPERTINO UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

**Contributions**

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$12,811,249.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 150,636,953
State's proportionate share of the net pension liability associated with the District	89,115,549
Total	<u>\$ 239,752,502</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.1629 percent and 0.1784 percent, resulting in a net increase in the proportionate share of 0.00155 percent.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$13,975,589. In addition, the District recognized pension expense and revenue of \$8,970,336 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 12,811,249	\$ -
Net change in proportionate share of net pension liability	3,547,016	(11,072,048)
Changes of assumptions	27,907,255	-
Difference between projected and actual earnings on pension plan investments	-	(4,011,882)
Differences between expected and actual experience in the measurement of the total pension liability	557,070	(2,627,215)
Total	<u>\$ 44,822,590</u>	<u>\$ (17,711,145)</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows (inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows / (Inflows) of Resources
2019	(3,335,739)
2020	2,524,084
2021	364,011
2022	(3,564,238)
Total	<u>\$ (4,011,882)</u>

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows / (Inflows) of Resources
2019	\$ 7,916,485
2020	7,916,485
2021	6,954,167
2022	(1,706,708)
2023	(1,170,032)
2024	(1,598,319)
Total	<u>\$ 18,312,078</u>

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.



# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute return/risk mitigating strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

### Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 221,182,870
Current discount rate (7.10%)	\$ 150,636,953
1% increase (8.10%)	\$ 93,384,160

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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### California Public Employees Retirement System (CalPERS)

#### Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire date	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$5,361,054.

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$62,939,790. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively was 0.2636 percent and 0.2671 percent, resulting in a net decrease in the proportionate share of 0.0034 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$11,183,189. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,361,054	\$ -
Net change in proportionate share of net pension liability	105,400	(420,036)
Difference between projected and actual earnings on pension plan investments	2,177,286	-
Differences between expected and actual experience in the measurement of the total pension liability	2,254,873	-
Changes of assumptions	9,193,346	(741,038)
Total	<u>\$ 19,091,959</u>	<u>\$ (1,161,074)</u>

**CUPERTINO UNION SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2018**

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows / (Inflows) of Resources
2019	\$ (58,997)
2020	2,512,116
2021	916,447
2022	(1,192,280)
Total	<u>\$ 2,177,286</u>

The deferred outflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2019	\$ 3,708,384
2020	3,635,025
2021	3,049,136
Total	<u>\$ 10,392,545</u>

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

### Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 77,689,756
Current discount rate (7.15%)	\$ 62,939,790
1% increase (8.15%)	\$ 30,737,772

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### **Social Security**

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use social security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$7,247,002, \$5,430,211, and \$5,476,692, for fiscal years ending June 30, 2018, 2017 and 2016 respectively (9.328 percent of 2017-2018, 8.828 percent of 2016-2017, and 7.126 percent of 2015-2016 annual payrolls). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded on the financial statements.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 13 - COMMITMENTS AND CONTINGENCIES

#### Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished 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, Stockmeir, 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 Stockmeir	279,360	6/30/2019
McAuliffe	189,608	9/30/2018
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
Stockmeir	358,573	6/30/2019
	\$ 7,266,537	

# CUPERTINO UNION SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2018**

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### NOTE 14 - OPERATING LEASE REVENUE

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease revenues under these agreements are as follows:

June 30,	Lease Revenues
2019	\$ 2,643,770
2020	536,963
2021	10,333
2022	10,333
2023	10,333
Total	<u>\$ 3,211,732</u>

### NOTE 15 - PARTICIPATION IN PUBLIC JOINT POWER AUTHORITIES

The District is a member of the Northern California ReLiEF joint powers authority. The District pays an annual premium to the Northern California ReLiEF JPA. The relationship between the District and the JPA is such that the JPA not component unit of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the entity. The District has appointed one member to the governing board of ReLiEF.

During the year ended June 30, 2018, the District made payments of \$823,703 to ReLiEF for insurance coverage received.



