

**SAN BERNARDINO CITY UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 56 and 57, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

VADRING, IRINE, Day + CO, LLP^A

Rancho Cucamonga, California
December 15, 2010

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, 2010. 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 Assets* 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, 2010

The two District-wide financial statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets 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.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

- 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 Assets

The District's *combined* net assets were larger on June 30, 2010, than they were the year before - increasing 10.3 percent to \$729.6 million. Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew \$65.4 million to \$707.2 million. The net assets of the District's business-type activities increased by \$3.0 million to \$22.4 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Assets						
Current and other assets	\$ 382.5	\$ 352.2	\$ 16.4	\$ 13.0	\$ 398.9	\$ 365.2
Capital assets	598.6	559.2	6.8	7.0	605.4	566.2
Total Assets	981.1	911.4	23.2	20.0	1,004.3	931.4
Liabilities						
Current liabilities	63.1	69.3	0.8	0.6	63.9	69.9
Long-term obligations	210.8	200.3	-	-	210.8	200.3
Total Liabilities	273.9	269.6	0.8	0.6	274.7	270.2
Net Assets						
Invested in capital assets, net of related debt	459.7	420.8	6.8	7.0	466.5	427.8
Restricted	222.2	165.6	-	-	222.2	165.6
Unrestricted	25.3	55.4	15.6	12.4	40.9	67.8
Total Net Assets	\$ 707.2	\$ 641.8	\$ 22.4	\$ 19.4	\$ 729.6	\$ 661.2

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Changes in Net Assets

The District's total revenues increased to \$643.1 million (see Table A-2). State and Federal aid for specific programs contributed about 45 cents of every dollar raised. Another 51 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)	Governmental Activities		Business-Type Activities		School District Activities	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 2.0	\$ 2.6	\$ 2.6	\$ 2.9	\$ 4.6	\$ 5.5
Operating grants and contributions	155.0	180.9	26.1	23.7	181.1	204.6
Capital grants and contributions	109.3	50.5	-	-	109.3	50.5
General revenues:						
Federal and State unrestricted	302.4	298.0	-	-	302.4	298.0
Property taxes	27.5	30.7	-	-	27.5	30.7
Other general revenues	18.2	38.5	-	0.1	18.2	38.6
Total Revenues	614.4	601.2	28.7	26.7	643.1	627.9
Expenses						
Instruction-related	394.7	410.5	-	-	394.7	410.5
Student support services	50.7	51.4	-	-	50.7	51.4
Administration	33.5	27.0	-	-	33.5	27.0
Maintenance and operations	52.4	55.1	-	-	52.4	55.1
Other	17.7	17.2	25.7	25.7	43.4	42.9
Total Expenses	549.0	561.2	25.7	25.7	574.7	586.9
Change in Net Assets	\$ 65.4	\$ 40.0	\$ 3.0	\$ 1.0	\$ 68.4	\$ 41.0

The total cost of all programs and services declined to \$574.7 million. The District's expenses are predominantly related to educating and caring for students (77.5 percent). The purely administrative activities of the District accounted for just 5.8 percent of total costs.

Total revenues surpassed expenses, increasing net assets to \$68.4 million over last year. Both the governmental and business-type activities contributed to the District's increase in net assets.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Governmental Activities

Revenues for the District's governmental activities were \$614.4 million, whereas total expenses were \$549.0 million. The increase in net assets for governmental activities was stronger than in the previous year because of the overall increase in revenues and decline in expenditures.

- Some of the District's activities (\$2.0 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 (\$264.3 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$28.7 million, and expenses were \$25.7 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, student transportation, pupil services (guidance, counseling, and evaluation), administration, maintenance and operations, 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 net costs (\$282.7 million) were financed by District taxpayers and the taxpayers of our State.
 - This portion of governmental activities was financed with \$27.5 million in property taxes, and \$302.4 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	
	2010	2009	2010	2009
Instruction	\$ 320.2	\$ 327.9	\$ 119.8	\$ 178.2
Instruction-related activities	74.5	82.6	40.4	39.1
Home-to-school transportation	17.7	17.8	14.1	7.0
Other pupil services	33.0	33.6	23.7	21.1
General administration	33.5	27.0	28.1	21.2
Maintenance and operations	52.4	55.1	49.1	52.4
Other	17.7	17.2	7.5	8.0
Total	\$ 549.0	\$ 561.2	\$ 282.7	\$ 327.0

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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 \$286.7 million, an increase of 14.7 percent from the previous year.

Three of the District's governmental funds had more revenue than expenditures in 2010. Total fund balance increased by \$66.6 million in the County School Facilities Fund as a result of the increase in funding for capital projects across the District.

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

The District's General Fund decreased in fund balance by \$14.8 million. The District continues to meet the State required two percent reserve for Economic Uncertainties.

Table A-4

(Amounts in millions)

	Balances and Activity			
	July 1, 2009	Revenues	Expenditures	June 30, 2010
General	\$ 80.9	\$ 493.2	\$ 508.0	\$ 66.1
County School Facilities	103.4	109.4	42.8	170.0
Adult Education	0.7	0.9	0.9	0.7
Child Development	1.3	10.7	8.9	3.1
Deferred Maintenance	10.3	-	10.3	-
Special Reserve Fund for Other than				
Capital Outlay Projects	-	-	-	-
Building	26.6	1.9	6.6	21.9
Capital Facilities	13.3	1.4	2.5	12.2
Special Reserve Fund for Capital				
Outlay Projects	1.0	0.2	-	1.2
Bond Interest and Redemption	12.3	9.3	10.1	11.5
Tax Override	0.1	-	0.1	-
Total	\$ 249.9	\$ 627.0	\$ 590.2	\$ 286.7

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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 expenditures would exceed revenues by \$56.6 million and the actual results for the year show expenditures exceeding revenues by \$25 million.

- Actual revenues were \$2.3 million lower than expected, due primarily to lower Revenue sources.
- The actual expenditures were \$33.9 million under budget, due primarily to budget cuts and other cost saving measures enacted by the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010, the District had invested an additional \$52.1 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$12.9 million. (More detailed information about capital assets can be found in Note 4 to the financial statements.)

Table A-5

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land and construction in process	\$ 241.3	\$ 216.1	\$ -	\$ -	\$ 241.3	\$ 216.1
Buildings and improvements	351.3	335.7	6.0	6.5	357.3	342.2
Equipment	6.0	7.4	0.8	0.5	6.8	7.9
Total	\$ 598.6	\$ 559.2	\$ 6.8	\$ 7.0	\$ 605.4	\$ 566.2

The District was apportioned and received \$102.1 million of Proposition 1D State bond funds. These funds are being used for new construction and modernization projects across the District.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Long-Term Obligations

At year-end, the District had \$171.9 million in general obligation bonds decreasing last year's balance by \$2.4 million.

Table A-6

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds (financed with property taxes)	\$ 171.9	\$ 174.3	\$ -	\$ -	\$ 171.9	\$ 174.3
Childcare Facilities						
Revolving Fund	0.6	1.0	-	-	0.6	1.0
Accumulated vacation	1.6	1.7	-	-	1.6	1.7
Claims liability	10.1	11.4	-	-	10.1	11.4
SELF assessment	3.5	3.7	-	-	3.5	3.7
Supplemental Early Retirement Plan	17.4	4.5	-	-	17.4	5
Other postemployment benefits	5.7	3.7	-	-	5.7	3.7
Total	\$ 210.8	\$ 200.3	\$ -	\$ -	\$ 210.8	\$ 200.3

The reduction in General Obligation Bonds is due to the principal payments for 1999 Series B, 2004 Series A, 2004 General Obligation Refunding Bonds, and 2004 Series C. New debt resulted mainly from the supplemental early retirement plan and other postemployment benefits.

