

**MEASURES "M" AND "O" GENERAL OBLIGATION  
BONDS BUILDING FUND OF  
SAN MATEO UNION HIGH SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2015**



**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*For the Fiscal Year Ended June 30, 2015*

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## *Introduction*

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**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Introduction and Citizens' Oversight Committee Member Listing  
June 30, 2015*

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San Mateo Union High School District (the District) consists of seven high schools and a continuation school, supported by a District Office. The District serves approximately 8,000 students.

On November 7, 2006, the voters of the San Mateo Union High School District approved by a 66.5% approval, Measure "M", authorizing the issuance and sale of \$298 million of general obligation bonds. The bonds are being issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of General Obligation Bonds. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds.

The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

Upon passage of Proposition 39, an accompanying piece of legislation, AB1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond Proposition pursuant to the 55% majority authorized in Proposition 39 including formation, composition and purpose of the Citizens' Bond Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Citizens' Bond Oversight Committee was comprised of the following members as of June 30, 2015.

**SAN MATEO UNION HIGH SCHOOL DISTRICT  
CITIZENS' OVERSIGHT COMMITTEE**

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Don Freeman	Chair	Business Organization/ Senior Citizen Group Representative
Jonathan Ng	Vice-Chair	Parent/ Guardian of Child in District - Active in Parent Teacher Organization
Pat Griffin	Member	Senior Citizen Group Representative
Mike Loy	Member	At-Large Community Member
Lee Manus-McNutt	Member	Senior Citizen Group Representative
Julie Hoffman	Member	Taxpayer Organization Representative
Brian Beswick	Member	Parent/ Guardian of Child in District

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***Financial Section***

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees and the  
Citizens' Bond Oversight Committee  
San Mateo Union High School District  
San Mateo, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District, as of and for the fiscal year ended June 30, 2015, and the related notes to the 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

### Opinion

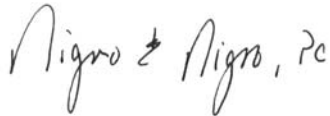
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District, as of June 30, 2015, and the changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Measures "M" and "O" General Obligation Bonds Building Fund and do not purport to, and do not, present fairly the financial position of the San Mateo Union High School District, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2015 on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Murrieta, California  
December 3, 2015

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Balance Sheet*

*June 30, 2015*

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	<u>Measure "M"</u>	<u>Measure "O"</u>
<b>ASSETS</b>		
Cash	\$ 6,636,895	\$ 101,134,983
Accounts receivable	-	399,900
<b>Total Assets</b>	<u>\$ 6,636,895</u>	<u>\$ 101,534,883</u>
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities</b>		
Accounts payable	\$ 343,615	\$ 792,661
<b>Fund Balance</b>		
Restricted for capital projects	<u>6,293,280</u>	<u>100,742,222</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 6,636,895</u>	<u>\$ 101,534,883</u>



**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Year Ended June 30, 2015*

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	<u>Measure "M"</u>	<u>Measure "O"</u>
<b>REVENUES</b>		
Interest earnings	\$ -	\$ 513,110
Lehman settlement	-	79,218
Other local revenue	-	1,032,105
	<hr/>	<hr/>
<b>Total Revenues</b>	-	1,624,433
	<hr/>	<hr/>
<b>EXPENDITURES</b>		
Plant Services:		
Materials and supplies	48,199	508,322
Services and other operating expenditures	201,402	13,299
Capital outlay	8,380,426	11,550,048
Debit Services:		
Debt issuance costs	-	593,241
	<hr/>	<hr/>
<b>Total Expenditures</b>	8,630,027	12,664,910
	<hr/>	<hr/>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(8,630,027)</u>	<u>(11,040,477)</u>
	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>		
Interfund transfer out	(5,181,180)	-
Interfund transfer in	-	5,181,180
Proceeds from bond issuances	-	106,190,000
Payment to escrow agent for defeased debt	-	(60,583,437)
Premiums on issuance of debt	-	10,751,678
	<hr/>	<hr/>
<b>Total Other Financing Sources (Uses)</b>	<u>(5,181,180)</u>	<u>61,539,421</u>
	<hr/>	<hr/>
<b>Net Change in Fund Balance</b>	(13,811,207)	50,498,944
	<hr/>	<hr/>
<b>Fund Balance, July 1, 2014</b>	20,104,487	50,243,278
	<hr/>	<hr/>
<b>Fund Balance, June 30, 2015</b>	<u>\$ 6,293,280</u>	<u>\$ 100,742,222</u>
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# MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND OF SAN MATEO UNION HIGH SCHOOL DISTRICT

