

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
Sacramento, California

MEASURE I GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS

June 30, 2012

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CONTENTS

| | |
|--|----|
| REPORT OF INDEPENDENT AUDITORS..... | 1 |
| FINANCIAL SECTION: | |
| BALANCE SHEET | 2 |
| STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE | 3 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 4 |
| OTHER REPORTS OF INDEPENDENT AUDITORS: | |
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 7 |
| FINDINGS AND RECOMMENDATIONS: | |
| SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS..... | 9 |
| SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS..... | 10 |

REPORT OF INDEPENDENT AUDITORS

To the Board of Education
Sacramento City Unified School District

We have audited the accompanying basic financial statements of Sacramento City Unified School District (the "District") Measure I General Obligation Bonds (the "Bonds"), as of and for the year ended June 30, 2012, as listed in the Table of Contents. These basic financial statements are the responsibility of Sacramento City Unified School District's management. Our responsibility is to express an opinion on these basic 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements of the Bonds are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present the financial activity of Measure I General Obligation Bonds of the District only, and do not purport to, and do not, present the financial position and results of operations of Sacramento City Unified School District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Measure I General Obligation Bonds of the District as of June 30, 2012, and the change in 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 January 23, 2013 on our consideration of the District's internal control over financial reporting and on our tests of the District's compliance with certain provisions of laws, regulations, contracts and grants 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* and should be considered in assessing the results of our audit.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
January 23, 2013

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2012

ASSETS

| | |
|----------------------------|----------------------|
| Cash | \$ 18,275,473 |
| Accounts receivable | 976 |
| Due from District (Note 3) | <u>1,226</u> |
| Total assets | <u>\$ 18,277,675</u> |

**LIABILITIES AND
FUND BALANCE**

| | |
|------------------------------------|----------------------|
| Accounts payable | \$ 2,070,058 |
| Due to District (Note 3) | <u>874</u> |
| Total liabilities | 2,070,932 |
| Fund balance - restricted | <u>16,206,743</u> |
| Total liabilities and fund balance | <u>\$ 18,277,675</u> |

See accompanying notes to financial statements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
For the Year Ended June 30, 2012

| | |
|--|----------------------|
| Revenues: | |
| Interest income | \$ 113,458 |
| Other local revenue | <u>65,229</u> |
| Total revenues | <u>178,687</u> |
| Expenditures: | |
| Classified salaries | 281,236 |
| Employee benefits | 61,179 |
| Books and supplies | 164,966 |
| Contract services and operating expenditures | 631,784 |
| Capital outlay | <u>21,528,921</u> |
| Total expenditures | <u>22,668,086</u> |
| Deficiency of revenues under expenditures | (22,489,399) |
| Other Financing Sources: | |
| Transfers In | <u>27,559,830</u> |
| Change in fund balance | 5,070,431 |
| Fund balance, July 1, 2011 | <u>11,136,312</u> |
| Fund balance, June 30, 2012 | <u>\$ 16,206,743</u> |

See accompanying notes to financial statements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Measure I General Obligation Bonds of Sacramento City Unified School District (the "District") conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The District accounts for its financial transactions in accordance with policies and procedures of the Department of Education's *California School Accounting Manual*. The following is a summary of the more significant accounting policies:

The activities of the Measure I General Obligation Bonds are recorded along with other activities in the District's Building Fund. The financial statements are not intended to present the financial position and results of operations of the District as a whole, in conformity with accounting principles generally accepted in the United States of America.

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 basic financial statements 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 liabilities, if any, is recognized when due.

Cash and Cash Equivalents: For the purpose of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Sacramento County Treasury are considered cash equivalents.

Restricted Fund Balance: Restricted fund balance includes resources which are legally or contractually restricted by external third parties. Fund balance is restricted for capital projects of the Building Fund in accordance with the Bond Project List for Measure I General Obligation Bonds.

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

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.

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

Pooled Funds:

Amount to be provided by future deposits \$ 18,275,473

Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Sacramento County Treasury. The County pools these funds with those of school districts in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. Earnings are calculated on an annual basis and funds allocated to participating funds are adjusted to the calculated annual rate at year end.

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 pooled investment fund 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 Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2012, the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Interest Rate Risk: The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2012, the District had no significant interest rate risk related to cash and investments held.

Credit Risk: The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

Concentration of Credit Risk: The District does not place limits on the amount it may invest in any one issuer. At June 30, 2012, the District had no concentration of credit risk.

NOTE 3 – DUE FROM / TO DISTRICT

The District has accrued through the use of the Pooled Funds in the Sacramento County Treasury, \$1,226 of amounts due from the District and \$874 of amounts due to the District. These amounts are the result of the use of pooled cash by other District funds as of June 30, 2012.

NOTE 4 – GENERAL OBLIGATION BONDS

Bond Authorization: On November 5, 2002, the electorate of Sacramento City Unified School District approved the \$225 million "Measure I" General Obligation Bonds with greater than 55% of the qualified votes in favor.

Purpose of Bonds: The proceeds of the Bonds may be used to alleviate overcrowding, renovate, repair, replace; acquire, and construct school buildings, meet fire/health/safety standards, provide wiring for computers, and provide needed mechanical improvements.

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 – GENERAL OBLIGATION BONDS (Continued)

As required by the California Constitution, the proceeds from the sale of bonds will be used only for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

Further Specifications

No Administrator Salaries

Proceeds from the sale of bonds authorized by this proposition shall be used only for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities and not for any other purpose, including teacher and administrator salaries and other school operating expenses.

Bond Issuances: The bonds are general obligations of the District, and Sacramento County is obligated to levy ad valorem taxes for the payment of and interest on, the principal of the bonds. The Bond Interest and Redemption Fund is maintained by the County Treasurer and is used to account for both the accumulation of resources from ad valorem tax levies and the payment of interest and redemption of principal of the bonds issued by the District.

On March 1, 2003, the District issued Series 2002 Measure I General Obligation Bonds, Series A in the amount of \$80,000,000 to construct, repair and expand local schools. The Bonds accrue interest up to a maximum of 5.0% per annum from the date of issuance and are payable on February 1 and August 1 of each year until maturity.

On July 1, 2005, the District issued Series 2002 Measure I General Obligation Bonds, Series 2005 in the amount of \$80,000,000 to construct, repair and expand local schools. The Bonds accrue interest up to a maximum of 5.0% per annum from the date of issuance and are payable on February 1 and August 1 of each year until maturity.

On October 25, 2007, the District issued Series 2002 Measure I General Obligation Bonds, Series 2007 in the amount of \$64,997,966 to construct, repair and expand local schools. The Bonds accrue interest up to a maximum of 5.0% per annum from the date of issuance and are payable on February 1 and August 1 of each year until maturity.

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

Board of Education
Sacramento City Unified School District
Sacramento, California

We have audited the basic financial statements of Sacramento City Unified School District (the "District") Measure I General Obligation Bonds (the "Bonds"), as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2013. 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 Sacramento City Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sacramento City Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sacramento City Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Sacramento City 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 the District's basic financial statements are free of material misstatement, we performed tests of the District's 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 amounts shown on the basic financial statements. 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 of the Board of Education, Citizen's Oversight Committee and Sacramento City Unified School District's management, and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
January 23, 2013

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

No matters were reported.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

No matters were reported.