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***REQUIRED SUPPLEMENTARY INFORMATION***

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**CUPERTINO UNION SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local control funding formula	\$ 148,272,519	\$ 147,703,071	\$ 147,744,860	\$ 41,789
Federal sources	4,033,119	4,382,889	4,141,201	(241,688)
Other state sources	12,642,385	15,398,647	16,396,939	998,292
Other local sources	20,979,319	18,687,823	19,627,028	939,205
<b>Total Revenues</b>	<b>185,927,342</b>	<b>186,172,430</b>	<b>187,910,028</b>	<b>1,737,598</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	88,769,849	92,271,118	92,175,740	95,378
Classified salaries	34,832,737	34,620,819	34,528,219	92,600
Employee benefits	44,532,181	43,465,275	43,449,939	15,336
Books and supplies	8,462,473	8,268,184	6,084,712	2,183,472
Services and operating expenditures	17,414,991	16,448,462	14,884,248	1,564,214
Other outgo	(132,452)	(65,796)	(174,502)	108,706
Capital outlay	171,455	787,689	773,812	13,877
Debt service	-	-	108,703	(108,703)
<b>Total Expenditures</b>	<b>194,051,234</b>	<b>195,795,751</b>	<b>191,830,871</b>	<b>3,964,880</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(8,123,892)</b>	<b>(9,623,321)</b>	<b>(3,920,843)</b>	<b>5,702,478</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,493,509	2,609,361	2,453,509	(155,852)
Other sources	-	-	231,518	231,518
Transfers out	-	(2,292)	(2,292)	-
<b>Net Financing Sources</b>	<b>2,493,509</b>	<b>2,607,069</b>	<b>2,682,735</b>	<b>75,666</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(5,630,383)</b>	<b>(7,016,252)</b>	<b>(1,238,108)</b>	<b>5,778,144</b>
<b>Fund Balance - Beginning</b>	<b>33,212,001</b>	<b>33,212,001</b>	<b>33,212,001</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 27,581,618</b>	<b>\$ 26,195,749</b>	<b>\$ 31,973,893</b>	<b>\$ 5,778,144</b>

See accompanying note to required supplementary information.

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**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2018**

Measurement Date, As of June 30,	2017	2016
<u>CalSTRS</u>		
District's proportion of the net pension liability	0.1629%	0.1784%
District's proportionate share of the net pension liability	\$ 150,636,953	\$ 144,272,368
State's proportionate share of the net pension liability associated with the District	89,115,549	82,131,686
Total	<u>\$ 239,752,502</u>	<u>\$ 226,404,054</u>
District's covered payroll	\$ 86,675,128	\$ 88,417,903
District's proportionate share of the net pension liability as a percentage of its covered - payroll	173.79%	163.17%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
<u>CalPERS</u>		
District's proportion of the net pension liability	0.2636%	0.2671%
District's proportionate share of the net pension liability	\$ 62,939,790	\$ 52,749,736
District's covered - payroll	\$ 33,676,227	\$ 32,076,564
District's proportionate share of the net pension liability as a percentage of its covered - payroll	186.90%	164.45%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

*Note* : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

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<u>2015</u>	<u>2014</u>
<u>0.1717%</u>	<u>0.1739%</u>
\$ 115,568,247	\$ 101,611,807
<u>61,122,863</u>	<u>61,357,596</u>
<u>\$ 176,691,110</u>	<u>\$ 162,969,403</u>
<u>\$ 82,554,422</u>	<u>\$ 76,856,296</u>
<u>139.99%</u>	<u>132.21%</u>
<u>74%</u>	<u>77%</u>
<u>0.2670%</u>	<u>0.2642%</u>
\$ 39,353,507	\$ 29,994,065
<u>\$ 30,455,001</u>	<u>\$ 27,680,980</u>
<u>129.22%</u>	<u>108.36%</u>
<u>79%</u>	<u>83%</u>

