



ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2016

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
San Bernardino City Unified School District
San Bernardino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic 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 opinions 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; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 18 to the financial statements, the District adopted GASB Statement No. 68 in the prior year. As a result, a portion of the net pension liability, deferred inflows and deferred outflows were reallocated to the District's Business-Type Activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12, budgetary comparison schedule on page 78, schedule of other postemployment benefits funding progress on page 79, schedule of the district's proportionate share of net pension liability on page 80, and the schedule of district contributions on page 81, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Bernardino City Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the San Bernardino City Unified School 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* in considering San Bernardino City Unified School District's internal control over financial reporting and compliance.

Vavrinck, Irino, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

This section of San Bernardino City Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the District-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term*, as well as what remains for future spending.
- *Proprietary funds* statements offer *short* and *long-term* financial information about the activities the District operates like *businesses*, such as food services.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-Wide Financial Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

The two District-wide financial statements report the District's *net position* and how they have changed. Net position - the difference between the District's assets and deferred inflows of resources, and liabilities and deferred outflows of resources - is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration should be given to additional non-financial factors such as changes in the District's condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

Governmental Activities

Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and State formula aid finance most of these activities.

Business-Type Activities

The District charges fees to help it cover the costs of certain services it provides. The District's food services are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term obligations) or to show that it is properly using certain revenues (like State grants for building projects).

The District has three kinds of funds:

Governmental Funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide financial statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Proprietary Funds - Services for which the District charges a fee is generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements.

- The District's Enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- We use Internal Service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund - the Self-Insurance Fund.

Fiduciary Funds - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was more than they were the year before - increasing 11.0 percent or \$49.0 million. Most of this increase in the District's financial position came from its governmental activities, the net position of which increased by \$48.4 million to \$483.0 million. The net position of the District's business-type activities increased by \$0.6 million to \$9.9 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2015		2015		2016	2015
	2016	As restated	2016	As restated		
Assets						
Current and other assets	\$ 340.9	\$ 281.2	\$ 14.5	\$ 13.2	\$ 355.4	\$ 294.4
Capital assets	988.8	952.1	4.4	5.2	993.2	957.3
Total Assets	1,329.7	1,233.3	18.9	18.4	1,348.6	1,251.7
Deferred Outflows of Resources	127.1	41.6	3.2	1.2	130.3	42.8
Liabilities						
Current liabilities	94.1	78.8	0.3	0.3	94.4	79.1
Long-term obligations	355.5	327.6	-	-	355.5	327.6
Aggregate net pension liability	432.5	342.4	9.0	7.5	441.5	349.9
Total Liabilities	882.1	748.8	9.3	7.8	891.4	756.6
Deferred Inflows of Resources	91.7	91.5	2.9	2.5	94.6	94.0
Net Position						
Net investment in capital assets	764.0	742.8	4.4	5.2	768.4	748.0
Restricted	120.3	104.7	5.5	4.1	125.8	117.6
Unrestricted	(401.3)	(412.9)	-	-	(401.3)	(421.7)
Total Net Position	\$ 483.0	\$ 434.6	\$ 9.9	\$ 9.3	\$ 492.9	\$ 443.9

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Changes in Net Position

The District's total revenues increased by \$80.8 million (see Table A-2). State and Federal aid for specific programs contributed about 21.0 cents of every dollar raised. Another 76.6 cents of every dollar raised came from property taxes and State and Federal formula aid, and the remainder from fees charged for services and miscellaneous sources.

Table A-2

(Amounts in millions)	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>School District Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services	\$ 0.9	\$ 5.0	\$ 1.6	\$ 1.2	\$ 2.5	\$ 6.2
Operating grants and contributions	119.0	124.5	28.9	28.0	147.9	152.5
Capital grants and contributions	(0.2)	-	-	-	(0.2)	-
General revenues:						
Federal and State unrestricted	478.3	393.4	-	-	478.3	393.4
Property taxes	50.5	44.1	-	-	50.5	44.1
Other general revenues	11.3	13.3	-	-	11.3	13.3
Total Revenues	659.8	580.3	30.5	29.2	690.3	609.5
Expenses						
Instruction-related	467.1	428.3	-	-	467.1	428.3
Pupil services	63.0	53.8	-	-	63.0	53.8
Administration	26.5	22.5	-	-	26.5	22.5
Plant services	32.2	67.7	-	-	32.2	67.7
Other	22.6	21.5	29.9	29.8	52.5	51.3
Total Expenses	611.4	593.8	29.9	29.8	641.3	623.6
Change in Net Position	\$ 48.4	\$ (13.5)	\$ 0.6	\$ (0.6)	\$ 49.0	\$ (14.1)

The total cost of all programs and services increased by \$17.7 million. The District's expenses are predominantly related to educating and caring for students (82.7 percent). The purely administrative activities of the District accounted for just 4.1 percent of total costs.

Total expenses were less than revenues, increasing net position by \$49.0 million over last year. Both the governmental and business-type activities contributed to the District's increase in net position.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Governmental Activities

Revenues for the District's governmental activities were \$659.8 million, whereas total expenses were \$612.3 million. The increase in net position for governmental activities occurred due to an overall increase in revenues.

- Some of the District's activities (\$0.9 million) were financed by the users of the District's programs. See Table A-2.
- The Federal and State governments subsidized certain programs with grants and contributions (\$118.8 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$30.5 million, and expenses were \$29.9 million. (Refer to Table A-2)

Net Cost of Services

Table A-3 presents the costs of major District governmental activities: instruction, instruction-related activities, home-to-school transportation, other pupil services (guidance, counseling, and evaluation), general administration, plant services, and all other activities. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- Most of the District's governmental activity net costs (\$491.7) were financed by District taxpayers and the taxpayers of our State.
- This portion of governmental activities was financed with \$50.5 million in property taxes, and \$478.3 million of unrestricted State and Federal aid based on the State-wide education aid formula. See Table A-2.

Table A-3

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$ 392.8	\$ 351.0	\$ 315.1	\$ 268.1
Instruction-related activities	74.3	77.3	57.5	58.3
Home-to-school transportation	20.9	16.8	20.9	16.8
Other pupil services	42.1	37.0	33.0	28.7
Administration	26.5	22.5	22.0	16.4
Plant services	32.2	67.7	31.2	67.1
Other	22.6	21.5	12.0	8.9
Total	\$ 611.4	\$ 593.8	\$ 491.7	\$ 464.3

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported *combined* fund balances of \$207.6 million, an increase of 23 percent from the previous year.

The business-type activities remained financially stable. In addition to the District-wide financial statements, Food Service activity is reported in greater detail in the enterprise fund statements.

The District's General Fund increased in fund balance by \$29.4. The District continues to meet the State required two percent fund balance reserve for Economic Uncertainties.

Table A-4

(Amounts in millions)	Balances and Activity			
	July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	\$ 53.7	\$ 624.9	\$ 595.5	\$ 83.1
Building Fund	42.6	37.0	26.2	53.4
County School Facilities Fund	37.0	1.3	3.5	34.8
Adult Education Fund	0.2	8.3	8.2	0.3
Child Development Fund	0.1	10.4	9.0	1.5
Capital Facilities Fund	15.0	0.5	2.2	13.3
Special Reserve Fund for Capital Outlay Projects	4.0	1.2	3.6	1.6
Capital Projects Fund for Blended Component Units	-	-	-	-
Bond Interest and Redemption	16.3	18.6	15.3	19.6
Total	\$ 168.9	\$ 702.2	\$ 663.5	\$ 207.6

General Fund Budgetary Highlights

The District revises the annual operating budget on an ongoing basis throughout the year.

The District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$14.7 million and the actual results for the year show revenues exceeding expenditures by \$31.3 million.

- Actual revenues were \$24.4 million higher than expected, due primarily to higher State sources.
- The actual expenditures were \$7.8 million over budget, due primarily to on behalf payments.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested \$993.2 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$29.5 million. (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Table A-5

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and construction in process	\$ 60.1	\$ 502.5	\$ -	\$ -	\$ 60.1	\$ 502.5
Buildings and improvements	916.1	441.9	3.4	3.8	919.5	445.7
Equipment	12.6	7.7	1.0	1.4	13.6	9.1
Total	\$ 988.8	\$ 952.1	\$ 4.4	\$ 5.2	\$ 993.2	\$ 957.3

Long-Term Obligations

At year-end, the District had \$355.5 million in long-term obligations increasing last year's balance by \$27.9 million.

Table A-6

(Amounts in millions)	Governmental Activities	
	2016	\$ 2,015
General obligation bonds - net (financed with property taxes)	\$ 256.3	\$ 227.4
Certificates of participation - net	52.7	52.7
Capital lease obligations	0.4	1.5
Accumulated vacation	2.0	1.0
Claims liability	17.1	17.1
SELF assessment	2.1	2.4
Supplemental early retirement plan (SERP)	3.0	6.5
Other postemployment benefits (OPEB)	21.9	19.0
Total	\$ 355.5	\$ 327.6

More detailed information about the District's long-term obligations is presented in Note 9 to the financial statements.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Net Pension Liability - NPL

At year-end, the District had a net pension liability of \$432.5 million in governmental activities and \$9.0 million in business-type activities. The District has also recorded its proportionate share of the related deferred inflows and outflows. See Note 14 for additional information about the net pension liability.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

1. Since the Local Control Funding Formula is based on an improved or lack of growth in the economy of the State of California, any volatility in revenues will impact the District's financial condition.
2. The District anticipates that its enrollment or Average Daily Attendance (0.1 decrease in 2015-2016) will decline during fiscal year 2016-2017.
3. Collective bargaining.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, 777 North F Street, San Bernardino, California 92410.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 314,484,722	\$ 9,448,297	\$ 323,933,019
Receivables	24,118,425	6,153,698	30,272,123
Internal balances	1,882,601	(1,882,601)	-
Prepaid expenses	203,029	-	203,029
Stores inventories	238,516	824,714	1,063,230
Capital assets			
Land and construction in process	60,066,213	-	60,066,213
Other capital assets	1,156,184,691	16,485,351	1,172,670,042
Less: Accumulated depreciation	(227,478,935)	(12,093,687)	(239,572,622)
Total Capital Assets	<u>988,771,969</u>	<u>4,391,664</u>	<u>993,163,633</u>
Total Assets	<u>1,329,699,262</u>	<u>18,935,772</u>	<u>1,348,635,034</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	7,453,197	-	7,453,197
Deferred outflows of resources related to pensions	119,673,678	3,150,588	122,824,266
Total Deferred Outflows of Resources	<u>127,126,875</u>	<u>3,150,588</u>	<u>130,277,463</u>
LIABILITIES			
Accounts payable	86,245,516	267,735	86,513,251
Accrued interest payable	4,685,868	-	4,685,868
Unearned revenue	3,148,681	74,274	3,222,955
Long-term obligations:			
Current portion of long-term obligations other than pensions	15,592,684	-	15,592,684
Noncurrent portion of long-term obligations other than pensions	339,914,853	-	339,914,853
Total Long-Term Obligations	<u>355,507,537</u>	<u>-</u>	<u>355,507,537</u>
Aggregate net pension liability	<u>432,492,830</u>	<u>8,958,151</u>	<u>441,450,981</u>
Total Liabilities	<u>882,080,432</u>	<u>9,300,160</u>	<u>891,380,592</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	91,750,131	2,913,199	94,663,330
NET POSITION			
Net investment in capital assets	764,017,310	4,391,664	768,408,974
Restricted for:			
Debt service	14,936,977	-	14,936,977
Capital projects	48,075,349	-	48,075,349
Educational programs	30,989,374	-	30,989,374
Other activities	26,302,731	5,481,337	31,784,068
Unrestricted	(401,326,167)	-	(401,326,167)
Total Net Position	<u>\$ 482,995,574</u>	<u>\$ 9,873,001</u>	<u>\$ 492,868,575</u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 392,826,765	\$ 548,878	\$ 77,304,944	\$ (156,639)
Instruction-related activities:				
Supervision of instruction	25,696,607	39,248	8,905,885	-
Instructional library, media, and technology	3,443,353	(9)	229,319	-
School site administration	45,169,790	53,457	7,575,548	-
Pupil services:				
Home-to-school transportation	20,875,251	-	-	-
Food services	(147,485)	-	-	-
All other pupil services	42,142,311	126,085	8,991,538	-
Administration:				
Data processing	7,013,237	-	-	-
All other administration	19,537,946	39,059	4,465,223	-
Plant services	32,233,009	19,721	984,719	-
Community services	9,331,760	136,800	7,779,758	-
Enterprise services	(1,901,321)	-	-	-
Interest on long-term obligations	14,847,514	-	-	-
Other outgo	391,341	(76,449)	2,792,578	-
Total Governmental Activities	611,460,078	886,790	119,029,512	(156,639)
Business-Type Activities				
Food services	29,898,707	1,619,417	28,884,878	-
Total School District	\$ 641,358,785	\$ 2,506,207	\$ 147,914,390	\$ (156,639)

General revenues and subventions:

Property taxes, levied for general purposes
Property taxes, levied for debt service
Taxes levied for other specific purposes
Federal and State aid not restricted to specific
purposes
Interest and investment earnings
Interagency revenues
Miscellaneous

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning, as restated
Net Position - Ending

