

BERKELEY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS
June 30, 2015

BERKELEY UNIFIED SCHOOL DISTRICT
Berkeley, California

MEASURE I GENERAL OBLIGATION BONDS
FINANCIAL STATEMENTS
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of Berkeley Unified School District (the "District") Measure I General Obligation Bonds activity included in the Building Fund of the District ("Measure I Bonds"), 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 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Berkeley Unified School District's Measure I General Obligation Bonds 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 I General Obligation Bonds only, and do not purport to, and do not, present fairly the financial position of Berkeley Unified School District as of June 30, 2015, and the changes in its financial position 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 February 18, 2016, 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 for the Measure I General Obligation Bonds 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 I General Obligation Bonds Activity. 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 for the Measure I General Obligation Bonds Activity.



Crowe Horwath LLP

Sacramento, California
February 18, 2016

BERKELEY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
BALANCE SHEET
June 30, 2015

ASSETS

Cash in County Treasury (Note 2) \$ 59,542,965

LIABILITIES AND FUND BALANCE

Accounts payable \$ 2,264,562

Fund balance – restricted (Note 5) 57,278,403

Total liabilities and fund balance \$ 59,542,965

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, 2015

Revenues:	
Interest income	\$ <u>23,834</u>
Expenditures:	
Current:	
Salaries	1,215
Benefits	153
Supplies	409,657
Professional Services	718,910
Capital outlay	<u>9,392,337</u>
Total expenditures	<u>10,522,272</u>
Deficiency of revenues under expenditures	<u>(10,498,438)</u>
Other financing sources:	
Proceeds from issuance of long-term debt	50,000,000
Debt issuance premium	<u>323,725</u>
Total other financing sources	50,323,725
Net change in fund balance	39,825,287
Fund balance, July 1, 2014	<u>17,453,116</u>
Fund balance, June 30, 2015	<u>\$ 57,278,403</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Berkeley 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 General Obligation I 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 financial activity of the Measure I General Obligation 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 District 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.

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.

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.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 – 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 3 – CASH AND INVESTMENTS

Cash at June 30, 2015 consisted of the following:

Cash in County Treasury	<u>\$ 59,542,965</u>
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Cash in County Treasury: 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.

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BERKELEY UNIFIED SCHOOL DISTRICT
MEASURE I GENERAL OBLIGATION BONDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

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, 2015, 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, 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.

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.

In May 2011, the District issued Election of 2010, Series A GO 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.

In May 2011, the District issued Election of 2010, Series B GO 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.

In May 2013, the District issued Election of 2010, Series C GO Bonds in the amount of \$40,000,000 to improve, construct, or reconstruct school facilities. The Series C Bonds bear interest at rates ranging from 3.0% and 3.4% and are payable on February 1 and August 1 of each year until maturity.

In June 2015, the District issued Election of 2010, Series D GO Bonds in the amount of \$50,000,000, to improve, construct, or reconstruct school facilities. The Series 2015 General Obligation Bonds bear interest at rates ranging from 3.375% to 5.00% 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, 2015

NOTE 5 – FUND BALANCE

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 Measure I General Obligation 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
Berkeley Unified School District
Berkeley, 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 Berkeley Unified School District Measure I General Obligation 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 and have issued our report thereon dated February 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over Measure I General Obligation Bonds activity 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. Accordingly, we do not express an opinion of the effectiveness of the 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 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 I Bonds financial statements are free of material misstatement, we performed tests of the Measure I Bonds 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 for the Measure I Bonds. 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 for the Measure I Bonds. Accordingly, this communication is not suitable for any other purpose.



Crowe Horwath LLP

Sacramento, California
February 18, 2016

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

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, 2015

No matters were reported.