**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2018**

<b>Fiscal Year End, June 30,</b>	<u>2018</u>	<u>2017</u>
<u>CalSTRS</u>		
Contractually required contribution	\$ 12,811,249	\$ 10,860,869
Contributions in relation to the contractually required contribution	(12,811,249)	(10,860,869)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 89,140,788</u>	<u>\$ 86,675,128</u>
Contributions as a percentage of covered - payroll	<u>14.37%</u>	<u>12.53%</u>
<u>CalPERS</u>		
Contractually required contribution	\$ 5,361,054	\$ 4,679,943
Contributions in relation to the contractually required contribution	(5,361,054)	(4,679,943)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - payroll	<u>\$ 34,519,708</u>	<u>\$ 33,676,227</u>
Contributions as a percentage of covered - payroll	<u>15.53%</u>	<u>13.90%</u>

*Note*: In the future, as data becomes available, ten years of information will be presented.

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<u>2016</u>	<u>2015</u>
\$ 9,448,353	\$ 7,336,518
<u>(9,448,353)</u>	<u>(7,336,518)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 88,417,903</u>	<u>\$ 82,554,422</u>
<u>10.69%</u>	<u>8.89%</u>
\$ 3,807,253	\$ 3,492,894
<u>(3,807,253)</u>	<u>(3,492,894)</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 32,076,564</u>	<u>\$ 30,455,001</u>
<u>11.87%</u>	<u>11.47%</u>

# CUPERTINO UNION SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California Education Code. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

#### **Schedule of the District's Proportionate Share of the Net Pension Liability**

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

*Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

*Changes in Assumptions* – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

#### **Schedule of District Pension Contributions**

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.



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*SUPPLEMENTARY INFORMATION*

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**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I - Basic Grants Low-Income and Neglected	84.010	14329	\$ 497,188
Title II - Improving Teacher Quality Local Grants	84.367	14341	294,767
Title III - Immigrant Education Program	84.365	15146	67,700
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	332,058
Special Education Cluster (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	2,621,080
Local Assistance, Private School	84.027	10115	24,834
Preschool Grants	84.173	13430	67,738
Preschool Local Entitlement	84.027A	13682	235,317
Preschool Staff Development	84.173A	13431	519
Total Special Education Cluster			<u>2,949,488</u>
Total U.S. Department of Education			<u>4,141,201</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	608,424
School Breakfast Program	10.553	13390	60,538
Especially Needy Breakfast	10.559	13526	29,391
Commodity <sup>1</sup>	10.555	N/A	120,088
Total Child Nutrition Cluster			<u>818,441</u>
Total U.S. Department of Agriculture			<u>818,441</u>
Total Expenditures of Federal Awards			<u>\$ 4,959,642</u>

<sup>1</sup> Amount not included in financial statement

See accompanying note to supplementary information.

# CUPERTINO UNION SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

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### ORGANIZATION

The Cupertino Union School District was organized in 1916 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and Federal agencies. The District operates twenty elementary and five middle schools.

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Soma McCandless	President	2018
Kristen Lyn	Vice President	2018
Phyllis Vogel	Clerk	2020
Liang Chao	Member	2020
Anjali Kausar	Member	2018

### ADMINISTRATION

Dr. Craig Baker	Superintendents
Jeff Bowman	Chief Operations Officer
Dorothy Reconose	Director of Fiscal Services

See accompanying note to supplementary information.

**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2018**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	7,487.90	7,491.92
Fourth through sixth	5,913.60	5,906.48
Seventh and eighth	4,183.37	4,180.87
Total Regular ADA	<u>17,584.87</u>	<u>17,579.27</u>
Extended Year Special Education		
Transitional kindergarten through third	8.44	8.44
Fourth through sixth	5.83	5.83
Seventh and eighth	1.41	1.41
Total Extended Year Special Education	<u>15.68</u>	<u>15.68</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.20	2.63
Fourth through sixth	8.36	7.87
Seventh and eighth	3.22	3.60
Total Special Education, Nonpublic, Nonsectarian Schools	<u>13.78</u>	<u>14.10</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.25	0.25
Fourth through sixth	1.17	1.17
Seventh and eighth	0.19	0.19
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>1.61</u>	<u>1.61</u>
Total ADA	<u>17,615.94</u>	<u>17,610.66</u>

See accompanying note to supplementary information.

