

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

AND

INDEPENDENT AUDITOR'S REPORT

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

For the Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

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, 2010, 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.

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, 2010, and the changes 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 February 4, 2011 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, as they relate to the basic financial statements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Perry-Smith LLP

February 4, 2011

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
COMBINING BALANCE SHEET

June 30, 2010

ASSETS

Cash and investments (Note 2):	
Cash in County Treasury	\$ 17,065,944
Cash with Fiscal Agent	940
Accounts receivable	334,328
Due from other funds	<u>5,042,951</u>
 Total assets	 <u>\$ 22,444,163</u>

**LIABILITIES AND
FUND BALANCE**

Accounts payable	\$ 919,825
Due to other funds	<u>2,703</u>
 Total liabilities	 922,528
 Fund balance	 <u>21,521,635</u>
 Total liabilities and fund balance	 <u>\$ 22,444,163</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE

For the Year Ended June 30, 2010

Revenues:	
Interest income	\$ 157,734
Other local revenue	<u>15,744</u>
Total revenues	<u>173,478</u>
Expenditures:	
Classified salaries	399,071
Employee benefits	91,908
Books and supplies	66,911
Contract services and operating expenditures	2,693,645
Capital outlay	<u>17,956,931</u>
Total expenditures	<u>21,208,466</u>
Deficiency of revenues under expenditures	(21,034,988)
Fund balance, July 1, 2009	<u>42,556,623</u>
Fund balance, June 30, 2010	<u>\$ 21,521,635</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sacramento City Unified School District (the "District") conform to accounting principles generally accepted in the United States of America as 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 I Bonds are recorded along with other activities in the District's Building Fund. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

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.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles 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.

The District's construction program is not based solely on the proceeds from bonds. The District has other sources of revenue to fund some of the required expenditures. Budgets for the renovation of all schools are prepared and maintained together with all potential resources in order to keep track of the entire school renovation program, not just the sites being funded by currently available bond dollars.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2010 consisted of the following:

Pooled Funds:

Cash in County Treasury	\$ 17,065,944
Cash with Fiscal Agent	\$ 940

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, 2010, the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND CASH EQUIVALENTS (Continued)

Cash with Fiscal Agent

The Cash with Fiscal Agent for the Measure I General Obligation Bonds debt represents debt proceeds that have been set aside for capital asset expenditure and the repayment of long-term liabilities. 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, 2010, 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, 2010, the District had no concentration of credit risk.

3. GENERAL OBLIGATION BOND

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.

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.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

MEASURE I GENERAL OBLIGATION BONDS

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3. GENERAL OBLIGATION BOND (Continued)

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 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

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, 2010, and have issued our report thereon dated February 4, 2011. 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

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*.

**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**

(Continued)

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.

Perry-Smith WP

Sacramento, California
February 4, 2011

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
Sacramento City Unified School District

We have audited the basic financial statements of the Sacramento City Unified School District (the "District") Measure I General Obligation Bonds, as of and for the year ended June 30, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance 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 basic financial statements 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 basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with specified requirements.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following requirements:

- Bond proceeds are used only on projects, which were voter approved
- Public Contract Code
- Governmental Code

Based on our audit, we found that, for the items tested, Sacramento City Unified School District complied with the State laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Sacramento City Unified School District has not complied with the state laws and regulations.

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 and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
February 4, 2011

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

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, 2010

No matters were reported.