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

**Net (Expenses) Revenues and
Changes in Net Position**

Governmental Activities	Business- Type Activities	Total
\$ (315,129,582)	\$ -	\$ (315,129,582)
(16,751,474)	-	(16,751,474)
(3,214,043)	-	(3,214,043)
(37,540,785)	-	(37,540,785)
(20,875,251)	-	(20,875,251)
147,485	-	147,485
(33,024,688)	-	(33,024,688)
(7,013,237)	-	(7,013,237)
(15,033,664)	-	(15,033,664)
(31,228,569)	-	(31,228,569)
(1,415,202)	-	(1,415,202)
1,901,321	-	1,901,321
(14,847,514)	-	(14,847,514)
2,324,788	-	2,324,788
(491,700,415)	-	(491,700,415)
-	605,588	605,588
(491,700,415)	605,588	(491,094,827)
28,968,748	-	28,968,748
16,515,263	-	16,515,263
4,978,484	-	4,978,484
478,320,960	-	478,320,960
807,763	4,634	812,397
923,367	-	923,367
9,543,470	2,758	9,546,228
540,058,055	7,392	540,065,447
48,357,640	612,980	48,970,620
434,637,934	9,260,021	443,897,955
\$ 482,995,574	\$ 9,873,001	\$ 492,868,575

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	General Fund	Building Fund	County Schools Facilities Fund
ASSETS			
Deposits and investments	\$ 144,623,524	\$ 55,404,462	\$ 35,008,434
Receivables	21,530,256	104,189	62,865
Due from other funds	4,559,882	2,148	32,926
Prepaid expenditures	201,978	-	-
Stores inventories	238,516	-	-
Total Assets	\$ 171,154,156	\$ 55,510,799	\$ 35,104,225
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 82,207,325	\$ 2,057,868	\$ 330,790
Due to other funds	2,917,773	10,473	4,362
Unearned revenue	2,939,611	-	-
Total Liabilities	88,064,709	2,068,341	335,152
Fund Balances:			
Nonspendable	651,494	-	-
Restricted	30,989,374	53,442,458	34,769,073
Assigned	19,428,274	-	-
Unassigned	32,020,305	-	-
Total Fund Balances	83,089,447	53,442,458	34,769,073
Total Liabilities and Fund Balances	\$ 171,154,156	\$ 55,510,799	\$ 35,104,225

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 36,088,116	\$ 271,124,536
2,310,123	24,007,433
1,897,873	6,492,829
1,051	203,029
-	238,516
<u>\$ 40,297,163</u>	<u>\$ 302,066,343</u>

\$ 1,206,958	\$ 85,802,941
2,635,954	5,568,562
209,070	3,148,681
<u>4,051,982</u>	<u>94,520,184</u>
1,051	652,545
34,551,037	153,751,942
1,693,093	21,121,367
-	32,020,305
<u>36,245,181</u>	<u>207,546,159</u>
<u>\$ 40,297,163</u>	<u>\$ 302,066,343</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balance - Governmental Funds	\$ 207,546,159
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 1,216,250,904
Accumulated depreciation is:	<u>(227,478,935)</u>
Net Capital Assets	988,771,969
The District has refunded various debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2016.	7,453,197
An Internal Service Fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	24,815,411
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(4,685,868)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:	
Pension contributions subsequent to measurement date	37,219,872
Net change in proportionate share of net pension liability	34,880,340
Difference between projected and actual earnings on pension plan investments	42,521,607
Difference between expected and actual experience in the measurement of the total pension liability	<u>5,051,859</u>
Total Deferred Outflows of Resources Related to Pensions	119,673,678
Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:	
Net change in proportionate share of net pension liability	(6,481,151)
Difference between projected and actual earnings on pension plan investments	(73,587,283)
Difference between expected and actual experience in the measurement of the total pension liability	(5,799,043)
Changes in assumptions	<u>(5,882,654)</u>
Total Deferred Inflows of Resources Related to Pensions	(91,750,131)

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (Continued) JUNE 30, 2016

Net pension liability is not due and payable in the current period, and is not reported as a liability in the fund.

\$ (432,492,830)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

Bonds payable	\$ 212,125,883
Unamortized premium on issuance	20,462,833
Certificates of participation	53,080,000
Unamortized discount on issuance	(386,119)
Capital lease obligations	367,746
Compensated absences (vacations)	2,056,718
Other postemployment benefits (OPEB)	21,875,911
Supplemental early retirement (SERP)	3,012,235

In addition, the District issues "capital appreciation" general obligation bonds.

The accretion of interest on unmatured general obligation bond to date is:

23,740,804

Total Long-Term Obligations

\$ (336,336,011)

Total Net Position - Governmental Activities

\$ 482,995,574

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Building Fund	County Schools Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 472,250,483	\$ -	\$ -
Federal sources	43,116,962	2,605,039	-
Other State sources	99,005,875	-	(360,714)
Other local sources	10,518,558	356,397	204,090
Total Revenues	624,891,878	2,961,436	(156,624)
EXPENDITURES			
Current			
Instruction	363,144,910	-	-
Instruction-related activities:			
Supervision of instruction	25,505,553	-	-
Instructional library, media, and technology	3,443,878	-	-
School site administration	42,777,148	-	-
Pupil services:			
Home-to-school transportation	20,862,016	-	-
Food services	11,484	-	-
All other pupil services	40,617,202	-	-
Administration:			
Data processing	6,971,084	-	-
All other administration	20,351,505	-	-
Plant services	62,355,644	-	-
Facility acquisition and construction	4,594,702	20,164,963	1,261,839
Community services	1,405,271	-	-
Other outgo	391,341	-	-
Debt service			
Principal	1,155,701	-	-
Interest and other	38,839	4,424,471	-
Total Expenditures	593,626,278	24,589,434	1,261,839
Deficiency of Revenues Over Expenditures	31,265,600	(21,627,998)	(1,418,463)
Other Financing Sources (Uses)			
Transfers in	59,977	1,398,655	1,436,847
Other sources - proceeds from issuance of general obligation bonds	-	32,495,000	-
Other sources - premium on issuance of general obligation bonds	-	122,903	-
Transfers out	(1,896,851)	(1,566,406)	(2,227,980)
Net Financing Sources (Uses)	(1,836,874)	32,450,152	(791,133)
NET CHANGE IN FUND BALANCES	29,428,726	10,822,154	(2,209,596)
Fund Balances - Beginning	53,660,721	42,620,304	36,978,669
Fund Balances - Ending	\$ 83,089,447	\$ 53,442,458	\$ 34,769,073

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 472,250,483
2,211,796	47,933,797
14,357,397	113,002,558
17,356,893	28,435,938
<u>33,926,086</u>	<u>661,622,776</u>
4,672,270	367,817,180
195,035	25,700,588
-	3,443,878
2,448,081	45,225,229
-	20,862,016
-	11,484
309,966	40,927,168
-	6,971,084
942,163	21,293,668
870,925	63,226,569
5,415,008	31,436,512
7,788,105	9,193,376
-	391,341
7,710,000	8,865,701
7,619,189	12,082,499
<u>37,970,742</u>	<u>657,448,293</u>
<u>(4,044,656)</u>	<u>4,174,483</u>
3,191,348	6,086,827
-	32,495,000
1,846,671	1,969,574
(395,590)	(6,086,827)
<u>4,642,429</u>	<u>34,464,574</u>
597,773	38,639,057
35,647,408	168,907,102
<u>\$ 36,245,181</u>	<u>\$ 207,546,159</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds **\$ 38,639,057**

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

This is the amount by which capital outlay exceeds depreciation in the period.

Capital outlays	\$ 65,390,210	
Depreciation expense	<u>(28,665,368)</u>	
Net Expense Adjustment		36,724,842

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (10,824)

In the Statement of Activities, certain operating expenses - compensated absences (vacation) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$1,044,391. Additionally, payments for supplemental early incentive program amounted to \$3,464,201. 2,419,810

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (4,308,436)

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide financial statements as an expense. The actual amount of the contribution was less than the annual required contribution. (2,832,100)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. This year the District issued the following:

General obligation refunding bonds	(32,495,000)
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The accompanying notes are an integral part of these financial statements.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2016

Governmental funds report the effects of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This is the net effect of these related items:

Premium on issuance	\$ (1,969,574)
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Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	7,710,000
Capital lease obligations	1,155,701

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	\$ 1,519,778	
Amortization of debt discount	(39,944)	
Amortization of deferred charges on refunding	(625,374)	
Combined Adjustment		854,460

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased \$56,091, and second, \$3,675,566 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(3,619,475)

An Internal Service Fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

	6,089,179
Change in Net Position of Governmental Activities	\$ 48,357,640

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Business-Type Activities Enterprise Fund	Governmental Activities - Internal Service Fund
	Food Service	
ASSETS		
Current Assets		
Deposits and investments	\$ 9,448,297	\$ 43,360,186
Receivables	6,153,698	110,992
Due from other funds	87,086	961,171
Stores inventories	824,714	-
Total Current Assets	16,513,795	44,432,349
Noncurrent Assets		
Capital assets	16,485,351	-
Less: accumulated depreciation	(12,093,687)	-
Total Noncurrent Assets	4,391,664	-
Total Assets	20,905,459	44,432,349
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	3,150,588	-
LIABILITIES		
Current Liabilities		
Accounts payable	267,735	442,575
Due to other funds	1,969,687	2,837
Unearned revenue	74,274	-
Current portion of claims liability	-	4,564,192
Current portion of SELF assessment	-	301,316
Total Current Liabilities	2,311,696	5,310,920
Noncurrent Liabilities		
Noncurrent portion of claims liability and SELF assessment	-	14,306,018
Aggregate net pension liability	8,958,151	-
Total Noncurrent Liabilities	8,958,151	14,306,018
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	2,913,199	-
NET POSITION		
Net investment in capital assets	4,391,664	-
Restricted	5,481,337	24,815,411
Total Net Position	\$ 9,873,001	\$ 24,815,411

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 1,619,417	\$ -
Charges to other funds and miscellaneous revenues	2,758	11,615,120
Total Operating Revenues	1,622,175	11,615,120
OPERATING EXPENSES		
Payroll costs	12,795,746	553,595
Professional and contract services	240,954	-
Supplies and materials	14,532,973	9,440
Facility rental	65,321	847
Other operating cost	1,419,782	5,157,081
Depreciation	843,931	-
Total Operating Expenses	29,898,707	5,720,963
Operating Income (Loss)	(28,276,532)	5,894,157
NONOPERATING REVENUES		
Interest income	4,634	195,022
Federal grants	26,990,166	-
State grants	1,894,712	-
Total Nonoperating Revenues	28,889,512	195,022
Change in Net Position	612,980	6,089,179
Total Net Position - Beginning, as restated	9,260,021	18,726,232
Total Net Position - Ending	\$ 9,873,001	\$ 24,815,411

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ (1,608,743)	\$ -
Cash receipts from interfund services provided	-	16,699,066
Other operating cash receipts	2,758	32,734
Cash payments to other suppliers of goods or services	(15,147,353)	-
Cash payments to employees for services	(12,945,134)	(553,595)
Cash payments for insurance claims	-	(5,458,397)
Other operating cash payments	(1,485,103)	-
Net Cash Provided (Used) by Operating Activities	<u>(31,183,575)</u>	<u>10,719,808</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	<u>28,884,878</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	<u>(56,647)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>4,634</u>	<u>195,022</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(2,350,710)	10,914,830
Cash and Cash Equivalents - Beginning	11,799,007	32,445,356
Cash and Cash Equivalents - Ending	<u>\$ 9,448,297</u>	<u>\$ 43,360,186</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (28,276,532)	\$ 5,894,157
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:		
Depreciation	843,931	-
Changes in assets and liabilities:		
Receivables	(3,177,015)	(79,931)
Due from other fund	(87,086)	5,095,891
Inventories	(39,563)	-
Deferred outflows	(1,943,140)	-
Accounts payables	(5,928)	122,952
Due to other fund	(327,935)	(11,945)
Unearned revenue	35,941	-
Deferred inflows	335,984	-
Net pension liability	1,457,768	-
Claims liability and assessment	-	(301,316)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (31,183,575)</u>	<u>\$ 10,719,808</u>
NONCASH, NONCAPITAL FINANCING ACTIVITIES		

During the year, the District received \$2,461,607 of food commodities from the U.S. Department of Agriculture.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2016

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 393,182	\$ 1,502,759
Receivables	696	3,438
Stores inventories	-	127,747
Total Assets	<u>393,878</u>	<u>\$ 1,633,944</u>
LIABILITIES		
Accounts payable	-	\$ 52,303
Due to student groups	-	1,581,641
Total Liabilities	<u>-</u>	<u>\$ 1,633,944</u>
NET POSITION		
Held in reserve for scholarships	<u>393,878</u>	
Total Net Position	<u>\$ 393,878</u>	

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2016**

	<u>Scholarship Trust</u>
ADDITIONS	
Interest	\$ 2,208
Change in Net Position	1,208
Net Position - Beginning	<u>392,670</u>
Net Position - Ending	<u>\$ 393,878</u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Bernardino City Unified School District (the District) was unified on July 1, 1964, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates forty-nine elementary schools, ten middle schools, a K-8 school, a middle college, six comprehensive high schools, one alternative education school, two continuation high schools, two community day schools, an adult education school, and three special schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For San Bernardino City Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organization for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The San Bernardino City Unified School District and San Bernardino Schools Financing Corporation (the Corporation), as represented by the 2011 Certifications of Participation, has a financial and operational relationship which meets the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the financial statements of the District. The financial statements present the Corporation's financial activity within the Capital Project Fund for Blended Component Units. All debt instruments issued by the Corporation are included as long-term liabilities in the government-wide financial statements.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Other Related Entities

Charter School The District has approved Charters for PAL Academy (Charter Number 0335), Public Safety Academy (Charter Number 0731), ASA Charter (Charter Number 0677), Casa Ramona Academy (Charter Number 0897), Options for Youth - San Bernardino (Charter Number 1132), New Vision Middle (Charter Number 1089), , Center for Learning and Unlimited Educational Success(Charter Number 1574), Hardy Brown College Prep (Charter Number 1155), Excel Prep Charter (Charter Number 1153), SOAR Charter Academy (Charter Number 0982), Taft T. Newman Leadership Academy (Charter Number 1437), and Woodward Leadership Academy (Charter Number 1438) pursuant to *Education Code* Section 47605. The Charter Schools are operated independently and are not considered component units of the District.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in expenditures and decrease in transfers out of \$6,524,824.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

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County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Capital Project Funds The Capital Project funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Capital Project Fund for Blended Component Units Fund The Capital Project Fund for Blended Component Units Fund are used to account for capital projects financed by the San Bernardino Schools Financing Corporation and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

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Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The enterprise major fund of the District accounts for the financial transactions related to the food service operations of the District.