More detailed information about the District's long-term obligations is presented in Note 8 to the financial statements.

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. The State deficit and overall economic downturn in the State economy will affect future funding for school districts and other State funded agencies.
2. Any major changes in program funding such as declining enrollment or Average Daily Attendance (1.8 percent decline in 2009-2010) will impact the financial condition of the District.
3. Collective bargaining.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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 ASSETS JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Deposits and investments	\$ 283,484,283	\$ 9,545,558	\$ 293,029,841
Receivables	92,638,648	7,171,446	99,810,094
Internal balances	1,609,983	(1,609,983)	-
Prepaid expenses	79,757	-	79,757
Stores inventories	479,864	1,273,581	1,753,445
Deferred costs on issuance	2,921,397	-	2,921,397
Deferred charges on refunding	1,371,892	-	1,371,892
Capital assets			
Land and construction in process	241,312,820	-	241,312,820
Other capital assets	491,390,230	14,234,422	505,624,652
Less: Accumulated depreciation	(134,150,866)	(7,413,526)	(141,564,392)
Total Capital Assets	598,552,184	6,820,896	605,373,080
Total Assets	981,138,008	23,201,498	1,004,339,506
Liabilities			
Accounts payable	59,064,111	836,118	59,900,229
Accrued interest	2,357,512	-	2,357,512
Deferred revenue	1,633,904	-	1,633,904
Long-term obligations			
Current portion of long-term obligations	11,134,025	-	11,134,025
Noncurrent portion of long-term obligations	199,687,420	-	199,687,420
Total Long-Term Obligations	210,821,445	-	210,821,445
Total Liabilities	273,876,972	836,118	274,713,090
Net Assets			
Invested in capital assets, net of related debt	459,661,455	6,820,896	466,482,351
Restricted for:			
Debt service	9,227,461	-	9,227,461
Capital projects	182,150,051	-	182,150,051
Educational programs	27,121,614	-	27,121,614
Other activities	3,783,264	-	3,783,264
Unrestricted	25,317,191	15,544,484	40,861,675
Total Net Assets	\$ 707,261,036	\$ 22,365,380	\$ 729,626,416

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, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 320,186,183	\$ 441,639	\$ 90,654,747	\$ 109,255,706
Instruction-related activities:				
Supervision of instruction	24,457,413	69,038	19,990,172	-
Instructional library, media, and technology	2,931,537	-	162,609	-
School site administration	47,110,598	8,472	13,837,727	-
Pupil services:				
Home-to-school transportation	17,699,368	-	3,623,859	-
Food services	(12,151)	-	-	-
All other pupil services	32,973,707	861	9,253,418	-
General administration:				
Data processing	4,577,271	-	-	-
All other general administration	28,951,536	60,108	5,399,598	-
Plant services	52,427,735	1,109,380	2,247,829	-
Ancillary services	162,109	-	-	-
Community services	9,251,248	324,983	9,300,759	-
Enterprise services	(922)	-	-	-
Interest on long-term obligations	8,194,821	-	-	-
Other outgo	77,154	1,856	525,927	-
Total Governmental Activities	548,987,607	2,016,337	154,996,645	109,255,706
Business-Type Activities:				
Food services	25,737,347	2,606,184	26,101,031	-
Total Business-Type Activities	25,737,347	2,606,184	26,101,031	-
Total School District	\$ 574,724,954	\$ 4,622,521	\$ 181,097,676	\$ 109,255,706

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
 Transfers between agencies
 Miscellaneous

Subtotal, General Revenues

Change in Net Assets

Net Assets - Beginning
 Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (119,834,091)	\$ -	\$ (119,834,091)
(4,398,203)	-	(4,398,203)
(2,768,928)	-	(2,768,928)
(33,264,399)	-	(33,264,399)
(14,075,509)	-	(14,075,509)
12,151	-	12,151
(23,719,428)	-	(23,719,428)
(4,577,271)	-	(4,577,271)
(23,491,830)	-	(23,491,830)
(49,070,526)	-	(49,070,526)
(162,109)	-	(162,109)
374,494	-	374,494
922	-	922
(8,194,821)	-	(8,194,821)
450,629	-	450,629
(282,718,919)	-	(282,718,919)
-	2,969,868	2,969,868
-	2,969,868	2,969,868
(282,718,919)	2,969,868	(279,749,051)
18,335,496	-	18,335,496
8,913,211	-	8,913,211
269,473	-	269,473
302,364,939	-	302,364,939
1,137,282	9,358	1,146,640
241,168	-	241,168
16,884,831	(26,902)	16,857,929
348,146,400	(17,544)	348,128,856
65,427,481	2,952,324	68,379,805
641,833,555	19,413,056	661,246,611
\$ 707,261,036	\$ 22,365,380	\$ 729,626,416

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 25,116,383	\$ 177,980,584	\$ 49,544,193	\$ 252,641,160
Receivables	90,208,334	487,326	1,846,773	92,542,433
Due from other funds	2,160,521	238,360	2,909,751	5,308,632
Prepaid expenditures	79,757	-	-	79,757
Stores inventories	479,864	-	-	479,864
Total Assets	\$ 118,044,859	\$ 178,706,270	\$ 54,300,717	\$ 351,051,846
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 50,315,537	\$ 5,797,587	\$ 2,652,687	\$ 58,765,811
Due to other funds	458,142	2,940,652	529,010	3,927,804
Deferred revenue	1,172,152	-	461,752	1,633,904
Total Liabilities	51,945,831	8,738,239	3,643,449	64,327,519
FUND BALANCES				
Reserved:				
Revolving cash	211,000	-	-	211,000
Stores inventories	479,864	-	-	479,864
Prepaid expenditures	79,757	-	-	79,757
Restricted programs	27,121,614	-	-	27,121,614
Unreserved:				
Designated	38,206,793	-	-	38,206,793
Undesignated, reported in:				
Special revenue funds	-	-	3,785,124	3,785,124
Debt service funds	-	-	11,584,973	11,584,973
Capital projects funds	-	169,968,031	35,287,171	205,255,202
Total Fund Balance	66,099,028	169,968,031	50,657,268	286,724,327
Total Liabilities and Fund Balances	\$ 118,044,859	\$ 178,706,270	\$ 54,300,717	\$ 351,051,846

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 ASSETS JUNE 30, 2010

Total Fund Balance - Governmental Funds		\$ 286,724,327
Amounts Reported for Governmental Activities in the Statement of Net Assets 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 the following	\$ 732,703,050	
Accumulated depreciation is the following	<u>(134,150,866)</u>	
Total Capital Assets		598,552,184
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 balance as of June 30, 2010.		1,371,892
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis as deferred costs on issuance.		2,921,397
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.		(2,357,512)
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. Internal service fund net assets are as follows:		17,236,229
Long-term obligations, including general obligation bonds, 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 the following:		
General obligation bonds	(153,352,224)	
Unamortized premium on issuance	(8,240,156)	
Child care facilities revolving fund	(578,500)	
Accumulated vacation - net	(1,552,887)	
Other postemployment benefits	(5,715,585)	
Supplemental early retirement	(17,410,072)	
In addition, the District issues "capital appreciation" general obligation bonds. The accretion of interest on unmatured general obligation bond to date is:	<u>(10,338,057)</u>	
Total Long-Term Obligations		<u>(197,187,481)</u>
Total Net Assets - Governmental Activities		<u>\$ 707,261,036</u>