*Notes to Financial Statements*

*June 30, 2015*

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## NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

On November 7, 2006, District voters authorized \$298 million in General Obligation Bonds (Measure "M") for the purpose of financing the modernization and construction of school facilities within the District. On November 2, 2010, voters authorized an additional \$186 million in General Obligation Bonds (Measure "O") to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds. The measures required a minimum 55% vote for passage. In response, an advisory committee to the District's Governing Board and Superintendent, the Citizens' Bond Oversight Committee, was established. The Committee's oversight goals include ensuring compliance with conditions of Measures "M" and "O".

The Bond proceeds are accounted for in the District's Building Fund using resource codes 0700 and 0600, where they are expended for the approved projects. The statements presented are for the individual Measures "M" and "O" General Obligation Bonds Building Fund and are not intended to be a complete presentation of the District's financial position or results of operations.

### B. Accounting Policies

The San Mateo Union High School District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

### C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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 financial statements of the Measures "M" and "O" General Obligation Bonds Building Fund are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

### D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

### E. Use of Estimates

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

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2015*

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**NOTE 2 – CASH**

**Pooled Funds**

In accordance with Education Code Section 41001, the District maintains all of its cash for the bonds in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2015, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2015, consisted of \$399,900 for Measure "O" for a refund of a deposit on a land purchase.

**NOTE 4 – INTERFUND TRANSFERS**

**Transfers To/From Other Funds**

Transfers to/from other funds at June 30, 2015, consisted of the following:

Transfer from Measure M (Resource 700) to Measure O (Resource 600) for prior years interest earnings and other revenues	<u>\$ 5,181,180</u>
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**NOTE 5 – GENERAL OBLIGATION BONDS**

**A. Measure "M"**

On November 7, 2006, the voters of the San Mateo Union High School District approved by a 66.5% approval Measure "M", authorizing the issuance and sale of \$298 million of general obligation bonds. The bonds were issued to finance the construction and modernization of school facilities and to pay costs of issuance of the bonds.

**B. Measure "O"**

On November 2, 2010, an election was held of the registered voters of the District, at which 66.9% of the voters voting on the proposition approved Measure "O", authorizing the issuance and sale of \$186 million principal amount of General Obligation Bonds. The bonds are being issued to 1) prepay the District's 2007 Certificates of Participation, 2) finance the costs of renovating, acquiring, constructing, repairing, and equipping of District buildings and other facilities, and 3) pay certain costs of issuance associated with the bonds.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2015*

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**NOTE 5 –GENERAL OBLIGATION BONDS (continued)**

**B. Measure "O" (continued)**

The bonds are general obligations of the District. The County is obligated to levy ad valorem taxes upon all property within the District for the payment of interest on and principal of the bonds. The County records the collection of taxes and payments of bond principal and interest in a separate fund, which is not reported here.

**C. 2006 General Obligation Bonds, Series 2013**

On December 20, 2013, the District issued \$94,400,576 of General Obligation Bonds. The Bonds consist of serial bonds bearing fixed rates ranging from 4.0% to 5.0% with annual maturities from September 2016 through September 2031 and capital appreciation bonds bearing accretion rates of 0.55% to 3.92% with maturity dates from September 2015 through September 2024. Total net proceeds were used to defease the District's 2011 Capital Appreciation Notes and to defease its 2012 Notes.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded notes. As a result, the refunded notes are considered to be defeased. At June 30, 2015, the principal balance outstanding on the defeased debt has been repaid.

The refunding decreased the District's total debt service payments by \$3,155,746. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new debt) of \$2,710,734.

