



Crowe Horwath®

BERKELEY UNIFIED SCHOOL DISTRICT
Berkeley, California

MEASURE I GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS
June 30, 2012

BERKELEY UNIFIED SCHOOL DISTRICT
Berkeley, California

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FINANCIAL STATEMENTS
June 30, 2012

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Berkeley Unified School District
Berkeley, California

We have audited the accompanying balance sheet of Berkeley Unified School District (the "District") Measure I General Obligation Bonds (the "Bonds"), as of June 30, 2012, and related statement of revenues, expenditures, and changes in fund balance for the year then ended. These financial statements are the responsibility of Berkeley Unified School District's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 only, and do not purport to, and do not, present the financial position and results of operations of Berkeley Unified School District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 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 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, 2013 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* and should be considered in assessing the results of our audit.



Crowe Horwath LLP

Sacramento, California
February 4, 2013

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

ASSETS

Cash and investments (Note 2):

Cash in County Treasury	<u>\$ 18,932,108</u>
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LIABILITIES AND FUND BALANCE

Accounts payable	\$ 1,382,600
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Fund balance - restricted	<u>17,009,508</u>
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Total liabilities and fund balance	<u>\$ 18,392,108</u>
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See accompanying notes to financial statements.

BERKELEY 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	\$ <u>41,432</u>
Total revenues	<u>41,432</u>
Expenditures:	
Books and Supplies	309,739
Professional Services	130,656
Capital outlay	<u>11,824,881</u>
Total expenditures	<u>12,265,276</u>
Change in fund balance	(12,163,568)
Fund balance, July 1, 2011	<u>29,173,076</u>
Fund balance, June 30, 2012	<u>\$ 17,009,508</u>

See accompanying notes to financial statements.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Berkeley Unified School District (the "District") Measure I Bonds conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). 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:

Financial Reporting Entity: The financial statements include the financial activity of the Measure I Bonds only. These financial statements are not intended to present the financial position and results of operations of Berkeley Unified School 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 financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

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.

As a first step in developing the Measure I bond construction program, the District together with its Bond team consultants, completed an evaluation of all BUSD sites. Throughout this process, cost estimations were completed and budgets were revised. The budgets presented in this report are based on the most up to date information available. After the election, the Board and Superintendent determined the priority for funding based on need and importance of the project. As milestones are reached in the design phase and as construction bids are approved, the individual school project budgets will be revised and presented to the governing board for their review and approval.

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. The supplementary information included in this report is based on the project based budget concept and, therefore, presents the total project budget for all schools of the District together with all potential revenue sources rather than just the campuses being worked on at the present time.

(Continued)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Use of 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.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2012 consisted of the following:

Pooled Funds:

Cash in County Treasury	\$ 18,932,108
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Pooled Funds: In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited quarterly 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 Alameda County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2012, the Alameda County Treasurer has represented that the 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.

(Continued)

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

NOTE 3 – PURPOSE OF BOND ISSUANCE

Bond Authorization – Measure I: The District received authorization to issue \$210,000,000 of bonds at an election held on November 10, 2010 by an affirmative vote of at least 55% of the votes cast under the 2010 Authorization.

Purpose of Bonds: The proceeds of the Measure I Bonds may be used to improve the learning climate for children by upgrading education facilities through projects such as constructing new classrooms for growth, completing seismic upgrades, constructing science labs, upgrade of computers and education technology, renovation of playgrounds, replacing restrooms, cafeterias, roofs, heating and fire safety systems, removal of hazardous materials, and improvement of energy efficiency.

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.

Bond Project List: The Bond Project List, which is an integral part of the proposition, lists the specific projects the District proposes to finance with proceeds of the Measure I bonds. Listed repairs, rehabilitation projects and upgrades will be completed as needed at a particular school site. Each project is assumed to include its share of costs of the election and bond issuance, architectural, engineering, and similar planning costs, construction management, and customary contingency for unforeseen design and construction costs. The final cost of each project will be determined as plans are finalized, construction bids are awarded, and projects are completed. In addition, certain construction funds expected from non-bond sources, if any, have not yet been secured. Therefore, the Board of Education cannot guarantee that the bonds will provide sufficient funds to allow completion of all listed projects. The Bond Project lists were included as an Exhibit to the Measure I Bond proposition.

NOTE 4 – GENERAL OBLIGATION BOND ISSUANCES

The bonds are general obligations of the District, and Alameda 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 May 10, 2011, the District issued Election of 2010, Series A Measure I General Obligation Bonds in the amount of \$25,000,000 to improve, construct, or reconstruct school facilities. The Series A Bonds were issued as Qualified School Construction Bonds, bear interest at rates ranging from 3.50% and 5.50% and are payable on February 1 and August 1 of each year until maturity.

On May 10, 2011, the District issued Election of 2010, Series B Measure I General Obligation Bonds in the amount of \$10,000,000 to improve, construct, or reconstruct school facilities. The Series B Bonds bear interest at rates ranging from 5.00% and 5.375% and are payable on February 1 and August 1 of each year until maturity.

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

NOTE 5 – 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, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

- A - Nonspendable Fund Balance: The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash and prepaid expenditures.
- B - Restricted Fund Balance: The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.
- C - Committed Fund Balance: The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Education. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Education is required to remove any commitment from any fund balance. At June 30, 2012, the District had no committed fund balances.
- D - Assigned Fund Balance: The assigned fund balance classification reflects amounts that the District's Board of Education has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Education can designate personnel with the authority to assign fund balances, however, as of June 30, 2012, no such designation has occurred.
- E - Unassigned Fund Balance: In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

Fund Balance Policy: The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are spent from restricted fund balances first, followed by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Education. At June 30, 2012, the District has not established a minimum fund balance policy or stabilization arrangement.

REPORT OF INDEPENDENT AUDITORS 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 Trustees
Berkeley Unified School District
Berkeley, California

We have audited the financial statements of Berkeley 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 February 4, 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 Berkeley Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Berkeley 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 Berkeley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Berkeley 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 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 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, Measure I Citizens' Oversight Committee and Berkeley 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

Sacramento, California
February 4, 2013

BERKELEY 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.

BERKELEY 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.