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 BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 247,236,493	\$ -	\$ -	\$ 247,236,493
Federal sources	77,137,369	-	593,695	77,731,064
Other State sources	148,645,621	107,265,491	10,462,248	266,373,360
Other local sources	9,955,832	2,015,850	11,814,286	23,785,968
Total Revenues	482,975,315	109,281,341	22,870,229	615,126,885
EXPENDITURES				
Current				
Instruction	308,712,665	-	807,346	309,520,011
Instruction-related activities:				
Supervision of instruction	24,310,017	-	166,380	24,476,397
Instructional library, media, and technology	2,936,236	-	-	2,936,236
School site administration	46,828,309	-	336,018	47,164,327
Pupil services:				
Home-to-school transportation	17,700,329	-	-	17,700,329
Food services	(34)	-	-	(34)
All other pupil services	32,711,663	-	56,475	32,768,138
General administration:				
Data processing	4,542,041	-	-	4,542,041
All other general administration	15,665,133	-	311,798	15,976,931
Plant services	48,251,469	-	234,224	48,485,693
Facility acquisition and construction	4,395,658	41,233,308	9,075,349	54,704,315
Ancillary services	162,109	-	-	162,109
Community services	1,729,093	-	7,530,777	9,259,870
Other outgo	77,154	-	-	77,154
Debt service				
Principal	-	-	4,138,250	4,138,250
Interest and other	-	-	6,347,313	6,347,313
Total Expenditures	508,021,842	41,233,308	29,003,930	578,259,080
Excess (Deficiency) of Revenues Over Expenditures	(25,046,527)	68,048,033	(6,133,701)	36,867,805
Other Financing Sources (Uses)				
Transfers in	10,286,392	21,743	1,542,859	11,850,994
Transfers out	-	(1,545,093)	(10,305,901)	(11,850,994)
Net Financing Sources (Uses)	10,286,392	(1,523,350)	(8,763,042)	-
NET CHANGE IN FUND BALANCES	(14,760,135)	66,524,683	(14,896,743)	36,867,805
Fund Balance - Beginning	80,859,163	103,443,348	65,554,011	249,856,522
Fund Balance - Ending	\$ 66,099,028	\$ 169,968,031	\$ 50,657,268	\$ 286,724,327

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 FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ 36,867,805
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 Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceeds depreciation expense in the period:	
Capital outlays	\$ 51,581,668
Depreciation expense	<u>(12,230,766)</u>
Net Depreciation Adjustment	39,350,902
Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Assets, but is not recorded in the governmental funds.	(8,920)
In the Statement of Activities, certain operating expenses - supplementary early retirement payments 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). During the year, the District adopted a supplemental early retirement program with annuities of \$13,805,200 to be paid.	(13,805,200)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) 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 used was more than the amounts earned by \$118,107. Additionally, payments for supplemental early incentive program amounted to \$901,218.	1,019,325
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.	(2,042,833)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:	
General obligation bonds	3,745,000
Child care facilities revolving fund	393,250

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, 2010

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	\$ 436,403	
Amortization of cost of issuance	(152,322)	
Amortization of deferred charge on refunding	<u>(342,972)</u>	
Combined Adjustment		\$ (58,891)

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 by \$27,429, and second, \$1,816,046 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(1,788,617)

An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

1,755,660

Change in Net Assets of Governmental Activities

\$ 65,427,481

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2010

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Service	
ASSETS		
Current Assets		
Deposits and investments	\$ 9,545,558	\$ 30,843,123
Receivables	7,171,446	96,215
Due from other funds	-	413,860
Stores inventories	1,273,581	-
Total Current Assets	17,990,585	31,353,198
Noncurrent Assets		
Capital assets	14,234,422	-
Less: accumulated depreciation	(7,413,526)	-
Total Noncurrent Assets	6,820,896	-
Total Assets	24,811,481	31,353,198
LIABILITIES		
Current Liabilities		
Accounts payable	836,118	298,300
Due to other funds	1,609,983	184,705
Current portion of claims liability	-	2,915,495
Current portion of SELF assessment	-	198,747
Total Current Liabilities	2,446,101	3,597,247
Noncurrent Liabilities		
Noncurrent portion of claims liability and assessment	-	10,519,722
NET ASSETS		
Invested in capital assets, net of related debt	6,820,896	-
Unrestricted	15,544,484	17,236,229
Total Net Assets	\$ 22,365,380	\$ 17,236,229

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 ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds Food Service	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 2,606,184	\$ -
Charges to other funds and miscellaneous revenues	(26,902)	5,318,105
Total Operating Revenues	2,579,282	5,318,105
OPERATING EXPENSES		
Payroll costs	11,093,870	2,207,060
Professional and contract services	38,675	1,768,854
Supplies and materials	12,984,174	10,694
Facility rental	79,916	784
Other operating cost	887,759	-
Depreciation	652,952	-
Total Operating Expenses	25,737,346	3,987,392
Operating Profit (Loss)	(23,158,064)	1,330,713
NONOPERATING REVENUES		
Interest income	9,357	424,947
Grants	26,101,031	-
Total Nonoperating Revenues	26,110,388	424,947
Change in Net Assets	2,952,324	1,755,660
Total Net Assets - Beginning	19,413,056	15,480,569
Total Net Assets - Ending	\$ 22,365,380	\$ 17,236,229

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, 2010

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Services	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 783,715	\$ -
Cash receipts from interfund services provided	-	7,630,319
Other operating cash receipts	-	-
Cash payments to other suppliers of goods or services	(13,164,902)	166,501
Cash payments to employees for services	(11,093,870)	(2,207,060)
Cash payments for insurance claims	-	(3,188,994)
Other operating cash payments	(887,759)	-
Net Cash Provided (Used) by Operating Activities	(24,362,816)	2,400,766
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	24,725,962	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(474,554)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	9,357	424,947
Net Increase (Decrease) in Cash and Cash Equivalents	(102,051)	2,825,713
Cash and Cash Equivalents - Beginning	9,647,609	28,017,410
Cash and Cash Equivalents - Ending	\$ 9,545,558	\$ 30,843,123

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - CONTINUED FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Services	
RECONCILIATION OF OPERATING PROFIT (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating profit (loss)	\$ (23,158,064)	\$ 1,330,713
Adjustments to reconcile operating profit (loss) to net cash provided (used) by operating activities:		
Depreciation	652,952	-
Commodities used	1,375,069	-
Changes in assets and liabilities:		
Receivables	(3,170,636)	32,095
Due from other funds	-	2,280,119
Inventories	(243,156)	-
Accrued liabilities	287,882	165,818
Due to other funds	(106,863)	177,195
Claims liability and assessment	-	(1,585,174)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (24,362,816)	\$ 2,400,766

NONCASH, NONCAPITAL FINANCING ACTIVITIES

During the year, the District received \$1,357,069 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 ASSETS JUNE 30, 2010

	Private- Purpose Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 461,503	\$ 1,280,456
Receivables	1,347	5,443
Stores inventories	-	110,984
Total Assets	<u>\$ 462,850</u>	<u>\$ 1,396,883</u>
LIABILITIES		
Accounts payable	\$ -	\$ 66,760
Due to student groups	-	1,330,123
Total Liabilities	<u>-</u>	<u>\$ 1,396,883</u>
NET ASSETS		
Held in reserve for scholarships	462,850	
Total Net Assets	<u>\$ 462,850</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 ASSETS

JUNE 30, 2010

	Private- Purpose Trust
ADDITIONS	
Interest	<u>\$ 6,790</u>
DEDUCTIONS	
Scholarships awarded	<u>10,000</u>
Change in Net Assets	(3,210)
Net Assets - Beginning	<u>466,060</u>
Net Assets - Ending	<u><u>\$ 462,850</u></u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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-four elementary schools, ten middle schools, a middle college, five comprehensive high schools, one alternative education school, two continuation high schools, three 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.