**2014 Refunding General Obligation Bonds**

On November 13, 2014, the District issued \$50,190,000 of General Obligation Refunding Bonds. The bonds bear fixed interest rates ranging between 2.0% and 5.0% with annual maturities from September 1, 2015 through September 1, 2032. The net proceeds of \$60,583,437 (after premiums of \$10,751,678 and issuance costs of \$358,241) were used to prepay a portion of the District's outstanding Election of 2006 General Obligation Bonds, Series 2008 A.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds has been removed from the District's liabilities. Amounts paid to the escrow agent in excess of the outstanding debt at the time of payment are recorded as deferred amounts on refunding on the statement of net position and are amortized to interest expense over the life of the liability. Deferred amounts on refunding as of June 30, 2015, of \$5,743,078 remain to be amortized for this refunding. As of June 30, 2015, the principal balance outstanding on the defeased debt amounted to \$53,605,000.

The refunding decreased the District's total debt service payments by \$6,710,433. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of \$5,313,120.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2015*

**NOTE 5 – GENERAL OBLIGATION BONDS (continued)**

A summary of outstanding Measures "M" and "O" general obligation bonds issued is presented below:

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Balance, July 1, 2014	Additions	Deductions	Advance Refunding	Balance, June 30, 2015
Measure "M":									
2008A	6/18/2008	2032	4.0% - 5.0%	\$ 62,700,000	\$ 57,610,000	\$ -	\$ 425,000	\$ 53,605,000	\$ 3,580,000
2010A	2/17/2010	2018	5.0% - 5.5%	4,890,000	2,605,000	-	190,000	-	2,415,000
2010B	2/17/2010	2034	4.6% - 6.15%	65,110,000	65,110,000	-	-	-	65,110,000
2011A	7/6/2011	2051	2.0% - 7.0%	34,999,364	34,508,634	-	335,764	-	34,172,870
2011A-1	7/14/2011	2027	5.01%	25,000,000	24,110,000	-	1,250,000	-	22,860,000
2012A	2/13/2012	2039	4.0% - 12.0%	10,895,752	10,428,298	-	486,606	-	9,941,692
2013A	12/20/2013	2031	4.0% - 5.0%	94,400,576	94,400,576	-	-	-	94,400,576
Subtotal Measure "M"				297,995,692	288,772,508	-	2,687,370	53,605,000	232,480,138
Measure "O":									
2011A	6/15/2011	2041	2.23% - 6.7%	89,999,989	89,999,989	-	-	-	89,999,989
2013A	12/20/2013	2041	4.0% - 5.0%	39,999,941	39,999,941	-	-	-	39,999,941
2015A	5/19/2015	2034	2.0% - 5.0%	56,000,000	-	56,000,000	-	-	56,000,000
Subtotal Measure "O"				185,999,930	129,999,930	56,000,000	-	-	185,999,930
Refunding Issue:									
2014	11/13/2014	2032	2.0% - 5.0%	50,190,000	-	50,190,000	-	-	50,190,000
Total Measures "M & O"				\$ 534,185,622	\$ 418,772,438	\$ 106,190,000	\$ 2,687,370	\$ 53,605,000	\$ 468,670,068

The requirements to amortize outstanding general obligation bonds related to Measures "M" and "O" are as follows:

Fiscal Year	Principal	Interest	Total
2015-16	\$ 6,012,367	\$ 18,054,584	\$ 24,066,951
2016-17	6,543,591	18,226,975	24,770,566
2017-18	7,531,281	18,107,351	25,638,632
2018-19	6,761,477	18,050,488	24,811,965
2019-20	7,420,852	17,602,509	25,023,361
2020-25	57,264,251	84,110,913	141,375,164
2025-30	112,882,142	79,249,589	192,131,731
2030-35	139,195,366	109,288,372	248,483,738
2035-40	43,621,369	160,150,343	203,771,712
2040-45	64,245,343	94,889,937	159,135,280
2045-50	10,684,381	64,562,694	75,247,075
2050-52	6,507,648	29,045,785	35,553,433
Total	\$ 468,670,068	\$ 711,339,540	\$ 1,180,009,608

**NOTE 6 – BOND ANTICIPATION NOTES**

**2011 Issuance**

On February 24, 2011, the District issued General Obligation Bond Anticipation Notes in the amount of \$65,000,000. The Notes are payable from the proceeds of general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held on November 7, 2006. The Notes were issued to finance the costs of renovating, acquiring, constructing, repairing and equipping of District buildings and other facilities in anticipation of proceeds from general obligation bonds to be issued by the District pursuant to the Authorization.