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self-insured workers' compensation program that is accounted for in an internal service fund. In addition, self-insurance activity related to Other Post-Employment Benefits (OPEB) is accounted for within this fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. The District's Private Purpose Trust Funds are the Bradley Rogers and Jeffords Trust Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government - Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the internal service fund, and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary Funds Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net position. The statement of changes in fund net position presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures during the benefiting period.

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Stores Inventories

Inventories are stated at the lower of cost or market, utilizing the weighted average method. The costs of inventory items are recorded as expenditures in the governmental-type funds and expenses in the proprietary-type and fiduciary-type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial Statement of Net Position. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets of governmental funds.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund Statement of Net Position. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds, and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

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Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the chief business and financial officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of General Fund expenditures and other financing uses.

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Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$120,304,431 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are food sales in the cafeteria, and charges to other funds for self-insurance activity. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the Statement of Activities, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

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The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

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New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

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The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

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JUNE 30, 2016

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 314,484,722
Business-type activities	9,448,297
Fiduciary funds	1,895,941
Total Deposits and Investments	<u>\$ 325,828,960</u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	\$ 1,265,044
Cash in revolving	820,455
Investments	323,743,461
Total Deposits and Investments	<u>\$ 325,828,960</u>

Policies and Practices

The District is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Bernardino County Investment Pool to provide the cash flow and liquidity needed for operations, and by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow necessary for debt service requirements.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Reported Amount	Average Maturity in Days
San Bernardino County Investment Pool	\$ 313,849,482	311
Wells Fargo Advantage Cash Investment Money Market Funds	3,055,931	9
Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account	6,838,048	-
Total	\$ 323,743,461	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments with the San Bernardino County Investment Pool and the Wells Fargo Advantage Money Market Mutual Funds are rated Aaa by Moody's Investor Service. The Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account is not rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of \$1,881,546 held by Bank of America was exposed to custodial credit risk because it was uninsured and collateralized by securities held by pledging financial institution's trust department or agent but not in the name of the District. The remaining bank balance of \$1,143,455 held by other financial institutions was exposed to custodial credit risk because it was uninsured and uncollateralized.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the San Bernardino County Treasury Investment Pool is not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Reported Amount	Uncategorized
San Bernardino County Investment Pool	\$ 313,849,482	\$ 313,849,482

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 10,106,245	\$ -	\$ -	\$ 559,829
State Government				
Categorical aid	956,477	-	-	1,616,846
Lottery	5,460,666	-	-	-
Special Education	965,395	-	-	-
Local Government				
Interest	194,583	104,164	62,865	33,335
Other Local Sources				
Other	3,846,890	25	-	100,113
Total	<u>\$ 21,530,256</u>	<u>\$ 104,189</u>	<u>\$ 62,865</u>	<u>\$ 2,310,123</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical aid	\$ -	\$ 10,666,074	\$ 5,834,842	\$ -
State Government				
Categorical aid	-	2,573,323	241,629	-
Lottery	-	5,460,666	-	-
Special Education	-	965,395	-	-
Local Government				
Interest	65,558	460,505	-	696
Other Local Sources				
Other	45,434	3,992,462	77,227	3,438
Total	<u>\$ 110,992</u>	<u>\$ 24,118,425</u>	<u>\$ 6,153,698</u>	<u>\$ 4,134</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 32,151,833	\$ -	\$ -	\$ 32,151,833
Construction in process	470,307,385	20,992,549	463,385,554	27,914,380
Total Capital Assets Not Being Depreciated	<u>502,459,218</u>	<u>20,992,549</u>	<u>463,385,554</u>	<u>60,066,213</u>
Capital Assets Being Depreciated				
Land improvements	49,540,927	-	-	49,540,927
Buildings and improvements	566,086,615	500,961,219	-	1,067,047,834
Furniture and equipment	32,972,924	6,821,996	198,990	39,595,930
Total Capital Assets Being Depreciated	<u>648,600,466</u>	<u>507,783,215</u>	<u>198,990</u>	<u>1,156,184,691</u>
Less Accumulated Depreciation				
Land improvements	34,819,512	1,130,278	-	35,949,790
Buildings and improvements	138,902,479	25,606,020	-	164,508,499
Furniture and equipment	25,279,742	1,929,070	188,166	27,020,646
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	<u>199,001,733</u>	<u>28,665,368</u>	<u>188,166</u>	<u>227,478,935</u>
	<u>\$ 952,057,951</u>	<u>\$ 500,110,396</u>	<u>\$ 463,396,378</u>	<u>\$ 988,771,969</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,841,937	\$ -	\$ -	\$ 8,841,937
Furniture and equipment	7,586,767	56,647	-	7,643,414
Total Capital Assets Being Depreciated	<u>16,428,704</u>	<u>56,647</u>	<u>-</u>	<u>16,485,351</u>
Less Accumulated Depreciation				
Buildings and improvements	5,026,239	443,388	-	5,469,627
Furniture and equipment	6,223,517	400,543	-	6,624,060
Total Accumulated Depreciation Business-Type Activities Capital Assets, Net	<u>11,249,756</u>	<u>843,931</u>	<u>-</u>	<u>12,093,687</u>
	<u>\$ 5,178,948</u>	<u>\$ (787,284)</u>	<u>\$ -</u>	<u>\$ 4,391,664</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Depreciation expense was charged to governmental and business-type functions as follows:

Governmental Activities

Instruction	\$ 25,798,882
All other pupil services	573,296
All other general administration	286,649
Plant services	<u>2,006,541</u>
Total Depreciation Expenses Governmental Activities	28,665,368

Business-Type Activities

Food services	<u>843,931</u>
Total Depreciation Expenses All Activities	<u>\$ 29,509,299</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From						Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise	
General Fund	\$ -	\$ 10,379	\$ 1,049	\$ 2,575,930	\$ 2,837	\$ 1,969,687	\$ 4,559,882
Building Fund	-	-	838	1,310	-	-	2,148
County Schools							
Facilities Fund	-	-	-	32,926	-	-	32,926
Non-Major							
Governmental Funds	1,895,398	-	2,475	-	-	-	1,897,873
Internal Service Fund	935,289	94	-	25,788	-	-	961,171
Food Service							
Enterprise Fund	87,086	-	-	-	-	-	87,086
Total	\$ 2,917,773	\$ 10,473	\$ 4,362	\$ 2,635,954	\$ 2,837	\$ 1,969,687	\$ 7,541,086

The balance of \$1,969,687 due to the General Fund from the Food Service Major Enterprise Fund resulted from payroll, indirect costs, benefits, and other operating costs.

A balance of \$570,654 due to the General Fund from the Adult Education Non-Major Governmental Fund resulted from payroll, indirect costs, benefits and other operating costs.

A balance of \$636,175 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs, benefits, and other operating costs.

A balance of \$1,350,000 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from a temporary loan to be repaid.

A balance of \$522,643 due to the Adult Education Non-Major Governmental Fund from the General Fund resulted from operating contributions.

A balance of \$1,372,755 due to the Child Development Non-Major Governmental Fund from the General Fund resulted from operating contributions.

The balance of \$935,289 due to the Internal Service Fund from the General Fund was for worker's compensation and other postemployment benefit charges.

All remaining balances resulted for the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 59,873	\$ 104	\$ -	\$ 59,977
Building Fund	191,650	-	1,113,060	93,945	1,398,655
County Schools Facilities Fund	1,590	1,133,612	-	301,645	1,436,847
Non-Major Governmental Funds	1,703,611	372,921	1,114,816	-	3,191,348
Total	\$ 1,896,851	\$ 1,566,406	\$ 2,227,980	\$ 395,590	\$ 6,086,827

The General Fund transferred qualified capital outlay expenditures to the Building Fund.	\$ 191,650
The General Fund transferred qualified capital outlay expenditures to the County School Facilities Fund.	1,590
The General Fund transferred to the Adult Education Non-Major Governmental Fund for operating contributions.	327,115
The General Fund transferred to the Child Development Non-Major Governmental Fund for operating contributions.	1,372,703
The General Fund transferred qualified capital outlay expenditures to the Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund.	3,793
The Building Fund transferred qualified capital outlay expenditures to the following funds:	
General Fund	59,873
County School Facilities Fund	1,133,612
Capital Facilities Non-Major Governmental Fund	372,921
The County Schools Facilities Fund transferred qualified capital outlay expenditures to the following funds:	
General Fund	104
Building Fund	1,113,060
Capital Facilities Non-Major Governmental Fund	140,837
Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund	973,979
The Capital Facilities Non-Major Governmental Fund transferred qualified capital outlay expenditures to the following funds:	
Building Fund	28,448
County School Facilities Fund	238,360
The Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund transferred qualified capital outlay expenditures to the following funds:	
Building Fund	65,497
Special Reserve Fund for Capital Outlay Projects Non-Major Governmental Fund	63,285
Total	<u>\$ 6,086,827</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Accrued salaries and benefits	\$ 26,991,195	\$ -	\$ -	\$ 715,510
LCFF apportionment	11,785,638	-	-	-
Books and supplies	14,786,378	-	-	62,244
Services and other operating	24,956,497	688,701	13,785	116,187
Construction	2,904,744	1,369,167	163,446	287,324
Due to State	-	-	153,559	-
Other vendor payables	782,873	-	-	25,693
Total	<u>\$ 82,207,325</u>	<u>\$ 2,057,868</u>	<u>\$ 330,790</u>	<u>\$ 1,206,958</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Accrued salaries and benefits	\$ 7,755	\$27,714,460	\$ -	\$ -
LCFF apportionment	-	11,785,638	-	-
Books and supplies	707	14,849,329	215,556	-
Services and other operating	433,686	26,208,856	52,179	-
Construction	-	4,724,681	-	-
Due to State	-	153,559	-	-
Other vendor payables	427	808,993	-	52,303
Total	<u>\$ 442,575</u>	<u>\$86,245,516</u>	<u>\$ 267,735</u>	<u>\$ 52,303</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Food Service Enterprise Fund
Federal financial assistance	\$ 1,048,786	\$ -	\$ 1,048,786	\$ -
State categorical aid	1,591,946	209,070	1,801,016	-
Other local	298,879	-	298,879	74,274
Total	<u>\$ 2,939,611</u>	<u>\$ 209,070</u>	<u>\$ 3,148,681</u>	<u>\$ 74,274</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
General obligation bonds	\$ 207,406,121	\$ 36,170,566	\$ 7,710,000	\$ 235,866,687	\$ 7,610,000
Premium on issuance	20,013,037	1,969,574	1,519,778	20,462,833	-
2011 Certificates of Participation	53,080,000	-	-	53,080,000	-
Discount on issuance	(426,063)	-	(39,944)	(386,119)	-
Capital lease obligations	1,523,447	-	1,155,701	367,746	104,941
Accumulated vacation - net	1,012,327	1,044,391	-	2,056,718	-
Claims liability	17,062,244	4,564,192	4,564,192	17,062,244	4,564,192
SELF assessment	2,410,598	-	301,316	2,109,282	301,316
Supplemental early retirement plan (SERP)	6,476,436	-	3,464,201	3,012,235	3,012,235
Other postemployment benefits (OPEB)	19,043,811	6,718,470	3,886,370	21,875,911	-
Total	<u>\$ 327,601,958</u>	<u>\$ 50,467,193</u>	<u>\$ 22,561,614</u>	<u>\$ 355,507,537</u>	<u>\$ 15,592,684</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Certificates of Participation are paid from the Capital Facilities Fund for Blended Component Units. The capital lease obligations will be paid the General Fund. The accumulated vacation will be paid by the fund for which the employee worked. Claims liability and SELF assessment are paid by the Internal Service Fund. Supplemental early retirement plan will be paid from the General Fund. Other postemployment benefits are paid by the Internal Service Fund.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2015	Issued	Accreted	Redeemed	Outstanding June 30, 2016
5/1/03	8/1/27	1.10 - 5.46%	15,000,000	\$ 14,485,460	\$ -	\$ 789,544	\$ -	\$ 15,275,004
9/16/04	8/1/29	1.25 - 5.46%	44,999,498	1,112,708	-	101,504	-	1,214,212
5/18/06	8/1/30	4.50 - 5.15%	67,999,967	5,739,554	-	292,984	2,260,000	3,772,538
3/14/07	8/1/30	3.77 - 4.74%	9,997,217	11,523,920	-	472,251	15,000	11,981,171
3/3/11	8/1/42	7.41 - 7.50%	11,525,419	16,582,194	-	1,262,463	-	17,844,657
3/3/11	8/1/35	7.41 - 7.50%	5,477,434	8,342,285	-	756,820	-	9,099,105
5/22/13	8/1/28	2.00 - 5.00%	86,000,000	84,355,000	-	-	1,580,000	82,775,000
6/12/13	8/1/37	2.00 - 4.00%	30,150,000	29,800,000	-	-	-	29,800,000
6/12/13	8/1/27	0.99 - 4.66%	12,515,000	10,760,000	-	-	2,120,000	8,640,000
8/7/14	8/1/28	2.00-5.00%	24,705,000	24,705,000	-	-	1,735,000	22,970,000
7/15/15	8/1/40	2.00-5.00%	32,495,000	-	32,495,000	-	-	32,495,000
				<u>\$ 207,406,121</u>	<u>\$ 32,495,000</u>	<u>\$ 3,675,566</u>	<u>\$ 7,710,000</u>	<u>\$ 235,866,687</u>

1999 General Obligation Bonds, Series C

On May 1, 2003, the District issued the \$15,000,000 1999 General Obligations Bonds, Series C. The Series C bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$16,775,000, and an aggregate principal debt service balance of \$31,775,000. The bonds have a final maturity which occurs on August 1, 2027, and yield interest rates of 1.10 to 5.46 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities.