Other Related Entities

Charter School The District has approved Charters for PAL Academy, Public Safety Academy, ASA Charter, Casa Ramona Academy, Options for Youth - San Bernardino, New Vision Middle, and SOAR Academy Schools pursuant to *Education Code* Section 47605.

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 a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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), or the 2004 State School Facilities Fund (Proposition 55) 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 established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

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, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve Fund for Other Than Capital Outlay Projects is used to provide for the accumulation of General Fund monies for general operating purposes.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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.

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).

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects is used to account for funds set aside for Board designated construction projects.

Debt Service Funds The Debt Service funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

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).

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds 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 any activity for which services are 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 fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The government-wide financial 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 exclude 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.

Net assets should be reported as restricted when constraints placed on net asset use 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 assets restricted for other activities result from special revenue funds and the restrictions on their net asset 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 a 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 balance 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 reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Proprietary Funds Proprietary funds are accounted for using a 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 assets. The Statement of Changes in Fund Net Assets 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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 90 days. However to achieve comparability of reporting among California school district's 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 school district's 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.

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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investments

Investments held at June 30, 2010, 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.

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.

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 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 Assets. 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 Assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Compensated Absences

Compensated absences are accrued as a liability on the government-wide Statement of Net Assets. 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.

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.

Deferred 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 Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are available. The government-wide financial statements report \$222,282,390 of restricted net assets.

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 on 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 1 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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 283,484,283
Business-type activities	9,545,558
Fiduciary funds	1,741,959
Total Deposits and Investments	<u>\$ 294,771,800</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 1,343,947
Cash in revolving	519,470
Investments	292,908,383
Total Deposits and Investments	<u>\$ 294,771,800</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 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.

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	Amortized Cost	Fair Value	Average Maturity in Days
San Bernardino County Investment Pool	\$ 283,434,786	\$ 284,903,988	334
Wells Fargo Advantage Money Market Mutual Funds	4,540,572	4,540,572	26
Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account	4,933,025	4,933,025	1
Total	<u>\$ 292,908,383</u>	<u>\$ 294,377,585</u>	

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, 2010, the District's bank balance was all insured.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 18,612,747	\$ -	\$ 409,656	\$ -	\$ 19,022,403
State Government					
Apportionment	51,944,625	-	-	-	51,944,625
Categorical aid	6,668,142	-	1,211,499	-	7,879,641
Lottery	3,397,503	-	-	-	3,397,503
Special Education	5,393,683	-	-	-	5,393,683
ROP	1,097,664	-	-	-	1,097,664
Local Government					
Interest	132,808	487,326	115,232	88,097	823,463
Other Local Sources					
Other	2,961,162	-	110,386	8,118	3,079,666
Total	<u>\$ 90,208,334</u>	<u>\$ 487,326</u>	<u>\$ 1,846,773</u>	<u>\$ 96,215</u>	<u>\$ 92,638,648</u>
				Food Service Enterprise Fund	Fiduciary Funds
Federal Government					
Categorical aid				\$ 6,588,800	\$ -
State Government					
Categorical aid				395,806	-
Other Local Sources					
Other				186,840	6,790
Total				<u>\$ 7,171,446</u>	<u>\$ 6,790</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 32,056,994	\$ 94,839	\$ -	\$ 32,151,833
Construction in process	184,057,737	50,999,330	25,896,080	209,160,987
Total Capital Assets Not Being Depreciated	216,114,731	51,094,169	25,896,080	241,312,820
Capital Assets Being Depreciated				
Land improvements	42,453,641	28,795	-	42,482,436
Buildings and improvements	399,040,231	25,772,447	-	424,812,678
Furniture and equipment	23,688,432	582,337	175,653	24,095,116
Total Capital Assets Being Depreciated	465,182,304	26,383,579	175,653	491,390,230
Less Accumulated Depreciation				
Land improvements	29,355,438	1,115,237	-	30,470,675
Buildings and improvements	76,399,123	9,162,190	-	85,561,313
Furniture and equipment	16,332,272	1,953,339	166,733	18,118,878
Total Accumulated Depreciation	122,086,833	12,230,766	166,733	134,150,866
Governmental Activities Capital Assets, Net	<u>\$ 559,210,202</u>	<u>\$ 65,246,982</u>	<u>\$ 25,905,000</u>	<u>\$ 598,552,184</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,828,028	\$ -	\$ -	\$ 8,828,028
Furniture and equipment	4,273,748	349,014	22,777	4,599,985
Vehicles	727,191	125,541	46,323	806,409
Total Capital Assets Being Depreciated	13,828,967	474,555	69,100	14,234,422
Less Accumulated Depreciation				
Buildings and improvements	2,373,360	441,402	-	2,814,762
Furniture and equipment	3,779,348	63,744	22,777	3,820,315
Vehicles	676,965	147,807	46,323	778,449
Total Accumulated Depreciation	6,829,673	652,953	69,100	7,413,526
Business-Type Activities Capital Assets, Net	<u>\$ 6,999,294</u>	<u>\$ (178,398)</u>	<u>\$ -</u>	<u>\$ 6,820,896</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Governmental Activities

Instruction	\$ 11,007,689
All other pupil services	244,615
All other general administration	122,308
Plant services	856,154
Total Depreciation Expenses Governmental Activities	<u>12,230,766</u>

Business-Type Activities

Food services	652,953
Total Depreciation Expenses All Activities	<u><u>\$ 12,883,719</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From					Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise Fund	
General Fund	\$ -	\$ 75,016	\$ 290,817	\$ 184,705	\$ 1,609,983	\$ 2,160,521
County School Facilities Fund	7,280	-	231,080	-	-	238,360
Non-Major Governmental Funds	44,302	2,865,449	-	-	-	2,909,751
Internal Service Fund	406,560	187	7,113	-	-	413,860
Total	<u>\$ 458,142</u>	<u>\$ 2,940,652</u>	<u>\$ 529,010</u>	<u>\$ 184,705</u>	<u>\$ 1,609,983</u>	<u>\$ 5,722,492</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

A balance of \$319,312 due to the Internal Service Fund from the General Fund resulted from the District's contribution to the program for final payroll.

A balance of \$245,726 due to the General Fund from the Child Development Non-Major Governmental Fund was for indirect costs, benefits, and other operating costs.

The balance of \$1,609,983 due to the General Fund from the Food Service Enterprise Fund resulted from payroll, indirect costs, and other operating costs.

A balance of \$230,180 due to the County School Facilities Fund from the Building Non-Major Governmental Fund resulted from transfer of project costs.

A balance of \$1,089,607 due to the Capital Facilities Non-Major Governmental Fund from the County School Facilities Fund resulted from a reimbursement of costs due to State funding received.

A balance of \$1,668,393 due to the Building Non-Major Governmental Fund from the County School Facilities Fund resulted from a reimbursement of cost due to State funding received.

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.

