

**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, 2014**



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

For the Fiscal Year Ended June 30, 2014

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Introduction

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, 2014

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. On June 15, 2011, the District issued \$89,999,989 of Election of 2010 Series 2011A, 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, 2014.

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

Financial Section

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, 2014, 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

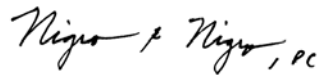
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measures "M" and "O" General Obligation Bonds Building Fund of San Mateo Union High School District, as of June 30, 2014, and the changes in financial position thereof for 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, 2014, 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 2, 2014 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.

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

Murrieta, California
December 2, 2014

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

Balance Sheet

June 30, 2014

	<u>Measure "M"</u>	<u>Measure "O"</u>
ASSETS		
Cash	\$ 20,275,442	\$ 50,628,290
Accounts receivable	155,974	650
Total Assets	<u>\$ 20,431,416</u>	<u>\$ 50,628,940</u>
LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 326,929	\$ 385,662
Fund Balance		
Restricted for capital projects	<u>20,104,487</u>	<u>50,243,278</u>
Total Liabilities and Fund Balance	<u>\$ 20,431,416</u>	<u>\$ 50,628,940</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, 2014*

	<u>Measure "M"</u>	<u>Measure "O"</u>
REVENUES		
Interest earnings	\$ 69,729	\$ 208,648
Lehman settlement	1,150,866	-
Other local revenue	<u>851,768</u>	<u>700</u>
Total Revenues	<u>2,072,363</u>	<u>209,348</u>
EXPENDITURES		
Plant Services:		
Classified salaries	348,415	-
Benefits	128,954	-
Materials and supplies	433,531	456,003
Services and other operating expenditures	5,843	-
Capital outlay	12,342,230	2,798,599
Other Outgo:		
Debt issuance costs	<u>516,742</u>	<u>255,600</u>
Total Expenditures	<u>13,775,715</u>	<u>3,510,202</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(11,703,352)</u>	<u>(3,300,854)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from bonds	91,287,579	38,315,367
Payment to escrow agent for defeased debt	(72,099,472)	-
Premiums on issuance of debt	<u>10,470,210</u>	<u>1,798,174</u>
Total Other Financing Sources (Uses)	<u>29,658,317</u>	<u>40,113,541</u>
Net Change in Fund Balance	17,954,965	36,812,687
Fund Balance, July 1, 2013	<u>2,149,522</u>	<u>13,430,591</u>
Fund Balance, June 30, 2014	<u><u>\$ 20,104,487</u></u>	<u><u>\$ 50,243,278</u></u>

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

Notes to Financial Statements

June 30, 2014

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

On November 7, 2006 the 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, 2014

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, 2014, 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, 2014 consisted of \$155,974 for Measure "M" and \$650 for Measure "O" for interest, rebates from Pacific Gas and Electric, and the County of Marin.

NOTE 4 – 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.

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.

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

Notes to Financial Statements

June 30, 2014

NOTE 4 –GENERAL OBLIGATION BONDS (continued)

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 percent with annual maturities from September 2016 through September 2031 and capital appreciation bonds bearing accretion rates of 0.55 to 3.92 percent with maturity dates from September 2015 through September 2024.

Of the total net proceeds, an amount of \$72,099,472 was used to defease the District's 2011 Capital Appreciation Notes currently outstanding in an aggregate principal amount of \$24,850,000 to its maturity on February 15, 2015 and to defease its 2012 Notes currently outstanding in an aggregate principal amount of \$40,150,000 to its maturity on February 15, 2015.

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, 2014, the principal balance outstanding on the defeased debt amounted to \$65,000,000.

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.

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, 2013	Additions	Deductions	Balance, June 30, 2014
Measure "M":								
2008A	6/18/2008	2032	4.0% - 5.0%	\$ 62,700,000	\$ 57,875,000	\$ -	\$ 265,000	\$ 57,610,000
2010A	2/17/2010	2018	5.0% - 5.5%	4,890,000	2,660,000	-	55,000	2,605,000
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	34,767,056	-	258,422	34,508,634
2011A-1	7/14/2011	2027	5.01%	25,000,000	25,000,000	-	890,000	24,110,000
2012A	2/13/2012	2039	4.0% - 12.0%	10,895,752	10,895,752	-	467,454	10,428,298
2013A	12/20/2013	2031	4.0% - 5.0%	94,400,576	-	94,400,576	-	94,400,576
Subtotal Measure "M"				297,995,692	196,307,808	94,400,576	1,935,876	288,772,508
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
Total Measures "M & O"				<u>\$ 427,995,622</u>	<u>\$ 286,307,797</u>	<u>\$ 134,400,517</u>	<u>\$ 1,935,876</u>	<u>\$ 418,772,438</u>

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

Notes to Financial Statements

June 30, 2014

NOTE 4 – GENERAL OBLIGATION BONDS (continued)

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

Fiscal Year	Principal	Interest	Total
2014-15	\$ 2,687,369	\$ 16,631,262	\$ 19,318,631
2015-16	5,367,367	16,358,837	21,726,204
2016-17	6,458,591	16,019,806	22,478,397
2017-18	5,471,281	15,942,233	21,413,514
2018-19	6,276,477	15,938,694	22,215,171
2019-24	49,926,590	73,768,889	123,695,479
2024-29	88,602,514	65,495,281	154,097,795
2029-34	111,527,095	102,021,127	213,548,222
2034-39	47,024,174	154,112,481	201,136,655
2039-44	76,727,518	113,021,145	189,748,663
2044-49	9,572,997	63,095,122	72,668,119
2049-52	9,130,465	42,603,269	51,733,734
Total	<u>\$ 418,772,438</u>	<u>\$ 695,008,146</u>	<u>\$ 1,113,780,584</u>

NOTE 5 – 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. 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 Notes, so that as of June 30, 2014, there is no liability for the notes reported in the District's financial statements.