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Refunding Bonds in the amount of \$37,055,000. Bond proceeds from this issuance were used to refund \$7,160,000 of the outstanding San Bernardino City Unified School District 1999 General Obligation Bonds, Series C. At June 30, 2016, 1999 General Obligation Bonds, Series C totaling \$15,275,004 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$222,087.

2004 General Obligation Bonds, Series A

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Bonds, Series A, in the amount of \$44,999,498. The Series A bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$3,910,000, and an aggregate principal debt service balance of \$48,415,000. The bonds were issued at an aggregate price of \$45,972,569, (representing the principal amount of \$44,999,498 plus an original issue premium of \$1,946,303 less cost of issuance of \$973,232). The bonds have a final maturity which occurs on August 1, 2029, and yield interest rates of 1.25 to 5.46 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities and the prepayment of \$57,000,000 of the District's outstanding Certificates of Participation (School Facility Bridge Funding Program).

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

During the 2014-2015 fiscal year, proceeds from the District's 2014 General Obligation Refunding Bonds were used to provide advance refunding of all outstanding current interest bonds, leaving only the capital appreciation bonds outstanding. At June 30, 2016, 2004 General Obligation Bonds, Series A, totaling \$1,214,212 (including accretion) were still outstanding.

2004 General Obligation Bonds, Series B

On May 18, 2006, the District issued \$67,999,967 of 2004 General Obligation Bonds, Series B. The Series B represents the second series of the authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$14,480,033, and an aggregate principal debt service balance of \$82,480,000. The bonds were issued at an aggregate price of \$71,995,896, (representing the principal amount of \$67,999,967 plus an original issue premium of \$5,604,225 less cost of issuance of \$1,608,296). In 2013, \$59,995,000 was refunded using proceeds from the 2013 Refunding General Obligation Bonds.

The bonds have a final maturity which occurs on August 1, 2030, with interest yields of 4.50 to 5.15 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2016, the principal balance outstanding (including accretion) was \$3,772,538. Unamortized premium received on issuance amounted to \$3,362,535.

2004 General Obligation Bonds, Series C

On March 14, 2007, the District issued \$9,997,217 of 2004 General Obligation Bonds, Series C. The Series C represents the third series of the authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$13,802,783, and an aggregate principal debt service balance of \$23,800,000. The bonds were issued at an aggregate price of \$9,997,217, (representing the principal amount of \$9,997,217 plus an original issue premium of \$306,344 less cost of issuance of \$306,344).

The bonds have a final maturity which occurs on August 1, 2030, and yield interest rates of 3.77 to 4.74 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2016, the principal balance outstanding (including accretion) was \$11,981,171. Unamortized premium received on issuance amounted to \$196,059.

2004 General Obligation Bonds, Series D

On March 3, 2011, the San Bernardino City Unified School District issues the 2004 General Obligation Bonds, Series D, in the amount of \$11,525,419. The Series D represents the fourth series of authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The Series D bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$79,784,581, and an aggregate principal debt service balance of \$91,310,000. The bonds were issued at an aggregate price of \$11,550,483 (representing the principal amount of \$11,525,419 plus an original issue premium of \$505,866 less cost of issuance of \$480,802).

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The bonds have a final maturity which occurs on August 1, 2042, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2016, the principal balance outstanding (including accretion) was \$17,844,657. Unamortized premium received on issuance amounted to \$421,556.

2004 General Obligation Bonds, Series E

On March 3, 2011, the San Bernardino City Unified School District issues the 2004 General Obligation Bonds, Series E, in the amount of \$5,477,434. The Series E represents the fifth series of authorized bonds not to exceed \$140,000,000 to be issued under the measure as approved by voters. The Series E bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting \$35,157,566, and an aggregate principal debt service balance of \$40,635,000. The bonds were issued at an aggregate price of \$4,603,168 (representing the principal amount of \$5,477,434 plus an original issue premium of \$229,502 less cost of issuance of \$1,103,768).

The bonds have a final maturity which occurs on August 1, 2035, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to fund capitalized interest and to pay the premiums of bond insurance and a reserve surety bond for the 2011 Certificates of Participation Series A. At June 30, 2016, the principal balance outstanding (including accretion) was \$9,099,105. Unamortized premium on issuance amounted to \$180,542.

2013 Refunding General Obligation Bonds

On May 22, 2013, the San Bernardino City Unified School District issued 2013 Refunding General Obligation Bonds in the amount of \$86,000,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$99,134,891 (representing the principal amount of \$86,000,000 and premium of \$13,864,035, less cost of issuance of \$729,144). The bonds have a final maturity which occurs on August 1, 2028, with interest rate ranging from 2.0 to 5.0 percent. Proceeds from the sale of bonds were used to provide current refunding of \$13,730,000, \$16,175,000, and \$59,995,000 for the 2004 Refunding General Obligation Bonds, 2004 General Obligation Bonds, Series A, and 2004 General Obligation Bonds, Series B, respectively. The refunding resulted in a cumulative cash flow savings of \$7,894,614 over the life of the new debt and an economic gain of \$6,343,785 based on the difference between the present value of the existing debt service requirements and new debt service requirements discounted at 1.50 percent. As of June 30, 2016, the principal balance outstanding was \$82,775,000. Unamortized premium received on issuance and deferred charge on refunding were \$11,014,206 and \$7,336,609, respectively.

2012 General Obligation Bonds, Series A

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series A in the amount of \$30,150,000. The Series A represents the first series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$30,769,060, representing the principal amount of \$30,150,000 plus an original issue premium of \$897,269 less cost of issuance of \$278,209. The bonds have a final maturity which occurs on August 1, 2037, and yield interest rates of 2.00 to 4.00 percent. The bonds will be used to fund the construction, renovation, and repair of certain District facilities. At June 30, 2016, 2013 General Obligation Bonds, Series A, totaling \$29,800,000 were still outstanding. Unamortized premium received on issuance amounted to \$781,995.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

2012 General Obligation Bonds, Series B

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series B in the amount of \$12,515,000. The Series B represents the second series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$12,406,730, representing the principal amount of \$12,515,000 less cost of issuance of \$108,270. The bonds have a final maturity which occurs on August 1, 2027, and yield interest rates of 0.99 to 4.66 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities. At June 30, 2016, 2012 General Obligation Bonds, Series B, totaling \$8,640,000 were still outstanding.

2014 Refunding General Obligation Bonds

On August 7, 2014, the San Bernardino City Unified School District issued 2014 Refunding General Obligation Bonds in the amount of \$24,705,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$27,311,511 (representing the principal amount of \$24,705,000 and premium of \$2,791,906, less cost of issuance of \$185,395). The bonds have a final maturity which occurs on August 1, 2028 with interest rates of 2.0 to 5.0 percent. Proceeds from the sale of the bonds were used to provide advance refunding of the District's 2004 General Obligation Bonds, Series A and 2004 General Obligation Refunding Bonds in the amount of \$14,685,000 and \$12,470,000, respectively. The refunding resulted in a cumulative cash flow saving of \$4,307,072 over the life of the new debt and an economic gain of \$3,608,895 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.48 percent. As of June 30, 2016, the principal balance outstanding was \$22,970,000, and unamortized premium received on issuance deferred charge on refunding were \$2,393,062 and \$116,588, respectively.

2012 General Obligation Bonds, Series C

On July 15, 2015, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series C in the amount of \$32,495,000. The Series C represents the third series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$34,464,574, representing the principal amount of \$32,495,000 plus a premium of \$1,969,574. The bonds have a final maturity which occurs on August 1, 2040, and yield interest rates of 2.00 to 5.00 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities. At June 30, 2016, 2012 General Obligation Bonds, Series C, totaling \$32,495,000 were still outstanding.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2017	\$ 7,608,868	\$ 1,132	\$ 8,171,621	\$ 15,781,621
2018	7,651,534	3,466	7,842,630	15,497,630
2019	8,330,000	-	7,497,472	15,827,472
2020	8,460,594	4,406	7,125,383	15,590,383
2021	8,993,667	341,333	-	9,335,000
2022-2026	56,481,098	4,413,902	27,347,496	88,242,496
2027-2031	55,219,259	18,625,741	15,231,963	89,076,963
2031-2036	36,373,729	43,366,271	9,338,156	89,078,156
2037-2041	44,116,937	54,133,063	3,895,884	102,145,884
2042-2043	2,631,000	14,089,000	-	16,720,000
Total	<u>\$ 235,866,686</u>	<u>\$ 134,978,314</u>	<u>\$ 86,450,605</u>	<u>\$ 457,295,605</u>

2011 Certificates of Participation, Series A

On March 3, 2011, the San Bernardino City Unified School District issued the 2011 Certificates of Participation Series A in the amount of \$53,080,000. The certificates were issued at an aggregate price of \$52,092,198 (representing the principal amount of \$53,080,000 less an original issue discount of \$599,154 and cost of issuance of \$388,648). The certificates have a final maturity date of February 1, 2026, with interest rates ranging from 7.903 to 8.403 percent. Proceeds from the sale of certificates will be used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2016, the principal balance outstanding was \$53,080,000. Unamortized discount on issuance amounted to \$386,119.

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2017	\$ -	\$ 4,220,373	\$ 4,220,373
2018	-	4,220,373	4,220,373
2019	-	3,809,803	3,809,803
2020	-	3,389,219	3,389,219
2021	22,105,000	2,958,621	25,063,621
2022-2026	30,975,000	7,747,497	38,722,497
Total	<u>\$ 53,080,000</u>	<u>\$ 26,345,886</u>	<u>\$ 79,425,886</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Capital Leases

The District has entered into agreements to lease various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2015	\$ 1,602,759
Payments	<u>(1,207,806)</u>
Balance, June 30, 2016	<u>\$ 394,953</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2017	\$ 118,486
2018	118,486
2019	118,486
2020	<u>39,495</u>
	394,953
Less: Amount Representing Interest	<u>(27,207)</u>
Present Value of Minimum Lease Payments	<u>\$ 367,746</u>

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2016, amounted to \$2,056,718.

Claims Liability

Liabilities associated with workers' compensation claims are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are based upon estimated ultimate cost of settling the claims, considering recent claim settlement trends including the frequency and amount of payouts and other economic and social factors. The liability for workers' compensation claims is reported in the Internal Service Fund. The outstanding claims liability at June 30, 2016, amounted to \$17,062,244, using a discount factor of 1.5 percent.

SELF Assessment

The District is a member of School Excess Liability Fund (SELF), a cost sharing Joint Powers Authority (JPA) for the purpose of providing the District workers' compensation insurance. The SELF board of directors declared an equity assessment to the member districts. At June 30, 2016 the District's outstanding obligation on their pro-rata share of equity assessed was \$2,109,282.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Supplementary Early Retirement Plan (SERP)

During 2012, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 208 employees who retired during 2011-2012 school year, were purchased from United Omaha Life Insurance Company.

As of June 30, 2016, the outstanding obligation for the aforementioned Supplemental Early Retirement Plans were \$3,012,235.