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From		Total
	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ 2,453	\$ 10,283,939	\$ 10,286,392
County School Facilities Fund	-	21,743	21,743
Non-Major Governmental Funds	1,542,640	219	1,542,859
Total	\$ 1,545,093	\$ 10,305,901	\$ 11,850,994

The County School Facilities Fund transferred qualified expenditures to the General Fund.	\$ 2,453
The County School Facilities Fund transferred qualified expenditures to the Building Non-Major Governmental Fund.	1,491,614
The County School Facilities Fund transferred qualified expenditures to the Capital Facilities Non-Major Governmental Fund.	48,034
The County School Facilities Fund transferred qualified expenditures to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects.	2,992
The Deferred Maintenance Non-Major Governmental Fund transferred monies in accordance to the flexibility transfer provision allowed by SBX3 4 to the General Fund.	10,283,939
The Building Non-Major Governmental Fund transferred qualified expenditures to the County School Facilities Fund.	21,743
The Building Non-Major Governmental Fund transferred qualified expenditures to the Capital Facilities Non-Major Governmental Fund.	219
Total	<u>\$ 11,850,994</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Accrued salaries and benefits	\$27,114,942	\$ 596	\$ 486,039	\$ 2,182	\$ 27,603,759
State apportionment	675,355	-	-	-	675,355
State categorical aid	-	-	-	-	-
Books and supplies	1,904,092	-	7,957	552	1,912,601
Services and other operating	18,698,306	321,283	870,299	283,866	20,173,754
Construction	723,956	5,475,708	1,288,392	-	7,488,056
Other vendor payables	1,198,886	-	-	11,700	1,210,586
Total	<u>\$50,315,537</u>	<u>\$ 5,797,587</u>	<u>\$ 2,652,687</u>	<u>\$ 298,300</u>	<u>\$ 59,064,111</u>

	Food Service Enterprise Fund	Fiduciary Funds
Books and supplies	\$ 776,159	\$ -
Services and other operating	59,959	-
Other vendor payables	-	66,760
Total	<u>\$ 836,118</u>	<u>\$ 66,760</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 1,112,113	\$ 461,752	\$ 1,573,865
State categorical aid	3,770	-	3,770
Other local	56,269	-	56,269
Total	<u>\$ 1,172,152</u>	<u>\$ 461,752</u>	<u>\$ 1,633,904</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 165,619,235	\$ 1,816,046	\$ 3,745,000	\$ 163,690,281	\$ 3,964,275
Premium on issuance	8,676,559	-	436,403	8,240,156	-
Child care facilities revolving fund	971,750	-	393,250	578,500	393,250
Accumulated vacation - net	1,670,994	-	118,107	1,552,887	-
Claims liability	11,468,524	1,597,678	2,915,495	10,150,707	2,915,495
SELF assessment	3,750,614	-	267,357	3,483,257	198,747
Supplemental early retirement plan	4,506,090	13,805,200	901,218	17,410,072	3,662,258
Other postemployment benefits	3,672,752	3,606,265	1,563,432	5,715,585	-
	<u>\$ 200,336,518</u>	<u>\$ 20,825,189</u>	<u>\$ 10,340,262</u>	<u>\$ 210,821,445</u>	<u>\$ 11,134,025</u>

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

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Accreted	Redeemed	Bonds Outstanding June 30, 2010
9/1/99	8/1/14	4.20-5.60%	\$ 7,300,000	\$ 3,995,143	\$ 199,180	\$ 725,000	\$ 3,469,323
5/1/03	8/1/27	1.10-5.46%	15,000,000	10,535,432	574,129	-	11,109,561
9/16/04	8/1/29	1.25-5.46%	44,999,498	37,187,970	61,583	885,000	36,364,553
9/16/04	8/1/24	1.25-4.59%	37,055,000	34,285,000	-	1,140,000	33,145,000
5/18/06	8/1/30	4.50-5.15%	67,999,967	69,972,755	779,774	490,000	70,262,529
3/14/07	8/1/30	3.77-4.74%	9,997,217	9,642,935	201,380	505,000	9,339,315
				<u>\$ 165,619,235</u>	<u>\$ 1,816,046</u>	<u>\$ 3,745,000</u>	<u>\$ 163,690,281</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

1999 General Obligation Bonds, Series B

On September 1, 1999, the District issued the \$7,300,000 1999 General Obligation Bonds, Series B, for the acquisition and construction of certain real property and improvements of the District, and for the prepayment in whole of the 1998 Certificates of Participation. The Series B bonds were issued as capital appreciation bonds, with the value of the capital appreciation bonds accreting \$3,741,200, and an aggregate principal debt service balance of \$11,041,200. The bonds have a final maturity which occurs on August 1, 2014, and yield interest rates of 4.20 to 5.60 percent. At June 30, 2010, 1999 General Obligation Bonds, Series B, totaling \$3,469,323 (including accretion) were still outstanding.

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, with final prepayment to occur August 1, 2013 (\$7,030,000 of the refunded balance awaits prepayment). As a result of this prepayment, which meets the condition required of an advanced defeasance of debt, that portion of the 1999 General Obligation Bonds, Series C has been removed as a long-term obligation from the government-wide Statement of Net Assets.

At June 30, 2010, 1999 General Obligation Bonds, Series C totaling \$11,109,561 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$333,132.

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 to \$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).

At June 30, 2010, 2004 General Obligation Bonds, Series A, totaling \$36,364,553 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$1,479,191.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

2004 General Obligation Refunding Bonds

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. The bonds were issued at an aggregate price of \$38,620,716, (representing the principal amount of \$37,055,000 plus an original issue premium of \$2,072,429 less cost of issuance of \$506,713). The bonds have a final maturity which occurs August 1, 2024, and yield interest rates of 1.25 to 4.59 percent. The bonds were issued to refund the outstanding San Bernardino City Unified School District 1999 General Obligation Bonds, Series A (with final prepayment to occur August 1, 2009) and Series C (with final prepayment to occur August 1, 2013), and to pay certain costs associated with the Refunding Bonds.

At June 30, 2010, 2004 General Obligation Refunding Bonds totaling \$33,145,000 were still outstanding. Unamortized premium received on issuance amounted to \$1,450,702.

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).

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 will be used finance the construction, renovation and repair of certain school facilities. At June 30, 2010, the principal balance outstanding was \$70,262,529. Unamortized premium received on issuance amounted to \$4,707,549.

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 will be used finance the construction, renovation and repair of certain school facilities. At June 30, 2010, the principal balance outstanding was \$9,339,315. Unamortized premium received on issuance amounted to \$269,582.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2011	\$ 3,964,275	\$ 85,725	\$ 10,322,750	\$ 14,372,750
2012	4,159,800	185,200	10,531,675	14,876,675
2013	4,338,454	376,546	10,809,013	15,524,013
2014	4,706,952	553,048	11,265,447	16,525,447
2015	4,851,885	753,115	11,510,500	17,115,500
2016-2020	34,396,492	778,508	60,948,506	96,123,506
2021-2025	50,217,370	4,612,630	70,782,609	125,612,609
2026-2030	50,142,137	16,252,863	70,861,088	137,256,088
2031	6,912,916	18,237,084	25,150,000	50,300,000
Total	<u>\$ 163,690,281</u>	<u>\$ 41,834,719</u>	<u>\$ 282,181,588</u>	<u>\$ 487,706,588</u>

Child Care Facilities Revolving Fund

The District has entered into 29 lease-purchase agreements with the California Department of Education by participation in the Child Care Facilities Revolving Fund program. This program provides up to \$150,000 per site for the purchase of new relocatable child care facilities to be leased to the District. The repayments are to be amortized over a 10-year period with no interest fee. Upon full repayment, title to the relocatables shall transfer to the District. As of June 30, 2010, the outstanding balance was \$578,500.

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$1,552,887.

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, 2010, amounted to \$10,150,707.

Workers' Compensation 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, 2010 the District's outstanding obligation on their pro-rata share of equity assessed was \$3,483,257.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Supplementary Early Retirement Plan (SERP)

During 2009, 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 114 employees who retired during the 2008-2009 school year, were purchased from the United of Omaha Life Insurance Company.

During 2010, 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 241 employees who retired during the 2009-2010 school year, were purchased from United of Omaha Life Insurance Company.

As of June 30, 2010, the balance was \$17,410,072.