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2015*

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**NOTE 6 – BOND ANTICIPATION NOTES (continued)**

**2011 Issuance (continued)**

The Notes were issued as \$40,150,000 Current Interest Notes with an interest rate of 2% and scheduled to mature in February of 2012; and \$24,850,000 Capital Appreciation Notes with a yield to maturity of 3.75% and fully maturing on February 15, 2015.

**2012 Issuance**

On February 13, 2012, the District issued \$40,150,000 of General Obligation Bond Anticipation Notes. The Notes are payable from the proceeds of general obligation bonds to be issued by the District pursuant to a duly called election of the registered voters of the District held on November 7, 2006. The Notes were issued to repay the maturing 2011 General Obligation Bond Anticipation Current Interest Notes, currently outstanding in an aggregate principal amount of \$40,150,000. The 2012 Notes were issued as capital appreciation notes with a yield to maturity of 1.35% and fully maturing on February 15, 2015 at a full maturity value of \$42,510,000.

The District defeased both of the outstanding Bond Anticipation Note issuances, so that as of June 30, 2015, there is no liability for the notes reported in the District's financial statements.

**NOTE 7 – CONSTRUCTION COMMITMENTS**

At June 30, 2015, the District had commitments with respect to unfinished Measure "M" capital projects of approximately \$543,000 and Measure "O" capital projects of approximately \$1.4 million.

**NOTE 8 – EXPENDITURES BY PROJECT**

Below is a summary of Measure "M" expenditures by project for the 2014-15 fiscal year:

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
San Mateo High School Biotech Project	0007	\$ 3,130
Hillsdale High School Theater	0009	520
Capuchino High School New Classroom Building	0013	1,094,785
Aragon High School Industrial Arts Building	0016	19
Capuchino Theatre Renovation	0020	2,500,177
Mills High School Building A Renovation and Locker Room	0026	5,741
Hillsdale High School Miscellaneous Civil Project	0036	3,945
Aragon High School Locker Room and Gym Renovation	0040	4,656
Mills High School Theater and Gym Renovation	0042	34,371
San Mateo High School Performing art Center Renovation	0043	292,730
Capuchino High School Robotic Arts	0047	23,839
District Wide Solar Installation and Reroofing	0048	144,807
Burlingame High School Bleacher Replacement	0053	1,730,104
San Mateo High School Bleacher Replacement	0055	1,856,167
Measure M	8500	935,036
		<u>\$ 8,630,027</u>

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Notes to Financial Statements*

*June 30, 2015*

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**NOTE 8 – EXPENDITURES BY PROJECT (continued)**

Below is a summary of Measure "O" expenditures by project for the 2014-15 fiscal year:

<u>Project Description</u>	<u>Project Number</u>	<u>Expenditures</u>
Measure O Technology	0050	\$ 478,310
Capuchino High School Electrical Panel Replacement	0051	(10,585)
Burlingame High School New Classroom Building "F"	0052	5,190,213
Burlingame High School Bleacher Replacement	0053	(86,299)
San Mateo Brick Building Modernization	0054	6,166,044
San Mateo High School Bleacher Replacement	0055	(83,536)
Hillsdale High School New Classroom Building	0057	304,299
District Office	0058	3,360
Measure O	8500	109,863
Debt Issuance Cost	N/A	<u>593,241</u>
Total Expenditures		<u>\$ 12,664,910</u>

**NOTE 9 – CONTINGENCIES**

The District is involved in certain legal matters that arose out of the normal course of business. The District has not accrued a liability for any potential litigation against it because it does not meet the criteria to be considered a liability at June 30, 2015.

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' 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***

The Board of Trustees and the  
Citizens' Bond Oversight Committee  
San Mateo Union High School District  
San Mateo, 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 Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered San Mateo Union High 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 the San Mateo Union High School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the San Mateo Union High 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.