Future payments are as follows:

Year Ending June 30,	Annual Payment
<u>2017</u>	<u>\$ 3,012,235</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$6,844,099, and contributions made by the District during the year were \$3,886,370. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$876,015 and \$(1,001,644), respectively, which resulted in an increase to the net OPEB obligation of \$2,832,100. As of June 30, 2016, the net OPEB obligation was \$21,875,911. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 211,000	\$ -	\$ -	\$ -	\$ 211,000
Stores inventories	238,516	-	-	-	238,516
Prepaid expenditures	201,978	-	-	1,051	203,029
Total Nonspendable	651,494	-	-	1,051	652,545
Restricted					
Legally restricted programs	30,989,374	-	-	1,621,887	32,611,261
Capital projects	-	53,442,458	34,769,073	13,306,305	101,517,836
Debt services	-	-	-	19,622,845	19,622,845
Total Restricted	30,989,374	53,442,458	34,769,073	34,551,037	153,751,942
Assigned					
LCAP carryover	8,343,123	-	-	-	8,343,123
Career Patyways carryover	5,110,062	-	-	-	5,110,062
ERATE carryover	1,155,327	-	-	-	1,155,327
Salary (vacation) reserve	1,890,642	-	-	-	1,890,642
Other programs carryover	2,929,120	-	-	-	2,929,120
Adult education	-	-	-	139,865	139,865
Future capital projects	-	-	-	1,553,228	1,553,228
Total Assigned	19,428,274	-	-	1,693,093	21,121,367
Unassigned					
Reserve for economic uncertainties	12,000,000	-	-	-	12,000,000
Remaining unassigned	20,020,305	-	-	-	20,020,305
Total Unassigned	32,020,305	-	-	-	32,020,305
Total	\$ 83,089,447	\$ 53,442,458	\$ 34,769,073	\$ 36,245,181	\$ 207,546,159

NOTE 11 – EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2016, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual*	Excess
General Fund	\$ 585,830,074	\$ 593,626,278	\$ 7,796,204

* Includes on behalf payments of \$15,966,100.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Bernardino City Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 272 retirees and beneficiaries currently receiving benefits and 4,795 Plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed \$3,886,370 to the Plan, all of which was used for current premiums (approximately 92 percent of total premiums). Plan members receiving benefits contributed \$339,581, or approximately 8 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 6,844,099
Interest on net OPEB obligation	876,015
Adjustment to annual required contribution	<u>(1,001,644)</u>
Annual OPEB cost (expense)	6,718,470
Contributions made	<u>(3,886,370)</u>
Increase in net OPEB obligation	2,832,100
Net OPEB obligation, beginning of year	<u>19,043,811</u>
Net OPEB obligation, end of year	<u><u>\$ 21,875,911</u></u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	\$ 6,528,701	\$ 2,697,615	41.32%	\$ 16,232,826
2015	6,524,847	3,713,862	56.92%	19,043,811
2016	6,718,470	3,886,370	57.85%	21,875,911

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2015	\$ 57,402	\$ 52,885,405	\$ 52,828,003	0.11%	\$ 333,069,860	15.86%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 4.75 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 22 years.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District participated in the Southern California Schools Risk Management (SCSRM) public risk entity pool for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2016, the District was self-funded for workers' compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

The District has contracted with Kaiser and Blue Shield of California to provide employee medical and surgical benefits, and Delta Care and Met Life for dental benefits. Additional dental benefits and basic life insurance benefits are provided through the Southern California Schools Employee Benefits Association (SCSEBA) public risk entity pool.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2014 to June 30, 2016:

	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2014	\$ 14,790,339
Claims and changes in estimates	5,695,100
Claims payments	(3,423,195)
Liability Balance, June 30, 2015	17,062,244
Claims and changes in estimates	4,564,192
Claims payments	(4,564,192)
Liability Balance, June 30, 2016	<u>\$ 17,062,244</u>
Assets available to pay claims at June 30, 2016	<u>\$ 24,179,944</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective			Collective Pension Expense
	Collective Net Pension Liability	Deferred Outflows of Resources	Collective Deferred Inflows of Resources	
CalSTRS	\$ 341,161,128	\$ 87,043,690	\$ 60,391,358	\$ 31,950,116
CalPERS	97,352,351	33,722,204	31,659,069	8,793,429
CalPERS - Safety Risk Pool	2,937,502	2,058,372	2,612,903	660,590
Total	\$ 441,450,981	\$ 122,824,266	\$ 94,663,330	\$ 41,404,135

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were \$27,528,698.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	341,161,128
State's proportionate share of the net pension liability associated with the District		<u>180,436,628</u>
Total	\$	<u><u>521,597,756</u></u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.5067 percent and 0.4545 percent, resulting in a net increase in the proportionate share of 0.0522 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$31,950,116. In addition, the District recognized pension expense and revenue of \$13,976,844 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 27,528,698	\$ -
Net change in proportionate share of net pension liability	32,634,694	-
Difference between projected and actual earnings on pension plan investments	26,880,298	54,690,474
Differences between expected and actual experience in the measurement of the total pension liability	-	5,700,884
Total	<u>\$ 87,043,690</u>	<u>\$ 60,391,358</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) of Resources
2017	\$ (11,510,083)
2018	(11,510,083)
2019	(11,510,083)
2020	<u>6,720,073</u>
Total	<u>\$ (27,810,176)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) of Resources
2017	\$ 4,488,969
2018	4,488,969
2019	4,488,968
2020	4,488,968
2021	4,488,968
Thereafter	<u>4,488,968</u>
Total	<u>\$ 26,933,810</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 515,126,751
Current discount rate (7.60%)	341,161,128
1% increase (8.60%)	196,581,660

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety, 2014. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

The CalPERS Safety Risk Pool provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Safety Risk Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	9.000%	15.250%
Required employer contribution rate	26.033%	14.791%

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions for CalPERS and CalPERS Safety Risk Pool were \$9,691,407 and \$934,869, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Safety Risk Pool net pension liabilities totaling \$97,352,351 and \$2,937,502, respectively. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.6606 percent and 0.7166 percent, resulting in a net decrease in the proportionate share of 0.0560 percent for CalPERS. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0713 percent and 0.0473 percent, resulting in a net increase in the proportionate share of 0.0240 percent for CalPERS Safety Risk Pool.

For the year ended June 30, 2016, the District recognized pension expense of \$8,793,429 for CalPERS and \$660,590 for CalPERS Safety Risk Pool. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 9,691,407	\$ -
Net change in proportionate share of net pension liability	2,473,706	6,354,955
Difference between projected and actual earnings on pension plan investments	15,992,183	19,322,515
Differences between expected and actual experience in the measurement of the total pension liability	5,564,908	-
Changes of assumptions	-	5,981,599
Total	<u>\$ 33,722,204</u>	<u>\$ 31,659,069</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

	<u>CalPERS Safety Risk Pool</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 934,869	\$ -
Net change in proportionate share of net pension liability	-	710,965
Difference between projected and actual earnings on pension plan investments	1,123,503	1,352,310
Differences between expected and actual experience in the measurement of the total pension liability	-	98,159
Changes of assumptions	-	451,469
Total	<u>\$ 2,058,372</u>	<u>\$ 2,612,903</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (2,442,793)
2018	(2,442,793)
2019	(2,442,793)
2020	3,998,047
Total	<u>\$ (3,330,332)</u>

<u>Year Ended June 30,</u>	<u>CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources</u>
2017	\$ (169,894)
2018	(169,894)
2019	(169,894)
2020	280,875
Total	<u>\$ (228,807)</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,098,306)
2018	(1,098,306)
2019	(2,101,328)
Total	<u>\$ (4,297,940)</u>

Year Ended June 30,	CalPERS Safety Risk Pool Deferred Outflows/(Inflows) of Resources
2017	\$ (450,212)
2018	(450,212)
2019	(360,169)
Total	<u>\$ (1,260,593)</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>CalPERS</u> <u>Net Pension</u> <u>Liability</u>
1% decrease (6.65%)	\$ 158,479,747
Current discount rate (7.65%)	97,352,351
1% increase (8.65%)	46,555,368

<u>Discount rate</u>	<u>CalPERS</u> <u>Safety Risk Pool</u> <u>Net Pension</u> <u>Liability</u>
1% decrease (6.65%)	\$ 4,709,825
Current discount rate (7.65%)	2,937,502
1% increase (8.65%)	1,484,230

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$15,966,100 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Public Agency Retirement System

The District also contributes to the Public Agency Retirement System (PARS), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by Federal law, all public sector employees who are not members of their employee's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use PARS as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes one percent of an employee's gross earnings. An employee is required to contribute 6.5 percent of his or her gross earnings to the pension plan.

During the year, the District's required and actual contributions amounted to \$73,277, which was one percent of its current-year covered payroll. Employee contributions amounted to \$475,976.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
CDS Multi-use Room	\$ 27,745	09/30/16
CID Main Building	234,218	09/30/16
Districtwide Playground Improvements	966,052	03/31/17
Indian Springs HS Performing Arts Theatre	11,068,982	03/31/17
Chavez MS Portable Relocation	423,008	06/01/17
Cajon HS Theatre Renovation	3,945,760	06/30/17
Indian Springs HS Canopies/Misc.	367,965	06/30/17
Athletic Complex Upgrades	13,525,185	12/31/17
San Bernardino HS Auditorium Upgrades	10,359,289	6/30/2018
	<u>\$ 40,918,204</u>	

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Southern California School's Risk Management (SCSRM), Southern California School's Employees Benefit Association (SCSEBA), and the Schools' Excess Liability Fund (SELF) public entity risk pools. The District pays an annual premium to each entity for its property liability coverage, dental and life insurance coverage, and excess liability coverage, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

During the year ended June 30, 2016, the District made payments of \$2,722,214, \$453,742, and \$301,316 to SCSRM, SCSEBA, and SELF, respectively, for the coverage noted above.

NOTE 18 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the prior year. As a result, a portion of the net pension liability, deferred inflows and deferred outflows related to Business-Type Activities was allocated to the District's Business-Type Activities as follows:

Governmental Activities

Net Position - Beginning	\$ 425,767,784
Reallocation of a proportionate share of the net pension liability and related deferred inflows and outflows to Business-Type Activities as follows:	
Net pension liability	7,500,383
Deferred outflows of resources related to pensions	(1,207,448)
Deferred inflows of resources related to pensions	2,577,215
Net Position - Beginning as Restated	<u>\$ 434,637,934</u>

Business-Type Activities

Net Position - Beginning	\$ 18,130,171
Reallocation of a proportionate share of the net pension liability and related deferred inflows and outflows to Business-Type Activities as follows:	
Net pension liability	(7,500,383)
Deferred outflows of resources related to pensions	1,207,448
Deferred inflows of resources related to pensions	(2,577,215)
Net Position - Beginning as Restated	<u>\$ 9,260,021</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 472,542,164	\$ 471,834,462	\$ 472,250,483	\$ 416,021
Federal sources	43,080,353	44,785,356	43,116,962	(1,668,394)
Other State sources	81,456,733	78,537,655	99,005,875	20,468,220
Other local sources	5,139,941	5,350,122	10,518,558	5,168,436
Total Revenues ¹	602,219,191	600,507,595	624,891,878	24,384,283
EXPENDITURES				
Current				
Certificated salaries	278,533,596	259,562,835	253,651,990	5,910,845
Classified salaries	78,597,295	72,338,923	72,088,859	250,064
Employee benefits	119,849,857	110,296,398	126,011,554	(15,715,156)
Books and supplies	45,985,743	42,631,939	38,841,460	3,790,479
Services and operating expenditures	97,615,268	95,303,753	96,658,652	(1,354,899)
Capital outlay	6,779,271	8,054,655	7,156,329	898,326
Other outgo	(2,297,521)	(2,358,429)	(1,970,605)	(387,824)
Debt service - principal	-	-	1,155,701	(1,155,701)
Debt service - interest	-	-	32,338	(32,338)
Total Expenditures ¹	625,063,509	585,830,074	593,626,278	(7,796,204)
Excess (Deficiency) of Revenues Over Expenditures	(22,844,318)	14,677,521	31,265,600	16,588,079
Other Financing Sources (Uses)				
Transfers in	109	146,223	59,977	(86,246)
Transfers out	(1,413,667)	(1,398,226)	(1,896,851)	(498,625)
Net Financing Sources (Uses)	(1,413,558)	(1,252,003)	(1,836,874)	(584,871)
NET CHANGE IN FUND BALANCE	(24,257,876)	13,425,518	29,428,726	16,003,208
Fund Balance - Beginning	53,660,721	53,660,721	53,660,721	-
Fund Balance - Ending	\$ 29,402,845	\$ 67,086,239	\$ 83,089,447	\$ 16,003,208

¹ On behalf payments of \$15,966,100 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

See accompanying note to required supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2011	553,767	40,228,979	39,675,212	1.38%	302,224,966	13.13%
July 1, 2013	51,530	54,255,216	54,203,686	0.09%	305,037,648	17.77%
July 1, 2015	57,402	52,885,405	52,828,003	0.11%	333,069,860	15.86%

See accompanying note to required supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.5067%</u>	<u>0.4545%</u>
District's proportionate share of the net pension liability	<u>\$ 341,161,128</u>	<u>\$ 265,575,937</u>
State's proportionate share of the net pension liability associated with the District	<u>180,436,628</u>	<u>160,366,217</u>
Total	<u>521,597,756</u>	<u>\$ 425,942,154</u>
District's covered - employee payroll	<u>\$ 235,204,155</u>	<u>\$ 224,057,629</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>145.05%</u>	<u>118.53%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.6606%</u>	<u>0.7166%</u>
District's proportionate share of the net pension liability	<u>\$ 97,352,351</u>	<u>\$ 81,354,671</u>
District's covered - employee payroll	<u>\$ 79,747,749</u>	<u>\$ 69,703,855</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>122.08%</u>	<u>116.71%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>
CalPERS- SAFETY RISK POOL		
District's proportion of the net pension liability	<u>0.0713%</u>	<u>0.0473%</u>
District's proportionate share of the net pension liability	<u>\$ 2,937,502</u>	<u>\$ 2,941,679</u>
District's covered - employee payroll	<u>\$ 1,192,863</u>	<u>\$ 1,158,119</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>246.26%</u>	<u>254.00%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>78%</u>	<u>79%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
Contractually required contribution	\$ 27,528,698	\$ 20,886,129
Contributions in relation to the contractually required contribution	<u>(27,528,698)</u>	<u>(20,886,129)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 256,558,229</u>	<u>\$ 235,204,155</u>
Contributions as a percentage of covered - employee payroll	<u>10.73%</u>	<u>8.88%</u>
CalPERS		
Contractually required contribution	\$ 9,691,407	\$ 9,386,310
Contributions in relation to the contractually required contribution	<u>(9,691,407)</u>	<u>(9,386,310)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 81,804,735</u>	<u>\$ 79,747,749</u>
Contributions as a percentage of covered - employee payroll	<u>11.85%</u>	<u>11.77%</u>
CalPERS - SAFETY RISK POOL		
Contractually required contribution	\$ 934,869	\$ 729,241
Contributions in relation to the contractually required contribution	<u>(934,869)</u>	<u>(729,241)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 1,545,625</u>	<u>\$ 1,192,863</u>
Contributions as a percentage of covered - employee payroll	<u>60.48%</u>	<u>61.13%</u>