Year Ending June 30,	Annual Payment
2011	\$ 3,662,258
2012	3,662,258
2013	3,662,258
2014	3,662,258
2015	2,761,040
	<u>\$ 17,410,072</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2010, was \$3,550,054, and contributions made by the District during the year were \$1,563,432. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$284,639 and \$(228,428), respectively, which resulted in an increase to the net OPEB obligation of \$2,042,833. As of June 30, 2010, the net OPEB obligation was \$5,715,585. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 9 - FUND BALANCES

Fund balance with reservations/designations is composed of the following elements:

	General Fund
Reserved	
Revolving cash	\$ 211,000
Stores inventories	479,864
Prepaid expenditures	79,757
Restricted programs	27,121,614
Total Reserved	<u>27,892,235</u>
Unreserved	
Designated	
Economic uncertainties	9,952,127
Operating deficit	26,332,100
Salary reserve	1,596,949
CAHSEE intensive instruction	184,617
Targeted instructional improvement block grant	141,000
Total Unreserved	<u>38,206,793</u>
Total	<u>\$ 66,099,028</u>

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit 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 382 retirees and beneficiaries currently receiving benefits, 157 terminated Plan members entitled to but not yet receiving benefits, and 4,961 active Plan members.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 2009-10, the District contributed \$1,563,432 to the Plan, all of which was used for current premiums (approximately 77 percent of total premiums). Plan members receiving benefits contributed \$459,317, or approximately 23 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 thirty 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	\$ 3,550,054
Interest on net OPEB obligation	284,639
Adjustment to annual required contribution	(228,428)
Annual OPEB cost (expense)	<u>3,606,265</u>
Contributions made	<u>(1,563,432)</u>
Increase in net OPEB obligation	2,042,833
Net OPEB obligation, beginning of year	<u>3,672,752</u>
Net OPEB obligation, end of year	<u><u>\$ 5,715,585</u></u>

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
2008	\$ 3,038,309	\$ 1,375,726	45.28%	\$ 1,662,583
2009	3,063,754	1,053,585	34.39%	3,672,752
2010	3,606,265	1,563,432	43.35%	5,715,585

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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)
August 1, 2009	\$ 1,014,630	\$ 34,233,825	\$ 33,219,195	2.96%	\$ 333,483,774	9.96%

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 August 1, 2009, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 7.75 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, 2010, was 27 years. The actuarial value of assets was \$1,014,630.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 11 - 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, 2010, 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 2010, 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 Health Net to provide employee medical and surgical benefits, and Delta PMI and Safeguard 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, 2008 to June 30, 2010:

	Workers' Compensation
Liability Balance, July 1, 2008	\$ 11,222,744
Claims and changes in estimates	2,587,263
Claims payments	(2,341,483)
Liability Balance, June 30, 2009	11,468,524
Claims and changes in estimates	1,597,678
Claims payments	(2,915,495)
Liability Balance, June 30, 2010	\$ 10,150,707
Assets available to pay claims at June 30, 2010	\$ 31,353,198

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-10 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008 were \$20,142,562, \$20,903,267, and \$20,687,348, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$7,787,604, \$7,778,407, and \$7,557,951, respectively, and equal 100 percent of the required contributions for each year.

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 \$10,415,519 (4.267 percent of annual payroll). 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. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

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 \$47,861, which was one percent of its current-year covered payroll. Employee contributions amounted to \$311,096.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 13 - 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, 2010.

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, 2010.

Operating Leases

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. These leases have, therefore, not been accounted for as capital leases.

The following is a schedule, by years, for future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year as of June 30, 2010.

Year Ending June 30,	Lease Payment
2011	\$ 189,267
2012	107,037
2013	107,037
2014	107,037
	<u>\$ 510,378</u>

Total expenditures charged for leases during 2010 were \$227,114.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Modernization at various sites	\$ 112,160,092	06/30/11
New school construction - various sites	243,350,053	08/01/12
Special day class additions - various sites	53,744,089	06/30/12
	<u>\$ 409,254,234</u>	

NOTE 14 - 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, 2010, the District made payments of \$1,794,516, \$5,420,134, and \$711,798 to SCSRM, SCSEBA and SELF, respectively, for the coverage noted above.

NOTE 15 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), approximately 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 263,033,800	\$ 248,058,726	\$ 247,236,493	\$ (822,233)
Federal sources	63,073,230	86,713,197	77,137,369	(9,575,828)
Other State sources	131,721,964	139,437,038	148,645,621	9,208,583
Other local sources	8,465,752	11,106,183	9,955,832	(1,150,351)
Total Revenues ¹	466,294,746	485,315,144	482,975,315	(2,339,829)
EXPENDITURES				
Current				
Certificated salaries	243,543,038	252,808,977	247,128,863	5,680,114
Classified salaries	71,945,805	75,373,727	71,529,823	3,843,904
Employee benefits	92,021,881	92,736,757	96,664,886	(3,928,129)
Books and supplies	32,941,446	32,820,056	20,452,873	12,367,183
Services and operating expenditures	68,237,376	78,164,814	69,621,636	8,543,178
Capital outlay	3,316,045	11,115,409	3,746,164	7,369,245
Other outgo	(853,311)	(1,063,661)	(1,122,403)	58,742
Total Expenditures ¹	511,152,280	541,956,079	508,021,842	33,934,237
Excess (Deficiency) of Revenues Over Expenditures	(44,857,534)	(56,640,935)	(25,046,527)	31,594,408
OTHER FINANCING USES				
Transfers in	-	13,021,004	10,286,392	(2,734,612)
NET CHANGE IN FUND BALANCES	(44,857,534)	(43,619,931)	(14,760,135)	28,859,796
Fund Balance - Beginning	80,859,163	80,859,163	80,859,163	-
Fund Balance - Ending	\$ 36,001,629	\$ 37,239,232	\$ 66,099,028	\$ 28,859,796

¹ On behalf payments of \$10,415,519 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2010

Schedule of Funding Progress						
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)
April 30, 2008	\$ -	\$ 24,424,565	\$ 24,424,565	0.00%	\$ 335,800,369	7.27%
August 1, 2009	1,014,630	34,233,825	33,219,195	2.96%	333,483,774	9.96%

SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060A	[1]	\$ 118,582
Funds for the Improvement of Education			
Funds for the Improvement of Education - Every Student Connected	84.215L	[1]	331,771
Funds for the Improvement of Education - Programs of National Significance	84.215K	[1]	280,331
Subtotal Funds for the Improvement of Education			<u>612,102</u>
Passed through California Department of Education (CDE)			
Adult Basic Education			
Adult Education - Basic Grants to States			
Adult Basic Education and ESL	84.002A	14508	352,607
Adult Secondary Education	84.002	13978	78,640
Adult English Literacy and Civics Education	84.002A	14109	113,616
Subtotal Adult Education - Basic Grants to States			<u>544,863</u>
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster			
Title I, Part A - Low Income and Neglected	84.010	14329	27,440,133
ARRA Title I, Part - Low Income and Neglected	84.389	15005	9,361,959
Title I, Part A - Program Improvement LEA Corrective Action	84.010	14956	1,944,727
Subtotal Title I, Part A Cluster			<u>38,746,819</u>
Title I, School Improvement Grant for QEIA Schools	84.377	15124	6,922,425
Title I, Part B - Reading First	84.357	14328	301,824
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.333	14831	65,367
Improving Teacher Quality State Grants			
Title II, Part A - Improving Teacher Quality	84.367	14341	4,945,102
Title II, Part A - Administrator Training Program	84.367	14344	277,656
Subtotal Improving Teacher Quality State Grants			<u>5,222,758</u>
Title III - Limited English Proficient Student Program	84.365	10084	1,368,068