**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

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<u>Grade Level</u>	<u>1986-1987 Minutes Requirement</u>	<u>2017-2018 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	55,695	180	Complied
Grades 1 - 3	50,400			
Grade 1		52,095	180	Complied
Grade 2		52,095	180	Complied
Grade 3		52,095	180	Complied
Grades 4 - 6	54,000			
Grade 4		56,145	180	Complied
Grade 5		56,145	180	Complied
Grade 6		56,145	180	Complied
Grades 7 - 8	54,000			
Grade 7		56,145	180	Complied
Grade 8		56,145	180	Complied

See accompanying note to supplementary information.

**CUPERTINO UNION SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

**CUPERTINO UNION SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2018**

	(Budget)			
	2019 <sup>1</sup>	2018	2017	2016
<b>GENERAL FUND</b>				
Revenues	\$ 191,389,179	\$ 187,910,028	\$ 187,841,346	\$ 189,604,651
Other sources and transfers in	2,760,290	2,685,027	2,638,500	2,494,960
<b>Total Revenues and Other Sources</b>	<b>194,149,469</b>	<b>190,595,055</b>	<b>190,479,846</b>	<b>166,241,265</b>
Expenditures	197,782,678	191,830,871	185,775,036	184,701,790
Other uses and transfers out	-	2,292	933	1,488
<b>Total Expenditures and Other Uses</b>	<b>197,782,678</b>	<b>191,833,163</b>	<b>185,775,969</b>	<b>173,441,149</b>
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ (3,633,209)</b>	<b>\$ (1,238,108)</b>	<b>\$ 4,703,877</b>	<b>\$ (7,199,884)</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 28,340,684</b>	<b>\$ 31,973,893</b>	<b>\$ 33,212,001</b>	<b>\$ 28,508,124</b>
<b>AVAILABLE RESERVES<sup>2</sup></b>	<b>\$ 11,761,736</b>	<b>\$ 11,509,990</b>	<b>\$ 11,146,559</b>	<b>\$ 11,541,098</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>5.95%</b>	<b>6.00%</b>	<b>6.18%</b>	<b>6.82%</b>
<b>LONG-TERM OBLIGATIONS OTHER THAN PENSION</b>	<b>\$ 300,126,066</b>	<b>\$ 300,940,598</b>	<b>\$ 312,903,608</b>	<b>\$ 326,567,899</b>
<b>AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>17,204</b>	<b>17,616</b>	<b>18,258</b>	<b>18,565</b>

The General Fund balance has increased by \$3,465,769 over the past two years. The fiscal year 2018-2019 budget projects a decrease of \$3,633,209 (11.36 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have decreased by \$25,627,301 over the past two years. The decrease is mainly due redemption of matured bonded debts.

Average daily attendance has decreased by 949 over the past two years. A decrease of 412 ADA is anticipated during fiscal year 2018-2019.

<sup>1</sup> Budget is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained in the General Fund.

See accompanying note to supplementary information.

**CUPERTINO UNION SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2018**

	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 702,064	\$ 1,409,748	\$ 2,111,812
Receivables	20,287	5,761	26,048
Stores inventories	75,611	-	75,611
<b>Total Assets</b>	<b>\$ 797,962</b>	<b>\$ 1,415,509</b>	<b>\$ 2,213,471</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,610	\$ 4,708	\$ 7,318
Due to other funds	20	19,508	19,528
<b>Total Liabilities</b>	<b>2,630</b>	<b>24,216</b>	<b>26,846</b>
<b>Fund Balances:</b>			
Nonspendable	77,570	-	77,570
Restricted	717,762	1,391,293	2,109,055
<b>Total Fund Balances</b>	<b>795,332</b>	<b>1,391,293</b>	<b>2,186,625</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 797,962</b>	<b>\$ 1,415,509</b>	<b>\$ 2,213,471</b>

See accompanying note to supplementary information.