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

NOTE 2 - CHANGES IN BENEFIT TERMS AND ASSUMPTIONS

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060A	[1]	\$ 117,265
Safe and Drug-Free Schools and Communities	84.215L	[1]	643,986
Passed through California Department of Education (CDE)			
Adult Basic Education:			
Adult Education - Basic Grants to States:			
Adult Basic Education and ESL	84.002A	14508	553,854
Adult Secondary Education	84.002	13978	330,889
Adult English Literacy and Civics Education	84.002A	14109	195,918
Subtotal Adult Education - Basic Grants to States			<u>1,080,661</u>
No Child Left Behind Act (NCLB):			
Title I, Grants to Local Educational Agencies:			
Title I, Part A - Low Income and Neglected	84.010	14329	28,112,915
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.330	14831	145,251
Improving Teacher Quality State Grants:			
Title II, Part A - Improving Teacher Quality	84.367	14341	2,787,033
English Language Acquisition Grants:			
Title III - Immigrant Education Program	84.365	15146	27,934
Title III - Limited English Proficient Student Program	84.365	10084	844,131
Subtotal English Language Acquisition Grants Cluster			<u>872,065</u>
Title X - McKinney-Vento Homeless Assistance Grants	84.196	14332	164,064
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Part B, Sec 611, Basic Local Assistance	84.027	13379	7,657,139
Part B, Sec 619, Preschool Grants	84.173	13430	147,773
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	253,502
Part B, Sec 611, Mental Health Services	84.027A	14468	156,925
Part B, Sec 619, Preschool Staff Development	84.173A	13431	1,715
Subtotal Special Education (IDEA) Cluster			<u>8,217,054</u>
Part C, Early Intervention Grants	84.181	23761	59,697
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Basic Grants to States			
Secondary Education	84.048	13924	646,882
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.126A	10006	421,595
PROMISE Grant	84.000	N/A	176,175
Total U.S. Department of Education			<u>43,444,643</u>

[1] Direct award funded program, PCA number not available.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	\$ 619,158
Medi-Cal Administrative Activities	93.778	10060	230,323
Subtotal Medical Assistance Program			<u>849,481</u>
Passed through CDE			
Child Care and Development Fund (CCDF) Cluster			
Child Care and Development Block Grant	93.575	13609	401,452
Child Care Mandatory and Matching Funds of Child Care and Development Fund	93.596	15011	729,683
Subtotal CCDF Cluster			<u>1,131,135</u>
Total U.S. Department of Health and Human Services			<u>1,980,616</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	19,049,362
Basic School Breakfast Program	10.553	13390	37,302
Especially Needy Breakfast Program	10.553	13526	4,349,304
Meal Supplements	10.556	13392	691,966
Seamless Summer Food Program	10.559	13004	69,805
Commodities	10.555	13396	2,461,607
Subtotal Child Nutrition Cluster			<u>26,659,346</u>
Child & Adult Care Food Program	10.558	13393	330,820
Total U.S. Department of Agriculture			<u>26,990,166</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	136,687
Total U.S. Department of Defense			<u>136,687</u>
Total Expenditure of Federal Awards			<u>\$ 72,552,112</u>

[1] Direct award funded program, PCA number not available.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

ORGANIZATION

The San Bernardino City Unified School District was established July 1, 1964. The District operates forty-nine elementary schools, one K-8 school, ten middle schools, a middle college, six comprehensive high schools, one alternative education school, two continuation high schools, two community day schools, an adult education school, and three special schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Margaret Hill	President	2019
Abigail Medina	Vice President	2017
Dr. Barbara Flores	Member	2017
Michael J. Gallo	Member	2019
Gwendolyn Rodgers	Member	2019
Danny Tillman	Member	2017
Scott Wyatt, Ed.D	Member	2019

ADMINISTRATION

Dale Marsden, Ed.D	Superintendent
Harold Vollkommer, Ed.D	Deputy Superintendent
Jayne Christakos	Chief Business Officer
Perry Wiseman, Ed.D	Assistant Superintendent, Human Resources
John Peukert	Assistant Superintendent, Facilities/Operations
Dr. Matty Zamora	Assistant Superintendent, Educational Services
Kennon Mitchell, Ph.D	Assistant Superintendent, Student Services

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report 2FFE3BEA	Annual Report 0C73923A
Regular ADA		
Transitional kindergarten through third	16,167.75	16,202.10
Fourth through sixth	11,713.10	11,718.37
Seventh and eighth	6,781.16	6,767.39
Ninth through twelfth	12,582.92	12,405.36
Total Regular ADA	47,244.93	47,093.22
Extended Year Special Education		
Transitional kindergarten through third	-	12.12
Fourth through sixth	-	9.90
Seventh and eighth	-	3.54
Ninth through twelfth	-	10.46
Total Extended Year Special Education	-	36.02
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	4.86	4.92
Fourth through sixth	13.82	13.70
Seventh and eighth	24.64	24.20
Ninth through twelfth	53.95	53.70
Total Special Education, Nonpublic, Nonsectarian Schools	97.27	96.52
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.13	0.31
Fourth through sixth	0.75	1.37
Seventh and eighth	1.37	2.53
Ninth through twelfth	3.14	4.76
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	5.39	8.97
Community Day School		
Transitional kindergarten through third	1.11	1.41
Fourth through sixth	9.67	10.40
Seventh and eighth	7.44	6.98
Ninth through twelfth	5.79	6.53
Total Community Day School	24.01	25.32
Total ADA	47,371.60	47,260.05

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	36,000	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		54,675	180	-	Complied
Grade 2		54,675	180	-	Complied
Grade 3		54,675	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,675	180	-	Complied
Grade 5		54,675	180	-	Complied
Grade 6		54,675	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		61,434	180	-	Complied
Grade 8		61,434	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		65,736	180	-	Complied
Grade 10		65,736	180	-	Complied
Grade 11		65,736	180	-	Complied
Grade 12		65,736	180	-	Complied

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	Food Services Enterprise Fund
	<u> </u>
NET POSITION	
Balance, June 30, 2016, Unaudited Actuals	\$ 10,803,451
Decrease in:	
Deferred outflows of resources - pension contribution	<u> (930,450)</u>
Balance, June 30, 2016, Audited Financial Statement	<u><u> \$ 9,873,001</u></u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND				
Revenues and other sources	\$ 614,272,733	\$ 624,891,878	\$ 546,686,861	\$ 493,654,837
Other sources and transfers in	-	59,977	3,358,820	13,049
Total Revenues and Other Sources	614,272,733	624,951,855	550,045,681	493,667,886
Expenditures	(633,240,271)	(593,626,278)	(551,040,417)	(499,194,992)
Other uses and transfers out	(1,501,324)	(1,896,851)	(1,412,608)	(553,584)
Total Expenditures and Other Uses	(634,741,595)	(595,523,129)	(552,453,025)	(499,748,576)
INCREASE (DECREASE) IN FUND BALANCE	\$ (20,468,862)	\$ 29,428,726	\$ (2,407,344)	\$ (6,080,690)
ENDING FUND BALANCE	\$ 62,620,585	\$ 83,089,447	\$ 53,660,721	\$ 56,068,065
AVAILABLE RESERVES ²	\$ 26,940,153	\$ 32,020,305	\$ 14,829,076	\$ 31,515,478
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	4.2%	5.4%	2.7%	6.2%
LONG-TERM OBLIGATIONS	N/A	355,507,537	\$327,601,958	\$ 334,702,053
K-12 AVERAGE DAILY ATTENDANCE AT P-2	47,226	47,372	47,467	47,074

The General Fund balance has increased by \$27,021,082 over the past two years. The fiscal year 2016-2017 budget projects a decrease of \$20,468,862 (25 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by \$20,805,484 over the past two years.

Average daily attendance has increased by 298 over the past two years. A decline of 146 ADA is anticipated during fiscal year 2016-2017.

¹ Budget 2017 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ On behalf payments of \$12,153,318 and \$12,056,604 have been excluded from the calculation of available reserves for the fiscal year ending June 30, 2015 and 2014, respectively.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2016

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
PAL Academy (0335)	No
ASA Charter (0677)	No
Public Safety Academy (0731)	No
Casa Ramona Academy (0897)	No
SOAR Charter Academy (0982)	No
Options for Youth (1132)	No
New Vision Middle (1089)	No
Hardy Brown College Prep (1155)	No
Excel Prep Charter (1153)	No
Taft T. Newman Leadership Academy (1437)	No
Woodward Leadership Academy (1438)	No
Center for Learning and Unlimited Educational Success (1574)	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016**

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 223,129	\$ 1,284,126	\$ 13,356,348
Receivables	636,890	1,638,571	29,940
Prepaid expenses	-	1,051	-
Due from other funds	522,643	1,372,755	80
Total Assets	\$ 1,382,662	\$ 4,296,503	\$ 13,386,368
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 358,376	\$ 766,299	\$ 78,782
Due to other funds	581,145	2,001,472	1,310
Unearned revenue	168,709	40,361	-
Total Liabilities	1,108,230	2,808,132	80,092
Fund Balances:			
Nonspendable	-	1,051	-
Restricted	134,567	1,487,320	13,306,276
Committed	-	-	-
Assigned	139,865	-	-
Total Fund Balances	274,432	1,488,371	13,306,276
Total Liabilities and Fund Balances	\$ 1,382,662	\$ 4,296,503	\$ 13,386,368

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 1,601,639	\$ 29	\$ 19,622,845	\$ 36,088,116
4,722	-	-	2,310,123
-	-	-	1,051
2,395	-	-	1,897,873
<u>\$ 1,608,756</u>	<u>\$ 29</u>	<u>\$ 19,622,845</u>	<u>\$ 40,297,163</u>

\$ 3,501	\$ -	\$ -	\$ 1,206,958
52,027	-	-	2,635,954
-	-	-	209,070
<u>55,528</u>	<u>-</u>	<u>-</u>	<u>4,051,982</u>

-	-	-	1,051
-	29	19,622,845	34,551,037
-	-	-	-
1,553,228	-	-	1,693,093
<u>1,553,228</u>	<u>29</u>	<u>19,622,845</u>	<u>36,245,181</u>
<u>\$ 1,608,756</u>	<u>\$ 29</u>	<u>\$ 19,622,845</u>	<u>\$ 40,297,163</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 1,080,661	\$ 1,131,135	\$ -
Other State sources	6,446,951	7,725,862	-
Other local sources	464,291	178,082	(34,530)
Total Revenues	<u>7,991,903</u>	<u>9,035,079</u>	<u>(34,530)</u>
EXPENDITURES			
Current		-	
Instruction	4,672,270		-
Instruction-related activities:			
Supervision of instruction	-	195,035	-
School site administration	2,201,030	247,051	-
Pupil services:			
All other pupil services	309,243	723	-
Administration:			
All other administration	390,374	551,789	-
Plant services	638,202	232,723	-
Facility acquisition and construction	-	16,639	1,945,733
Community services	-	7,788,105	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>8,211,119</u>	<u>9,032,065</u>	<u>1,945,733</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>(219,216)</u>	<u>3,014</u>	<u>(1,980,263)</u>
Other Financing Sources (Uses)			
Transfers in	327,115	1,372,703	513,758
Other sources - premium on issuance of general obligation bonds	-	-	-
Transfers out	-	-	(266,807)
Net Financing Sources (Uses)	<u>327,115</u>	<u>1,372,703</u>	<u>246,951</u>
NET CHANGE IN FUND BALANCES	<u>107,899</u>	<u>1,375,717</u>	<u>(1,733,312)</u>
Fund Balances - Beginning	<u>166,533</u>	<u>112,654</u>	<u>15,039,588</u>
Fund Balances - Ending	<u>\$ 274,432</u>	<u>\$ 1,488,371</u>	<u>\$ 13,306,276</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 2,211,796
-	-	184,584	14,357,397
165,647	50	16,583,353	17,356,893
<u>165,647</u>	<u>50</u>	<u>16,767,937</u>	<u>33,926,086</u>
-	-	-	4,672,270
-	-	-	195,035
-	-	-	2,448,081
-	-	-	309,966
-	-	-	942,163
-	-	-	870,925
3,452,636	-	-	5,415,008
-	-	-	7,788,105
-	-	7,710,000	7,710,000
-	41	7,619,148	7,619,189
<u>3,452,636</u>	<u>41</u>	<u>15,329,148</u>	<u>37,970,742</u>
<u>(3,286,989)</u>	<u>9</u>	<u>1,438,789</u>	<u>(4,044,656)</u>
977,772	-	-	3,191,348
-	-	1,846,671	1,846,671
(128,783)	-	-	(395,590)
<u>848,989</u>	<u>-</u>	<u>1,846,671</u>	<u>4,642,429</u>
(2,438,000)	9	3,285,460	597,773
3,991,228	20	16,337,385	35,647,408
<u>\$ 1,553,228</u>	<u>\$ 29</u>	<u>\$ 19,622,845</u>	<u>\$ 36,245,181</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2015-2016		2014-2015		2013-2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 43,117	6.9	\$45,544	8.3	\$52,586	10.6
State and local revenue included in LCFF	472,250	75.6	404,554	74.0	348,824	70.7
Other State revenue	99,006	15.8	79,199	14.5	83,449	16.9
Other local revenue	10,519	1.7	17,390	3.2	8,796	1.8
Total Revenues	624,892	100.0	546,687	100.0	493,655	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	253,652	40.6	249,040	45.6	227,100	46.0
Classified salaries	72,089	11.5	69,806	12.8	63,390	12.8
Employee benefits	126,012	20.2	117,008	21.4	106,480	21.6
Total Salaries and Benefits	451,753	72.3	435,854	79.8	396,970	80.4
Books and supplies	38,841	6.2	31,197	5.7	23,729	4.8
Contracts and operating expenses	96,658	15.5	75,878	13.9	73,195	14.8
Capital outlay	7,157	1.1	6,189	1.1	4,335	0.9
Other outgo	(783)	(0.1)	1,922	0.4	966	0.2
Total Expenditures	593,626	95.0	551,040	100.9	499,195	101.1
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	31,266	5.0	(4,353)	(0.9)	(5,540)	(1.1)
OTHER FINANCING USES						
Operating transfers in	60	0.0	75	0.0	13	0.0
Operating transfers out	(1,897)	(0.3)	(1,413)	(0.3)	(554)	(0.1)
Other sources	-	0.0	3,284	0.6	-	-
Total Other Financing Uses	(1,837)	(0.3)	1,946	(0.3)	(541)	(0.1)
INCREASE (DECREASE) IN FUND BALANCE	29,429	4.7	(2,407)	(1.2)	(6,081)	(1.2)
FUND BALANCE, BEGINNING	53,661		56,068		62,149	
FUND BALANCE, ENDING	<u>\$ 83,090</u>		<u>\$53,661</u>		<u>\$56,068</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		13.3		9.8		11.4