[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, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION, Continued			
Title IV, Part A - Drug-Free Schools	84.186	14347	\$ 367,277
Twenty-First Century Community Learning Centers			
Title IV, Part B - 21st Century Community Learning Centers:			
High School ASSET Program	84.287	14535	1,478,697
Title IV, Part B - 21st Century Community Learning Centers:			
CORE	84.287	14349	2,037,677
Title IV, Part B - 21st Century Community Learning Centers:			
Family Literacy	84.287	14788	54,867
Subtotal Twenty-First Century Community			
Learning Centers			3,571,241
Title V, Part A - Innovative Education Strategies	84.298A	14354	3,597
Education of Homeless Children and Youth Cluster			
Title X - McKinney-Vento Homeless Assistance Grants	84.196	14332	113,511
ARRA Title X - McKinney-Vento Homeless Assistance Grants	84.387	15007	20,249
Subtotal Education of Homeless Children and			
Youth Cluster			133,760
ARRA State Fiscal Stabilization Fund	84.394	25008	16,609,481
Individuals with Disabilities Education Act			
Special Education Cluster (IDEA)			
Part B, Sec 611, Basic Local Assistance	84.027	13379	9,842,802
ARRA Part B, Sec 611, Basic Local Assistance	84.391	15003	3,968,258
Part B, Sec 619, Preschool Grants	84.173	13430	165,987
ARRA Part B, Sec 619, Preschool Grants	84.392	15000	139,565
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	268,106
ARRA Part B, Sec 611, Preschool Local Entitlement	84.391	15002	126,689
Part B, Sec 619, Preschool Staff Development	84.173A	13431	1,000
Subtotal Special Education Cluster (IDEA)			14,512,407
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	545,868
Postsecondary and Adult	84.048	14893	1,877
Subtotal Career and Technical Education - Basic			
Grants to States			547,745
Passed through California Department of Rehabilitation			
Vocational Rehabilitation Cluster			
Workability II, Transition Partnership	84.126A	10006	283,559
ARRA Workability II, Transition Partnership	84.390	10130	21,380
Subtotal Vocational Rehabilitation Cluster			304,939
U.S. Department of Education Total			90,012,952

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, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Education to Prevent AIDS	93.938	[1]	\$ 29,819
Passed through California Department of Health Services			
Medical Assistance Program			
Medical Billing Options	93.778	10013	311,169
Medical Administrative Activities	93.778	10060	451,339
Subtotal Medical Assistance Program			<u>762,508</u>
Passed through CDE			
Quality Improvement Activities	93.575	14130	<u>46,955</u>
U.S. Department of Health and Human Services			
Total			<u>839,282</u>
U.S. DEPARTMENT OF JUSTICE			
Operation Close the Achievement Gap	16.548	[1]	<u>89,867</u>
U.S. Department of Justice Total			<u>89,867</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	17,154,350
Basic School Breakfast Program	10.553	13390	122,766
Especially Needy Breakfast Program	10.553	13526	4,271,485
Meal Supplements	10.556	13392	704,674
Seamless Summer Food Program	10.559	13004	123,511
Commodities	10.555	13396	<u>1,357,069</u>
Subtotal Child Nutrition Cluster			<u>23,733,855</u>
ARRA Equipment Assistance Grant	10.579	15006	354,394
Fresh Fruit and Vegetables Program	10.582	14968	<u>152,631</u>
U.S. Department of Agriculture Total			<u>24,240,880</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	<u>161,091</u>
U.S. Department of Defense Total			<u>161,091</u>
Total Expenditure of Federal Awards			<u><u>\$115,344,072</u></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, 2010

ORGANIZATION

The San Bernardino City Unified School District was established July 1, 1964. The District operates forty-four elementary schools, ten middle schools, a middle college, five comprehensive high schools, one alternative education school, two continuation high schools, three 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>
Danny Tillman	President	2013
Dr. Barbara Flores	Vice President	2013
Louise A. Ayala	Member	2011
Dr. Elsa O. Valdez	Member	2011
Judi Penman	Member	2013
Lynda K. Savage	Member	2011
Teresa Parra Craig	Member	2011

ADMINISTRATION

Dr. Arturo Delgado	Superintendent
Dr. Judy D. White	Deputy Superintendent
Mohammad Z. Islam	Chief Business and Financial Officer
Dr. Harold Vollkommer	Assistant Superintendent, Human Resources-Certificated
Dr. Dayton Gilleland	Assistant Superintendent, Student Services
Mel Albiso	Associate Superintendent, Administrative Services
John Peukert	Assistant Superintendent, Facilities/Operations
Dr. Paul Shirk	Assistant Superintendent, Research and Technology
Yolanda Ortega	Assistant Superintendent, Employee Relations/Human Resources Classified

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2010

		Final Report	
		Second Period Report	Annual Report
ELEMENTARY			
Kindergarten		3,796	3,829
First through third		11,721	11,728
Fourth through sixth		11,311	11,281
Seventh and eighth		6,984	6,939
Opportunity schools		88	97
Home and hospital		10	11
Community day school		27	29
Special education		887	896
Total Elementary		34,824	34,810
SECONDARY			
Regular classes		11,676	11,468
Continuation education		953	915
Opportunity schools		240	229
Home and hospital		17	20
Special education		715	709
Total Secondary		13,601	13,341
Total K-12		48,425	48,151

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-10	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	31,680	30,800	36,000	35,000	36,000	180	180	Complied
Grades 1 - 3								
Grade 1	46,320	45,033	50,400	49,000	54,050	180	180	Complied
Grade 2	46,320	45,033	50,400	49,000	54,050	180	180	Complied
Grade 3	46,320	45,033	50,400	49,000	54,050	180	180	Complied
Grades 4 - 6								
Grade 4	46,320	45,033	54,000	52,500	54,050	180	180	Complied
Grade 5	46,320	45,033	54,000	52,500	54,050	180	180	Complied
Grade 6	46,320	45,033	54,000	52,500	60,840	180	180	Complied
Grades 7 - 8								
Grade 7	60,720	59,033	54,000	52,500	60,840	180	180	Complied
Grade 8	60,720	59,033	54,000	52,500	60,840	180	180	Complied
Grades 9 - 12								
Grade 9	57,510	55,913	64,800	63,000	64,896	180	-	Complied
Grade 10	57,510	55,913	64,800	63,000	64,896	180	-	Complied
Grade 11	57,510	55,913	64,800	63,000	64,896	180	-	Complied
Grade 12	57,510	55,913	64,800	63,000	64,896	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, 2010

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

	General Fund
	<hr/>
FUND BALANCE	
Balance, June 30, 2010, Unaudited Actuals	\$ 67,129,489
Increase in:	
Accounts receivable	337,879
Accounts payable	(68,340)
Decrease in:	
Due from other funds	(1,300,000)
Balance, June 30, 2010, Audited Financial Statement	<hr/> <hr/> \$ 66,099,028

	Food Service Enterprise Fund
	<hr/>
FUND BALANCE	\$ 22,057,733
Balance, June 30, 2010, Unaudited Actuals	
Decrease in:	
Accumulated depreciation	307,647
Balance, June 30, 2010, Audited Financial Statement	<hr/> <hr/> \$ 22,365,380

	Internal Service Fund
	<hr/>
FUND BALANCE	\$ 15,936,229
Balance, June 30, 2010, Unaudited Actuals	
Decrease in:	
Due to other funds	1,300,000
Balance, June 30, 2010, Audited Financial Statement	<hr/> <hr/> \$ 17,236,229

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) ¹			
	2011	2010	2009	2008
GENERAL FUND				
Revenues and other sources	\$ 434,518,631	\$ 493,261,707	\$ 533,252,395	\$ 527,941,143
Total Revenues and Other Sources	434,518,631	493,261,707	533,252,395	527,941,143
Expenditures	(481,197,022)	(508,021,842)	(525,737,623)	(531,068,645)
Other uses and transfers out	-	-	(371,809)	(2,952,018)
Total Expenditures and Other Uses	(481,197,022)	(508,021,842)	(526,109,432)	(534,020,663)
INCREASE (DECREASE) IN FUND BALANCE	\$ (46,678,391)	\$ (14,760,135)	\$ 7,142,963	\$ (6,079,520)
ENDING FUND BALANCE	\$ 19,420,637	\$ 66,099,028	\$ 80,859,163	\$ 73,716,200
AVAILABLE RESERVES ²	\$ 9,700,000	\$ 9,953,987	\$ 10,285,724	\$ 18,569,004
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.0%	2.0%	2.0%	3.6%
LONG-TERM OBLIGATIONS	N/A	\$ 210,821,445	\$ 200,336,518	\$ 196,099,690
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	47,983	48,425	49,333	50,881

The General Fund balance has decreased by \$7,617,172 over the past two years. The fiscal year 2010-11 budget projects a further decrease of \$46,678,391 (70.6 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 2010-11 fiscal year. Total long-term obligations have increased by \$14,721,755 over the past two years.