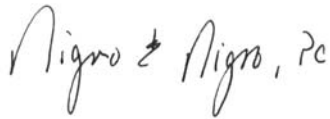
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 San Mateo Union High School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California  
December 3, 2015

## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

The Board of Trustees and the  
Citizens' Bond Oversight Committee  
San Mateo Union High School District  
San Mateo, California

We have examined San Mateo Union High School District's compliance with the performance requirements for the Proposition 39 Measures "M" and "O" General Obligation Bonds for the fiscal year ended June 30, 2015, under the applicable provisions of Section 1(b)(3)(C) of Article XIII A of the California Constitution and Proposition 39 as they apply to the Bonds and the net proceeds thereof. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Objectives

The objectives of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The expenditures charged to the San Mateo Union High School District Measures "M" and "O" Bonds are documented.
- Expenditures charged to Measures "M" and "O" have been made in accordance with each bond's project list approved by the voters through the approval of the Measures.
- Any discrepancies or weaknesses in internal controls are noted and recommendations for improvement are provided.
- The District Board and the Citizens' Oversight Committee are provided with a performance audit report as required under the requirements of the California Constitution and Proposition 39.

### Scope of the Audit

The scope of our performance audit covered the fiscal period from July 1, 2014, to June 30, 2015. The expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than the proceeds of the bonds, were also included within the scope of our audit. Expenditures incurred subsequent to June 30, 2015, were not reviewed or included within the scope of our audit or in this report.

### **Procedures Performed**

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2015, for the Building Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for expenditures to ensure compliance with the requirements of Proposition 39 and Measures "M" and "O" with regards to the approved bond projects list. We performed the following procedures:

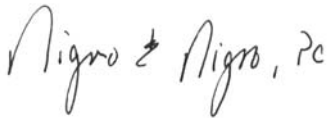
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- We verified that bond funds were deposited in the District's name and invested in accordance with applicable legal requirements.
- We reviewed the approved project listing as set out in the Measures "M" and "O" election documents.
- We verified that funds from the Building Fund were expended for the construction, reconstruction, acquisition, furnishing and equipping of District facilities constituting the authorized bond projects, and we verified that funds held in the Measures "M" and "O" Building Fund were not used for salaries of school administrators or other operating expenses of the District.
- We tested approximately \$7.0 million in bond fund invoices paid. This includes testing payments for validity, allowability, and accuracy. Expenditures sampled in our test included payments made to subcontractors and other vendors.
- We visited construction sites at San Mateo and Burlingame High Schools to ensure that expenditures made corresponded with the actual work performed at the site.
- We reviewed a sample of projects to ensure that proper bidding procedures were followed pursuant to the Public Contract Code Section 20111.
- We tested to see if the District did not exceed change order limitations in excess of 10% pursuant to Public Contract Code 20118.

Our audit of compliance made for the purpose set forth in the preceding paragraph would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for Measures "M" and "O" General Obligation Bonds proceeds listed and tested above.

This report is intended for the information of the Board of Trustees, management and the Citizens' Bond Oversight Committee; however, this report is a matter of public record.



Murrieta, California  
December 3, 2015

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## *Findings and Responses*

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**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND  
OF SAN MATEO UNION HIGH SCHOOL DISTRICT**  
*Schedule of Audit Findings and Responses*  
*June 30, 2015*

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*There were no audit findings in 2014-15.*

**MEASURES "M" AND "O" GENERAL OBLIGATION BONDS BUILDING FUND OF SAN MATEO UNION HIGH SCHOOL DISTRICT**

*Summary Schedule of Prior Audit Findings*

*For the Fiscal Year Ended June 30, 2014*

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>Finding 2014-1: Change Order</i>	<p>Public Contract Code (PCC) 20118.4 states that the governing board of a school district may approve a change or alteration without the formality of securing bids if the cost so agreed upon does not exceed ten percent of the original contract price.</p> <p>The Board approved a change order in the amount of \$50,139 which is greater than ten percent of the original contract amount of \$393,000 bid for soil remediation at Burlingame High School.</p>	<p>We recommend the Board comply with PCC 20118.4 in seeking bids for change orders in excess of ten percent of the original contract price.</p>	<p>Implemented.</p>