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**CAFETERIA FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2015-2016		2014-2015		2013-2014	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 26,990	88.5	\$ 26,082	89.1	\$ 25,890	88.8
State meal program	1,895	6.2	1,960	6.7	1,907	6.5
Food sales	1,619	5.3	1,227	4.2	1,350	4.6
Other	8	0.0	11	0.0	26	0.1
Total Revenues	<u>30,512</u>	<u>100.0</u>	<u>29,280</u>	<u>100.0</u>	<u>29,173</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	12,796	41.9	12,041	41.1	11,176	38.3
Food	13,883	45.5	13,887	47.4	14,711	50.4
Supplies	649	2.1	513	1.8	788	2.7
Other	2,571	8.4	3,386	11.6	3,612	12.4
Total Expenditures	<u>29,899</u>	<u>97.9</u>	<u>29,827</u>	<u>101.9</u>	<u>30,287</u>	<u>103.8</u>
INCREASE (DECREASE) IN NET ASSETS	613	<u>2.1</u>	(547)	<u>(1.9)</u>	(1,114)	<u>(3.8)</u>
NETS ASSETS, BEGINNING	9,260	*	18,677		19,791	
NET ASSETS, ENDING	<u>\$ 9,873</u>		<u>\$ 18,130</u>		<u>\$ 18,677</u>	
ENDING NET ASSETS TO TOTAL REVENUES		<u>32.4</u>		<u>61.9</u>		<u>64.0</u>

* Restated as a result of GASB 68

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2015-2016		2014-2015		2013-2014	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	298,854	4.6	285,595	4.4	278,194	4.3
Reduced price	636,143	10.0	568,917	8.9	617,551	9.6
Free	<u>5,456,950</u>	<u>85.4</u>	<u>5,546,358</u>	<u>86.7</u>	<u>5,562,721</u>	<u>86.1</u>
Total Lunches	<u>6,391,947</u>	<u>100.0</u>	<u>6,400,870</u>	<u>100.0</u>	<u>6,458,466</u>	<u>100.0</u>
BREAKFAST						
Paid	86,061	3.7	79,929	3.3	81,240	3.1
Reduced price	202,743	8.8	183,279	7.5	223,671	8.5
Free	<u>2,023,340</u>	<u>87.5</u>	<u>2,173,982</u>	<u>89.2</u>	<u>2,333,522</u>	<u>88.4</u>
Total Breakfast	<u>2,312,144</u>	<u>100.0</u>	<u>2,437,190</u>	<u>100.0</u>	<u>2,638,433</u>	<u>100.0</u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, the District received Qualified School Construction Bonds - Interest Subsidy funds which are not required to be reported on the Schedule of Expenditures of Federal Awards.

Description	Federal CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Revenues, Expenses and Changes in Net Position:		\$ 74,923,963
Medi-Cal Billing Option	93.778	233,188
Qualified School Construction Bonds - Interest Subsidy	[1]	(2,605,039)
Total Schedule of Expenditures of Federal Awards		\$ 72,552,112

[1] CFDA number not available

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding.. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School and whether or not the Charter School is included in the District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures, and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

Cafeteria Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria fund for the past three years.

INDEPENDENT AUDITOR'S REPORTS



**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***

Governing Board
San Bernardino City Unified School District
San Bernardino, 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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise San Bernardino City Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2016.

Emphasis of Matter

As discussed in Note 18 to the financial statements, the District adopted GASB Statement No. 68 in the prior year. As a result, a portion of the net pension liability, deferred inflows and deferred outflows were reallocated to the District's Business-Type Activities. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Bernardino City Unified School 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Bernardino City Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School 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 District'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino City Unified School District's financial statements are free from material misstatement, we performed tests of its 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*.

We noted certain matters that we reported to management of San Bernardino City Unified School District in a separate letter dated December 15, 2016.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinck, Irino, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
San Bernardino City Unified School District
San Bernardino, California

Report on Compliance for Each Major Federal Program

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Bernardino City Unified School District's major Federal programs for the year ended June 30, 2016. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Bernardino City Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of San Bernardino City Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major Federal program is not modified with respect to these matters.

San Bernardino City Unified School District's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned. San Bernardino City Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Bernardino City Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 that we consider to be significant deficiencies.

San Bernardino City Unified School District's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. San Bernardino City Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinck, Jino, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
San Bernardino City Unified School District
San Bernardino, California

Report on State Compliance

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the San Bernardino City Unified School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the San Bernardino City Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

Basis for Qualified Opinion on the After School Education and Safety Program

As described in the accompanying schedule of findings and questioned costs, San Bernardino City Unified School District did not comply with requirements regarding the After School Education and Safety Program, see State Awards Findings and Questioned Costs, item 2016-3. Compliance with such requirements is necessary, in our opinion, for San Bernardino City Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on the After School Education and Safety Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, San Bernardino City Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Programs

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the San Bernardino City Unified School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below

Procedures
Performed

CHARTER SCHOOLS

Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not perform testing for Independent Study because the ADA reported for the program was below the materiality threshold required for testing.

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer a Course-Based Independent Study Program; therefore, we did not perform procedures related to Independent Study - Course Based.

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform the remaining procedures.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinik, Jino, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance	<u>Yes</u>

Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education (IDEA) Cluster</u>
<u>10.553, 10.555, 10.556, 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,176,563</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
Unmodified for all programs except for the following program which was qualified:	
	<u>Name of Program</u>
	<u>After School Education and Safety Program</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies, and instances of noncompliance including questioned costs that are required to be reported by the Uniform Guidance. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2016-001 Code 50000

Federal Program Affected

Program Name: Child Nutrition Cluster
CFDA Number: 10.553, 10.555, 10.556, 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria or Specific Requirements

Allowable costs/cost principles for any federally funded program must conform to cost principles defined in Title 2 of the Code of Federal Regulations, Part 225. Per Title 2 CFR Part 225, Appendix B (8)(h), employees that work on multiple activities or cost objectives must support the distribution of their salaries and wages by a personnel activity report (PAR) or equivalent documentation that: (1) reflects and after-the-fact distribution of the actual activity of the employee; (2) accounts for the total activity for which the employee is compensated; (3) is signed by the employee and prepared at least monthly. This section also specifies that budgeted estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards.

Per Title 2 of the Code of Federal Regulations, Part 225, Appendix B, Item 5, Bad debts, including losses arising from uncollectible accounts and other claims, related to collection costs, and related legal costs, are unallowable.

Per Title 2 of the Code of Federal Regulations, Part 200, Subpart E, Section 200.421(e)(3), costs of promotional items and memorabilia, including models, gifts, and souvenirs are unallowable.

Per Title 2 of the Code of Federal Regulations, Part 200, Section 200.452 maintenance and repair costs are allowable if they keep property in an efficient operating condition and aren't paid through rental or other agreements.

Per Title 2 of the Code of Federal Regulations, Part 200, Section 200.432, the primary purpose of the conference must be the dissemination of technical knowledge necessary to successfully perform under the Federal award.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Condition

The California Department of Education (CDE), Nutrition Services Division (NSD), Resource Management Unit (RMU) staff performed School Nutrition Program (SNP), Administrative Review (AR) of the San Bernardino City Unified School District (SBCUSD). Based on the review conducted, SBCUSD did not adequately document multi-funded employees. All employees did not use a personnel activity report (PAR) or equivalent documentation in accordance with federal regulations. Several employees noted whose activities appear to be predetermined based on the anticipated hours for which each position is budgeted. There were several months when the same time and effort amount was charged to the cafeteria fund which appears to be predetermined. As a result, it appears that the District charged a total of \$190,211 in unsupported salaries and benefits.

Additionally, the RMU staff discovered that the SBCUSD did not use a nonfederal funding source to clear bad debt in prior years in the amount of \$8,812.

They also discovered unallowable charges in the amount of \$15,426 for pencils, wristbands, magnets, activity booklets, and bookmarks. These items fall under unallowable advertising and public relations expenses.

They discovered unallowable charges of \$652 for the electrical upgrade of a dishwasher which is District's responsibility.

Lastly, they discovered unallowable charges in the amount of \$688 for travel charges to 2015 California School Board Association (CSBA) Annual Education Conference as the intent of the conference was related to educational policy issues and not related to School Nutrition Program.

Questioned Costs

A total of \$215,788 in questioned costs was identified as a result of the condition identified above. The District's General Fund repaid the Cafeteria Fund for the identified questioned cost amount to correct the issue.

Context

The condition was identified as a result of the auditor's review of the results of Administrative Review performed by CDE's Nutrition Services Division.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Effect

The District is not in compliance with the following regulations and has charged unallowable expense to the Cafeteria Fund:

- Title 2 CFR Part 225, Appendix B (8)(h)
- Title 2 CFR Part 225, Appendix B, Item 5
- Title 2 CFR Part 200, Subpart E, Section 200.421(e)(3)
- Title 2 CFR Part 200, Section 200.452
- Title 2 CFR Part 200, Section 200.432

These unsupported charges have subsequently been reimbursed.

Cause

The condition identified appears to have materialized due to the District's interpretation of the requirements for PARS and how they apply to hourly employees. In addition, lack of full awareness of Title 2 Code of Federal Regulations appears to be a factor.

Recommendation

The District should implement administrative procedures that require all multi-funded employees to prepare PARs or equivalent documentation that identifies the employee's activity daily by hours spent in each categorical program or cost objective in accordance with Federal regulations. The District should also review the above noted regulations and develop procedures to ensure unallowable expenses are identified before the purchase is made to avoid the need for the General Fund to transfer to the nonprofit school food service account for these expenses.

Corrective Action Plan

- A journal entry in the amount of \$25,577.41 to non-federal funds in Resource 0000 was completed by Nutrition Services on May 25, 2016.
- The amount of \$190,210.90 was reimbursed to Nutrition Services by the District's General Fund via a check issued on September 14, 2016.
- Nutrition Services revised its Policy and Procedure #50.011 on June 28, 2016 regarding Time and Effort Documentation. A PARS report has been developed for use in FY 2016/17.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

2016-002 Code 50000

Federal Program Affected

Program Name: Child Nutrition Cluster
CFDA Number: 10.553, 10.555, 10.556, 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria or Specific Requirements

Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2) requires the proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account to be equal or greater than the proportion of total food costs associated with obtaining nonprogram foods to the total costs associated with obtaining program and nonprogram foods from the account.

Condition

During the 2014-15 fiscal year, the District's cafeteria operation did not price nonprogram food items high enough to ensure compliance with Title 7, Part 210, Subpart C, Section 210.14(f)(2). The ratio of nonprogram food cost to total food cost to nonprogram revenue to total food service revenue is higher as a result.

Questioned Costs

There were no direct questioned costs associated with the condition identified, but the cafeteria account needed to generate an additional \$204,753 in nonprogram revenues to comply with the requirement.

Context

The condition was identified as a result of review of the District's nonprogram revenue calculation form and supporting documents.

Effect

The revenue from nonprogram foods is a direct and material compliance requirement that the District must adhere to. The District is non-compliant with the requirements stated in Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2).

Cause

The condition identified appears to have materialized due to the District's Point of Sale (POS) systems being inadequately set up to track nonprogram food costs and revenues. Additionally, it appears that the District did not periodically use the USDA Nonprogram Food Revenue Tool ensure that nonprogram food revenue compliance requirements were being met.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Recommendation

The District should review the requirements stated in Title 7, Part 210, Subpart C, Section 210.14(f)(2) and implement a procedure to address the deficiency currently identified with the District's nonprogram revenue requirement. Specifically, we recommend the District periodically use the USDA Nonprogram Food Revenue Tool to verify compliance with Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(f)(2).

Corrective Action Plan

- Nutrition Services revised its Policy and Procedure #50.015 on June 29, 2016 regarding Revenue from Non Program Foods. The California Department of Education approved the policy and procedure in March 2016 during their site audit.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent instances of noncompliance relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2016-003 Code 40000

After School Education and Safety Program

Criteria or Specific Requirements

According to *California Education Code Section 8483(a)(1)* states that every after school component of a program established pursuant to this article shall commence immediately upon the conclusion of the regular school day, and operate a minimum of 15 hours per week, and at least until 6 p.m. on every regular school day. Every after school component of the program shall establish a policy regarding reasonable early daily release of pupils from the program. In addition, *California Education Code Section 8482.4(c)*, states that a district that receives state funding for an after school program must report attendance to the California Department of Education (CDE) semiannually. Such reporting must be supported by attendance records supporting student participation.