**CUPERTINO UNION SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Cafeteria Fund</b>	<b>Capital Facilities Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Federal sources	\$ 698,353	\$ -	\$ 698,353
Other State sources	34,255	-	34,255
Other local sources	3,468,927	668,748	4,137,675
<b>Total Revenues</b>	<u>4,201,535</u>	<u>668,748</u>	<u>4,870,283</u>
<b>EXPENDITURES</b>			
Current			
Pupil services:			
Food services	3,877,305	-	3,877,305
Administration:			
All other administration	174,502	19,508	194,010
Plant services	14,091	-	14,091
Facility acquisition and construction	9,267	405,395	414,662
<b>Total Expenditures</b>	<u>4,075,165</u>	<u>424,903</u>	<u>4,500,068</u>
<b>Excess of Revenues Over Expenditures</b>	<u>126,370</u>	<u>243,845</u>	<u>370,215</u>
<b>Other Financing Sources</b>			
Transfers in	2,292	-	2,292
<b>Net Financing Sources</b>	<u>2,292</u>	<u>-</u>	<u>2,292</u>
<b>NET CHANGE IN FUND BALANCES</b>	128,662	243,845	372,507
<b>Fund Balance - Beginning</b>	666,373	1,147,448	1,813,821
<b>Fund Balance - Ending</b>	<u>\$ 795,035</u>	<u>\$ 1,391,293</u>	<u>\$ 2,186,328</u>

See accompanying note to supplementary information.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### NOTE 1 - PURPOSE OF SCHEDULES

#### Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have not been recorded in the current period.

Description	CFDA Number	Amount
Total Federal Revenues-Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 4,839,554
Commodities	10.555	120,088
Total Schedule of Expenditures of Federal Awards		<u>\$ 4,959,642</u>

#### Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

#### Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

#### Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirement, as required by Education Code Section 46201.

# CUPERTINO UNION SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances**

The Non-Major Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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***INDEPENDENT AUDITOR'S REPORTS***

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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***

Board of Trustees  
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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 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 Cupertino Union School District's basic financial statements, and have issued our report thereon dated November 14, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Cupertino Union School District's internal control over financial reporting (internal control) to determine the 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 Cupertino Union School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cupertino Union School District'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 Cupertino Union School District's financial statements are free from 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Palo Alto, California  
November 14, 2018





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

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Cupertino Union School District  
Cupertino, California

**Report on Compliance for Each Major Federal Program**

We have audited Cupertino Union School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. Cupertino Union School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

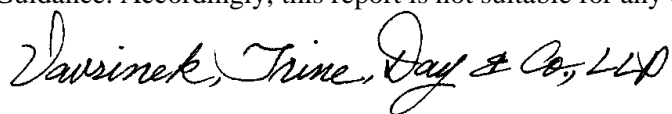
## **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cupertino Union School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California  
November 14, 2018



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

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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Cupertino Union School District  
Cupertino, California

### **Report on State Compliance**

We have audited Cupertino Union School District's compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Cupertino Union School District's State government programs as noted below for the year ended June 30, 2018.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Cupertino Union School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Cupertino Union School Districts compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Cupertino Union School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, Cupertino Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Cupertino Union School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
<b>CHARTER SCHOOLS</b>	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because the ADA generated is below the testing threshold.

The District does not have a Continuation Education Program, an Early Retirement Incentive Program, Juvenile Court Schools, Middle or Early College High Schools, Apprenticeship: Related and Supplemental Instruction, a Before or After School Education and Safety Program, a Course based Independent Study program, and dependent charter schools; therefore, we did not perform procedures related to these Programs.

*Wassinek, Trine, Day & Co., LLP*

Palo Alto, California  
November 14, 2018

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**CUPERTINO UNION SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(A) of the Uniform Guidance	<u>No</u>
Identification of major federal programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**CUPERTINO UNION SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**CUPERTINO UNION SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**CUPERTINO UNION SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

**CUPERTINO UNION SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018**

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There were no audit findings reported in the prior year's schedule of financial statement findings.