

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

**MEASURE Q GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS**

June 30, 2015

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE Q GENERAL OBLIGATION BONDS

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Sacramento City Unified School District

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento City Unified School District (the "District") Measure Q General Obligation Bonds (the "Bonds") activity included in the Building Fund of the District as of and for the 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 basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure Q General Obligation Bonds of Sacramento City Unified School District, as of June 30, 2015, and the changes in financial position for the 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 the financial activity and balances of the Measure Q General Obligation Bonds only, and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2015, or the changes in its financial position for the year then ended, in conformity 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 March 29, 2016 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Measure Q General Obligation Bond activity. 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 for the Measure Q General Obligation Bond activity. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sacramento City Unified School District District's internal control over financial reporting and compliance for the Measure Q General Obligation Bond activity.

Crowe Horwath LLP
Crowe Horwath LLP

Sacramento, California
March 29, 2016

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2015

ASSETS	
Cash and investments (Note 3)	\$ 94,489,460
Receivables	27,566
Due from other funds	<u>152,205</u>
Total assets	<u>\$ 94,669,231</u>
LIABILITIES AND FUND BALANCE	
Accounts payable	\$ 1,890,694
Due to other funds	<u>36,134</u>
Total liabilities	<u>1,926,828</u>
Fund balance – restricted (Note 4)	<u>92,742,403</u>
Total liabilities and fund balance	<u>\$ 94,669,231</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE
For the Year Ended June 30, 2015

Revenues:	
Interest income	\$ <u>30,244</u>
Expenditures:	
Classified salaries	1,011,352
Employee benefits	368,066
Materials and supplies	11,044
Contract services and operating expenditures	840,494
Capital outlay	<u>9,106,082</u>
Total expenditures	<u>11,337,038</u>
Deficiency of revenues under expenditures	(11,306,794)
Other financing sources:	
Proceeds from the sale of bonds	<u>91,089,160</u>
Change in fund balance	79,782,366
Fund balance, July 1, 2014	<u>12,960,037</u>
Fund balance, June 30, 2015	<u>\$ <u>92,742,403</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies Sacramento City Unified School District (the "District") conform to accounting principles generally accepted in the United States of America applicable to governments and to general practices within California school districts. The District accounts for its financial transactions in accordance with policies and procedures of the Department of Education's *California School Accounting Manual*. The activities of the Measure Q General Obligation Bonds are recorded along with other activities in the District's Building Fund. The following is a summary of the more significant accounting policies:

Financial Reporting Entity: The financial statements include the activity and balances of the Bonds only. The activities of the Bonds are recorded in the District's Building Fund. These financial statements are not intended to present the financial position or results of operations of Sacramento City Unified School District as a whole.

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 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.

Budgets and Budgetary Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all government funds. By State law, the District's Board of Education must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's Board of Education satisfied these requirements.

The District's Board of Education and Superintendent revise the budgets during the year to give consideration to unanticipated income and expenditures.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

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.

Receivables: Receivables are made up principally of amounts due from local and state agencies for shared project reimbursements and funding. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2015.

Interfund Activity: Transactions between funds of the District are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

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SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Q 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.

NOTE 2 – GENERAL OBLIGATION BONDS

Bond Authorization: On November 6, 2012, the electorate of Sacramento City Unified School District approved the \$346 million "Measure Q" General Obligation Bonds with greater than 55% of the qualified votes in favor.

Purpose of Bonds: The proceeds of the Bonds is to better prepare students for college and careers by upgrading classrooms, science labs, computer systems and technology; renovating heating and ventilation system; reducing costs through energy efficiency; improving student safety and security systems; repairing roofs, floors, walkways, bathrooms, electrical, plumbing and sewer systems.

As required by the California Constitution, the proceeds from the sale of bonds will be used only for the upgrading of classrooms, science labs, computer systems and technology; renovating heating and ventilation system; reducing costs through energy efficiency; improving student safety and security systems; repairing roofs, floors, walkways, bathrooms, electrical, plumbing and sewer systems 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: On July 16, 2013, the District issued 2013 General Obligation Bonds, Series A and 2013 General Obligation Bonds, Series B, totaling \$30,000,000 and \$40,000,000, respectively. The Bond proceeds are intended for the purposes of the two bond measures passed by voters on November 6, 2012, Measure Q and Measure R.

On May 14, 2015, the District issued 2015 General Obligation Bonds, Series C-1 and 2015 General Obligation Bonds, Series C-2, totaling \$66,260,000 and \$23,740,000, respectively. The Bond proceeds are intended for the purposes of the bond measure passed by voters on November 6, 2012, Measure Q.

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 2 – GENERAL OBLIGATION BONDS (Continued)

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.

NOTE 3 – CASH AND INVESTMENTS

Pooled Funds:	
Cash in County Treasury	\$ 5,273,376
Investments:	
Cash with Fiscal Agent	<u>89,216,084</u>
Total Cash and Investments	<u>\$ 94,489,460</u>

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, 2015, the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Investments: The Cash with Fiscal Agent represents debt proceeds that have been set aside for capital asset expenditures. These amounts are held by a third party custodian in the District's name.

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, 2015, 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, 2015, the District had no concentration of credit risk.

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SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 – FUND BALANCE

Fund Balance Classifications: Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications are nonspendable, restricted, committed, assigned and unassigned. The fund balance of the Bonds is restricted, as described below.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

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

Board of Education
Sacramento City Unified School District
Sacramento, 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 Sacramento City Unified School District (the "District") Measure Q General Obligation Bonds activity included in the Building Fund of Sacramento City Unified 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 March 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over Measure Q General Obligation Bond activity. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over 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 a 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. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Measure Q General Obligation Bond activity included in the Building Fund 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 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
March 29, 2016

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

No matters were reported.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE Q GENERAL OBLIGATION BONDS
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

No matters were reported.