Condition

Documentation supporting the number of students served does not agree with the amounts reported on the semi-annual report. The District maintains sign out sheets for students in order to track students served. The auditor selected 5 of the fifty-eight schools operating the program (Golden Valley Middle, Hunt Elementary, North Park Elementary, Hillside Elementary, and Cole Elementary) and recomputed the number of students served as indicated on the sign out sheets to determine if total students served for the month of October 2015 agrees with the amount reported on the semi-annual report. The auditor included each student on the sign out sheet that was signed out after 6:00 pm and students who left early, but had an early release reason documented in our recount. The auditor did not include any student who left before 6:00 pm if the student did not have an early release reason documented as required by District's early release policy. As a result, the auditor's count noted 7,483 students served during the month of October for the sites tested, however, the semi-annual report noted 11,369 students for the month of October 2015, resulting in a difference in students served of 3,886.

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, the number of students served appears to be overstated by 3,886 at five schools tested for the month of October 2015 because these students were not signed out in accordance with the District's early release policy.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Context

The condition identified resulted from our review of Golden Valley Middle, Hunt Elementary, North Park Elementary, Hillside Elementary, and Cole Elementary' attendance records and monthly attendance summary totals for the month of October 2015. Auditor selected five out of fifty-eight schools for the first semi-annual reporting period dated July to December 2015. Auditor reviewed manual sign out rosters for the month of October 2015, and reviewed monthly summaries nothing multiple exceptions as noted above.

Effect

As a result of our testing, the District was not compliant with *Education Code* Section 8483(a)(1) for the 2015-2016 fiscal year since the number of students served as reported to the CDE includes those students who signed out early without a valid reason as required by the early release policy.

Cause

The attendance condition appears to have resulted from the District not following its own early release policy that requires documenting reason for early release of students from the program.

Recommendation

We recommend the District follow its early release policy and ensure the reasons for early release are documented for all the kids leaving early to ensure they can be counted for attendance reporting.

Corrective Action Plan

- Follow the District's Early Release Policy.
- Provide Professional Development to ensure that all staff follows procedures.
- Audit sign-out sheets for compliance.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
San Bernardino City Unified School District
San Bernardino, California

In planning and performing our audit of the financial statements of San Bernardino City Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2016 on the government-wide financial statements of the District.

INTERNAL CONTROLS

Payroll – Classified Timesheets

Observation

During our inquiry of timesheet processing procedures, we noted that the classified timesheets that are submitted late by site or department secretaries are processed by payroll without approval of employee's immediate supervisor to avoid delay in employee getting paid.

Recommendation

The District should develop and enforce a strict policy regarding submission of timesheets by the due date to ensure each timesheet is approved before processed by payroll. Timely submission of timesheets gives ample time for supervisor's review and any changes to the hours due to error.

ASSOCIATED STUDENT BODY (ASB)

Urbita Elementary School

Observations

1. Auditor could not trace deposited amounts to sub-receipt books. The bookkeeper should be reconciling cash collected to the sub-receipts issued by the teachers. These sub-receipts should then be attached to the deposit receipt to create a paper trail to ensure actual cash collected is deposited.
2. Three out of 6 disbursements tested did not have explicit receiving documentation.

Recommendations

1. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current bank deposit.
2. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.

Anton Elementary School

Observations

1. One of 3 deposits tested did not have adequate supporting documentation for the monies received.
2. One of 12 disbursements tested did not have a purchase request.
3. One of 12 disbursements tested did not have a proper invoice present before payment was made.
4. Four of 12 disbursements tested did not have explicit receiving documentation.
5. Six of 12 disbursements tested were not pre approved.
6. Five of 12 disbursements tested did not have required two signatures of approval.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. In order to ensure proper internal controls over the ASB disbursements, the site should make sure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. Prior to disbursements being drafted, the ASB should ensure that supporting invoices or receipts are available to substantiate payments being made.
4. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.
5. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
6. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursements are approved by two authorized individuals.

Bradley Elementary School

Observations

1. The cash receipts tested did not have supporting documentation for the monies received.
2. The site made unallowable purchase with ASB funds. The site bought supplies in the amount of \$45.36 for perfect attendance party for the students. Student incentives are not an unallowable expense per ASB regulations.
3. Five of 5 disbursements tested did not have explicit receiving documentation.
4. Two of 5 disbursements tested were not signed by at least two authorized personnel.
5. Bank reconciliation is not prepared accurately as all transactions are dated as of the bank statement date on the ASB's general ledger.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. All ASB expenditures should be reviewed and approved by appropriate and qualified personnel to prevent unauthorized and unallowable purchases aren't made with ASB funds.
3. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursements are reviewed and approved by two authorized individuals (ASB advisor and an administrator).
5. The ASB's general ledger should reflect the date when the transaction actually took place instead of the date it posted to the bank statement. This allows for accurate recording on ASB transactions and reconciliation between ASB's general ledger and bank statement to ensure all the transactions are accounted for.

Davidson Elementary School

Observations

1. One of the receipts tested did not have supporting documentation for the monies received.
2. One of 4 disbursements tested did not have a proper invoice present before payment was made.
3. Two of 4 disbursements tested did not have explicit receiving documentation.
4. One of 4 disbursements tested did not have a prior approval.
5. Three of 4 disbursements tested did not have two required signatures of approval.
6. The fundraiser tested did not have a revenue potential form completed.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. Prior to disbursements being drafted, the ASB should ensure that supporting invoices or receipts are available to substantiate payments being made.

3. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.
4. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
5. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be approved by two authorized individuals.
6. Revenue potential forms are vital internal control tools and should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential form also indicates weak control areas in the fund raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth. The site administrator should also ensure that the fundraisers are properly approved by the ASB council in the minutes prior to the start of the event.

Newmark Elementary School

Observations

1. One out of the 5 disbursements tested did not have a purchase request form present.
2. Three of the 5 disbursements tested did not have a prior approval.
3. All five disbursements tested did not have 2 signatures of approval for disbursement.
4. The fundraiser tested during did not have a revenue potential form completed.
5. Bank reconciliation is not prepared accurately as all transactions are dated as of the bank statement date on the ASB's general ledger.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, all disbursements should require purchase request form completed and approved by authorized personnel to ensure the purchase requested is appropriate for ASB.
2. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
3. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be approved by two authorized individuals.
4. Revenue potential forms are vital internal control tools and should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential form also indicates weak control areas in the fund raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth. The site administrator should also ensure that the fundraisers are properly approved by the ASB council in the minutes prior to the start of the event.

5. The ASB's general ledger should reflect the date when the transaction actually took place instead of the date it posted to the bank statement. This allows for accurate recording on ASB transactions and reconciliation between ASB's general ledger and bank statement to ensure all the transactions are accounted for.

Paakuma' K-8

Observations

1. Five of the 110 receipts tested did not have sufficient supporting documentation for the monies received.
2. Two out of the 6 disbursements tested did not have explicit receiving documentation.
3. Three out of the 6 disbursements tested did not have a prior approval.
4. Two out of the 2 fundraiser revenue potentials did not have documentation and explanation of differences between expected and actual data.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.
3. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
4. All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

King Middle School

Observations

1. One out of 17 deposits tested did not have supporting documentation for the monies received.
2. Based on the review of the cash receipts it was noted that two out of the 17 deposits tested contained receipts that were not deposited in a timely manner. Delay in deposit was ranged from 11 to 20 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
3. Three out of the 14 disbursements tested did not have a prior approval.
4. One out of the 14 disbursements tested does not appear to be allowable. The General ASB paid for the cheer squad's competition fee of \$1,285.
5. Ticket roll does not match the ticket log due to the roll being used for activities that don't require selling tickets which aren't tracked on the ticket log. Additionally, the ticket rolls aren't maintained at a secure location.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. The ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the sites. During weeks of high cash activity, there may be a need to make more than one deposit. The District should communicate specific guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
3. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
4. The ASB shouldn't pay for other club's expenses if those clubs don't have enough money to cover their own expenses. The general ASB paying cheer squad's competition fee isn't appropriate ASB procedure. Cheer Squad shouldn't be allowed to participate in any activity if they don't have sufficient funds in their club balance.
5. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. The ticket rolls should be kept in a secure location to prevent unauthorized use of tickets. Unauthorized use of tickets can result in loss of revenues for the ASB.

Serrano Middle School

Observations

1. Based on the review of the cash receipts it was noted that two out of the 11 deposits tested contained receipts that were not deposited in a timely manner. Delay in deposit was ranged from 19 to 21 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.
2. Two out of 15 disbursements tested were not pre-approved within the ASB minutes prior to the purchase being made.
3. One out of 3 fundraisers tested did not have an explanation for the difference between projected and actual profits.

Recommendations

1. At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
2. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

3. All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

Indian Springs High School

Observations

1. Five out of 17 disbursements tested did not have a pre approval of the ASB.
2. The ASB maintains ticket rolls for use in ticketed events; however, these tickets were not utilized for ticketed events tested during the audit. Instead, the ASB uses a tally system to track sales.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
2. When utilizing tickets for fundraising events, pre-numbered tickets should be used for all ticket sales. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

Pacific High School

Observations

1. Two out of 22 disbursements tested did not have explicit receiving documentation.
2. Two out of 22 disbursements tested were not consistently preapproved prior to transactions taking place.
3. A master ticket log is not being used by the sites to account for all tickets on hand and used during the year.

Recommendations

1. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.
2. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrators and the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

3. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

Arroyo Valley High School

Observations

1. Four out of 4 revenue potential forms tested did not have an explanation for the difference between projected and actual profits

Recommendations

1. All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

San Bernardino High School

Observations

1. Three out of 35 receipts tested contained monies that were not supported by sub-receipts and/or any other form of supporting documentation.
2. One out of 13 disbursements tested did not have the 3 required signatures of approval.
3. One out of 13 disbursements tested did not have explicit receiving documentation.
4. Two out of 2 revenue potential forms tested did not have an explanation for the difference between projected and actual profits.
5. A master ticket log for ticketed events is not used.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. The site should review the internal controls that apply to organize ASBs over cash disbursement as outlined in Fiscal Crisis & Management Assistance Team's ASB manual which states that the preapproval must be obtained by three individuals over each cash disbursement: the student council/club representative, the ASB Advisor, and the board designee.
3. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.

4. All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potential form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales received to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.
5. Ticket logs should be maintained to document each and every ticketed event and sales reconciliation sheets should be utilized to determine the completeness of sales revenue generated from ticketed events.

San Geronio High School

Observations

1. Two out of 15 disbursements tested were not pre-approved within the ASB minutes prior to the purchase being made.
2. Auditor noted that one of the club deposits tested was tested was not supported by receipts and/or any other form of supporting documentation.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
2. All deposits should include a description identifying the source of the monies collected. Amounts collected should be reconciled back to appropriate sales documentation, such as receipts, tally sheet or some type of sales report, as applicable.

Shandin Hills Middle School

Observations

1. Two of 169 receipts tested did not have adequate supporting documentation for the monies received.
2. One out of 12 disbursements tested did not have a proper invoice present before payment was made.
3. One out of 12 disbursements tested did not have explicit receiving documentation.
4. Two out of 12 disbursements tested did not have a prior approval.
5. One out of 12 disbursements tested did not have all required signatures of approval.

Recommendations

1. The ASB should establish a procedure to issue receipts whenever it receives money or check for any events or sale. Pre-numbered triplicate receipts or logs should be utilized when collecting money for all ASB events and transactions.
2. Prior to disbursements being drafted, the ASB should ensure that supporting invoices or receipts are available to substantiate payments being made.
3. Supporting documentation that indicates that all items ordered were received should be evident. This could be accomplished using a packing slip or through a signature of the person who received the goods. This would mitigate the risk of items being paid for without actually receiving them.

4. In order to ensure proper internal controls over the ASB disbursements, all disbursements should be pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
5. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursements are authorized by three necessary individuals (ASB advisor, ASB Treasurer, and an administrator).

Sierra Continuation High

Observations

1. Based on sample disbursements tested, we noted disbursements are lacking required three signatures of approval.
2. One out of 1 revenue potential tested has not been completed with the actual data.
3. Based on our review of the ASB's student store activities, daily sales form was not used for any student store sales activities and perpetual inventory was not maintained. As a result, there was a lack of sales reconciliation taking place in connection with the sale of goods in the student store.
4. A physical inventory count of student store items is not being performed and there is no procedure in place to reconcile sales with inventory. Manual inventory reconciliations for student store items are not being performed by the site and compared to the perpetual system maintained.
5. ASB Account Clerk is one of the signors on the account and regularly signs checks issued for payment. The account clerk is not an allowed signor on the account as this creates a lack of segregation in assigned duties.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursements are authorized by three necessary individuals (ASB advisor, ASB Treasurer, and an administrator).
2. Revenue potential forms are vital internal control tools and should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential form also indicates weak control areas in the fund raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due, and so forth. The site administrator should also ensure that the fundraisers are properly approved by the ASB council in the minutes prior to the start of the event.
3. Sales reconciliations should be performed regularly to ensure that the cash generated from sale of inventory is consistent with the physical inventory sold. In practice, beginning inventory of goods should be taken prior to sales activities and ending inventory of goods should be taken at the conclusion of the sales event. The difference between beginning and ending inventory should be determined and expected sales revenue should be calculated using the unit price of goods being sold. Lastly, actual sales should be compared with the calculated expected sales. Differences identified should be further examined, as needed.
4. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count of the student store items. A physical inventory should be taken quarterly under supervision of the advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

Governing Board
San Bernardino City Unified School District

5. Incompatible duties to be segregated for adequate internal controls are: Custody of assets, authorization or approval of related transactions, and recording of related transactions. The ASB account clerk records ASB related transactions, so the account clerk should not be the signor on the account who also approves the transactions.

We will review the status of the current year comments during our next audit engagement.

Varrink, Jins, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016