

SANTA CLARA UNIFIED SCHOOL DISTRICT

**MEASURE H
2010 GENERAL OBLIGATION BONDS
FINANCIAL AUDIT**

JUNE 30, 2012

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

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JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizens Oversight Committee
Santa Clara Unified School District
Santa Clara, California

We have audited the accompanying financial statements of the Santa Clara Unified School District (the District), General Obligation Bond Fund (Measure H), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the General Obligation Bond Fund specific to Measure H and are not intended to present fairly the financial position and changes in financial position of the Santa Clara Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Obligation Bond Fund (Measure H) of the Santa Clara Unified School District as of June 30, 2012, and the results of its operations and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2012, on our consideration of the District General Obligation Bond Fund's (Measure H) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Palo Alto, California
October 6, 2012

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**BALANCE SHEET
JUNE 30, 2012**

ASSETS

Cash and investments	\$ 71,858,678
Accounts receivable	<u>266,019</u>
Total Assets	<u>\$ 72,124,697</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 4,601,732
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FUND BALANCE

Restricted fund balances	<u>67,522,965</u>
Total Liabilities and Fund Equity	<u>\$ 72,124,697</u>

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

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUES AND OTHER SOURCES

Interest	\$ 568,953
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EXPENDITURES

Current Expenditures

Classified salaries and benefits	9,187
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Employee benefits	511
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Supplies	58,363
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Services and operating expenditures	483,025
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Capital outlay	12,607,886
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Total Expenditures	<u>13,158,972</u>
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EXCESS OF REVENUES (UNDER) EXPENDITURES	(12,590,019)
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Fund Balance - Beginning	<u>80,112,984</u>
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Fund Balance - Ending	<u><u>\$ 67,522,965</u></u>
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The accompanying notes are an integral part of these financial statements.

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Santa Clara Unified School District General Obligation Bond Fund (Measure H) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Santa Clara Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the General Obligation Bond fund of the Santa Clara Unified School District used to account for Measure H projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2010. These financial statements are not intended to present fairly the financial position and results of operations of the Santa Clara Unified School District in compliance with accounting principles generally accepted in the United States of America.

The authorized issuance amount of the bonds is \$81,100,000. The first series of bonds in the amount of \$81,100,000 were sold on June 9, 2011.

Fund Accounting

The operations of the General Obligation Bond Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The General Obligation Bond Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

SANTA CLARA UNIFIED SCHOOL DISTRICT GENERAL OBLIGATION BOND FUND (MEASURE H)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Fund Balance - Governmental Funds

As of June 30, 2012, fund balances of the General Obligation Bond Fund are classified restricted.

Restricted fund balances are 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. Adoption of this statement is not expected to materially impact the District's financial statement.

SANTA CLARA UNIFIED SCHOOL DISTRICT GENERAL OBLIGATION BOND FUND (MEASURE H)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

NOTE 2 - INVESTMENTS

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statement at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District manages its exposure to interest rate risk by maintaining all of its General Obligation Bond Fund (Measure H) deposits of \$71,858,678 in the County Treasury pool. The fair value of the deposits for the General Obligation Bond Fund (Measure H) with the County Treasurer at June 30, 2012, was \$72,132,510 and the weighted average maturity of the pool was 472 days. The pool does not have a credit rating.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted of \$266,019 of interest.

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	Amount
Vendor payables	\$ 4,601,656
Salaries and benefits	76
Total	<u>\$ 4,601,732</u>

NOTE 5 – MEASURE H GENERAL OBLIGATION BONDS

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds	
				Outstanding July 1, 2011	Issued	Redeemed	Outstanding June 30, 2012
06/11	2036	3.0%-5.0%	\$81,100,000	<u>\$81,100,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,100,000</u>

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest to Maturity	Total
2013	\$ 1,250,000	\$ 1,692,475	\$ 2,942,475
2014	1,390,000	3,357,150	4,747,150
2015	1,415,000	3,308,125	4,723,125
2016	1,525,000	3,264,025	4,789,025
2017	1,645,000	3,214,419	4,859,419
2018-2022	10,350,000	15,207,340	25,557,340
2023-2027	14,520,000	13,187,831	27,707,831
2028-2032	20,405,000	9,521,400	29,926,400
2033-2036	28,600,000	3,694,325	32,294,325
Total	\$ 81,100,000	\$ 56,447,090	\$ 137,547,090

NOTE 6 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the General Obligation Bond Fund (Measure H) had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Mariposa School Campus Modernization	\$ 1,782,000	August 2012
Solar Power Generating Systems (Eight Sites)	10,472,000	October 2013
	<u>\$ 12,254,000</u>	

Litigation

The General Obligation Bond Fund (Measure H) is not currently a party to any legal proceedings.

INDEPENDENT AUDITOR'S REPORT



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees and
Citizens Oversight Committee
Santa Clara Unified School District
Santa Clara, California

We have audited the accompanying financial statements of the Santa Clara Unified School District (the District) General Obligation Bond Fund (Measure H), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 6, 2012. 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.

Internal Control Over Financial Reporting

Management of Santa Clara Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Santa Clara Unified School District General Obligation Bond Fund's (Measure H) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the General Obligation Bond Fund's (Measure H) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santa Clara Unified School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Clara Unified School District's General Obligation Bond Fund (Measure H) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.



Palo Alto, California
October 6, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2012**

None reported.

**SANTA CLARA UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BOND FUND (MEASURE H)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2012**

None reported.