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

Notes to Financial Statements

June 30, 2014

NOTE 6 – CONSTRUCTION COMMITMENTS

At June 30, 2014, the District had commitments with respect to unfinished Measure "M" capital projects of approximately \$1.3 million and Measure "O" capital projects of approximately \$5.2 million.

NOTE 7 – EXPENDITURES BY PROJECT

Below is a summary of Measure "M" expenditures by project for the 2013-14 fiscal year:

Project Description	Project Number	Expenditures
AHS, CHS, HHS, MHS Pool System Replacement	0005	\$ 1,163
San Mateo High School Biotech Project	0007	370,885
Aragon High School Theatre	0008	8,202
Hillsdale High School Theatre	0009	1,983,991
Capuchino High School New Classroom Building	0013	(19,552)
Aragon High School Industrial Arts Building	0016	9
Capuchino High School Theater Renovation	0020	240,566
Hillsdale High School Industrial Arts Building, Cafeteria Renovation	0023	70,503
Mills High School Building "A" Renovation & Locker Room	0026	11,058
Burlingame High School Theatre Renovation	0031	15,176
Aragon High School Miscellaneous Civil Project	0033	289
Burlingame High School Miscellaneous Civil Project	0034	55,748
Capuchino High School Miscellaneous Civil Project	0035	1,108,416
Hillsdale High School Miscellaneous Civil Project	0036	249,248
Mills High School Miscellaneous Civil Project	0037	1,884,503
Aragon High School Locker Room & Gym Renovation	0040	17,997
Mills High School Theatre & Gym Renovation	0042	777,640
San Mateo High School Performing Art Center Renovation	0043	3,487,866
San Mateo High School Miscellaneous Civil Project	0044	401,657
Capuchino High School Robotic Arts	0047	8,006
Solar Installation & Reroof	0048	902,505
Burlingame High School Bleacher Replacement	0053	109,124
San Mateo High School Bleacher Replacement	0055	110,348
Measure "M" Administrative Costs	8500	1,463,625
Debt issuance cost		516,742
Total Expenditures		<u><u>\$ 13,775,715</u></u>

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

Notes to Financial Statements

June 30, 2014

NOTE 7 – EXPENDITURES BY PROJECT (continued)

Below is a summary of Measure "O" expenditures by project for the 2013-14 fiscal year:

Project Description	Project Number	Expenditures
Measure "O" Technology	0050	\$ 456,003
Burlingame High School New Classroom Building "F"	0052	1,291,264
San Mateo High School Brick Building Modernization	0054	176,756
Hillsdale High School New Classroom Building	0057	1,284,911
Measure "O" Administrative Costs	8500	45,668
Debt issuance cost		255,600
Total Expenditures		<u><u>\$ 3,510,202</u></u>

NOTE 8 – 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, 2014.

The District has been named in a suit by a former builder in a claim for alleged failure to pay for services rendered and related damages at Capuchino High School. The District intends to contest the case and intends to file an affirmative claim for failure to complete the project under contract in a timely manner. Damages claimed by the builder against the District are approximately \$6 million, and the District's assertion for damages against the builder are approximately \$3 million. It is too early as of the date of this report to assess any outcome, either favorable or unfavorable.

Other Independent Auditors' Reports



**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, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

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

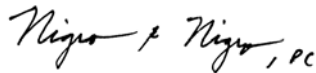
As part of obtaining reasonable assurance about whether San Mateo Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-1.

San Mateo Unified School District's Response to Finding

San Mateo Unified School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. San Mateo Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Murrieta, California
December 2, 2014



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, 2014, 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, 2013 to June 30, 2014. 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, 2014 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, 2014 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:

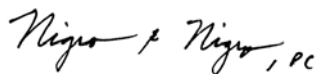
To meet our objectives, audit tests were performed and included, but were not limited to the following:

- 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 \$8.2 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported and which is described in the accompanying schedule of findings and responses as Finding 2014-1.

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 2, 2014

Findings and Responses

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

Schedule of Audit Findings and Responses

June 30, 2014

Finding 2014-1: Change Order

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.

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.

Recommendation: 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.

District Response: The Burlingame High School Soils Remediation project was for the remediation of toxic soils with oversight by the Department of Toxic Substance Control. As such we are not allowed to assume a fixed quantity of contaminates soils at the time of bid. The project was bid with unit costs for disposal of two different soil classifications which could have been encountered once the soil was exposed and tested. Those classifications being 1) Non-Hazardous arsenic impacted soil and 2) Arsenic impacted material as non RCA – Hazardous Waste. After the removal of the existing building the soil was tested and determined to be type 1 – Non-Hazardous arsenic impacted soil which is the less costly of the two to transport and dispose. The unit price provided by the low bidder for the project, Evans Brothers Inc., for the non-hazardous material was \$83.15 per cubic yard as shown on the bid form for the project. The total quantity of material was 603 cubic yards bringing the total based on the unit price provided at bid time to \$50,139, which is the amount reflected in Change Order No. 1. As a change order is the only legal avenue for adjusting the contract value, Change Order 1 was issued to reflect the quantity of soil remediated at the unit cost for remediation provided at the time of bid. The change order is not a change to the scope of work, only the avenue to adjust the contract value based on the unit pricing included with the bid.

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

Summary Schedule of Prior Audit Findings

June 30, 2014

There were no audit findings in 2012-13.