Average daily attendance has decreased by 2,456 over the past two years. An additional decline of 442 ADA is anticipated during fiscal year 2010-11.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ On-behalf payments of \$10,415,519, \$11,451,446, and \$11,325,360, have been excluded from the calculation of available reserves for fiscal years ending June 30, 2010, 2009, and 2008, respectively.

⁴ Excludes Adult Education ADA.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2010

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
PAL Academy	No
ASA Charter	No
Public Safety Academy	No
Casa Ramona Academy	No
SOAR Academy	No
Options for Youth	No
New Vision Middle	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2010

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Special Reserve Fund for Other than Capital Outlay Projects
ASSETS				
Deposits and investments	\$ 387,370	\$ 3,212,709	\$ 2,738	\$ 1,855
Receivables	399,776	1,312,894	-	5
Due from other funds	4,149	40,153	-	-
Total Assets	<u>\$ 791,295</u>	<u>\$ 4,565,756</u>	<u>\$ 2,738</u>	<u>\$ 1,860</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 53,234	\$ 774,337	\$ -	\$ -
Due to other funds	32,440	252,024	2,738	-
Deferred revenue	-	461,752	-	-
Total Liabilities	<u>85,674</u>	<u>1,488,113</u>	<u>2,738</u>	<u>-</u>
FUND BALANCES				
Unreserved:				
Undesignated, reported in:				
Special revenue funds	705,621	3,077,643	-	1,860
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total Fund Balances	<u>705,621</u>	<u>3,077,643</u>	<u>-</u>	<u>1,860</u>
Total Liabilities and Fund Balances	<u>\$ 791,295</u>	<u>\$ 4,565,756</u>	<u>\$ 2,738</u>	<u>\$ 1,860</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 21,665,591	\$ 11,513,718	\$ 1,175,401	\$ 11,529,479	\$ 55,332	\$ 49,544,193
72,045	40,400	21,491	-	162	1,846,773
1,724,011	1,141,438	-	-	-	2,909,751
<u>\$ 23,461,647</u>	<u>\$ 12,695,556</u>	<u>\$ 1,196,892</u>	<u>\$ 11,529,479</u>	<u>\$ 55,494</u>	<u>\$ 54,300,717</u>
\$ 1,313,262	\$ 511,854	\$ -	\$ -	\$ -	\$ 2,652,687
240,126	1,682	-	-	-	529,010
-	-	-	-	-	461,752
<u>1,553,388</u>	<u>513,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,643,449</u>
-	-	-	-	-	3,785,124
-	-	-	11,529,479	55,494	11,584,973
21,908,259	12,182,020	1,196,892	-	-	35,287,171
<u>21,908,259</u>	<u>12,182,020</u>	<u>1,196,892</u>	<u>11,529,479</u>	<u>55,494</u>	<u>50,657,268</u>
<u>\$ 23,461,647</u>	<u>\$ 12,695,556</u>	<u>\$ 1,196,892</u>	<u>\$ 11,529,479</u>	<u>\$ 55,494</u>	<u>\$ 54,300,717</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Special Reserve Fund for Other than Capital Outlay Projects
REVENUES				
Federal sources	\$ 546,740	\$ 46,955	\$ -	\$ -
Other State sources	-	10,462,248	-	-
Other local sources	347,681	231,001	-	1,860
Total Revenues	<u>894,421</u>	<u>10,740,204</u>	<u>-</u>	<u>1,860</u>
EXPENDITURES				
Current				
Instruction	807,346	-	-	-
Instruction-related activities:				
Supervision of instruction	-	166,380	-	-
School site administration	47,514	288,504	-	-
Pupil services:				
All other pupil services	26,550	29,925	-	-
General administration:				
All other general administration	13,011	298,787	-	-
Plant services	-	234,224	-	-
Facility acquisition and construction	-	7,060	-	-
Community services	-	7,530,777	-	-
Debt service				
Principal	-	393,250	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>894,421</u>	<u>8,948,907</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues				
Over Expenditures	-	1,791,297	-	1,860
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	(10,283,939)	-
Net Financing Sources (Uses)	-	-	(10,283,939)	-
NET CHANGE IN FUND BALANCES	-	1,791,297	(10,283,939)	1,860
Fund Balance - Beginning	705,621	1,286,346	10,283,939	-
Fund Balance - Ending	<u>\$ 705,621</u>	<u>\$ 3,077,643</u>	<u>\$ -</u>	<u>\$ 1,860</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 593,695
-	-	-	-	-	10,462,248
368,176	1,354,211	171,221	9,339,334	802	11,814,286
368,176	1,354,211	171,221	9,339,334	802	22,870,229
-	-	-	-	-	807,346
-	-	-	-	-	166,380
-	-	-	-	-	336,018
-	-	-	-	-	56,475
-	-	-	-	-	311,798
-	-	-	-	-	234,224
6,566,692	2,494,370	7,227	-	-	9,075,349
-	-	-	-	-	7,530,777
-	-	-	3,745,000	-	4,138,250
-	-	-	6,347,313	-	6,347,313
6,566,692	2,494,370	7,227	10,092,313	-	29,003,930
(6,198,516)	(1,140,159)	163,994	(752,979)	802	(6,133,701)
1,491,614	48,253	2,992	-	-	1,542,859
(21,962)	-	-	-	-	(10,305,901)
1,469,652	48,253	2,992	-	-	(8,763,042)
(4,728,864)	(1,091,906)	166,986	(752,979)	802	(14,896,743)
26,637,123	13,273,926	1,029,906	12,282,458	54,692	65,554,011
\$ 21,908,259	\$ 12,182,020	\$ 1,196,892	\$ 11,529,479	\$ 55,494	\$ 50,657,268

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, 2010

(Amounts in thousands)

	Actual Results for the Years					
	2009-2010		2008-2009		2007-2008	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 77,137	16.0	\$ 81,201	15.6	\$ 53,708	10.2
State and local revenue included in revenue limit	247,236	51.2	290,547	55.8	302,422	57.3
Other State revenue	148,646	30.7	134,677	25.9	160,960	30.5
Other local revenue	9,956	2.1	14,281	2.7	10,851	2.0
Total Revenues	482,975	100.0	520,706	100.0	527,941	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	247,128	51.2	251,856	48.4	249,654	47.3
Classified salaries	71,530	14.8	73,387	14.1	73,053	13.8
Employee benefits	96,665	20.0	98,242	18.9	96,437	18.3
Total Salaries and Benefits	415,323	86.0	423,485	81.4	419,144	79.4
Books and supplies	20,453	4.2	28,469	5.5	46,856	8.9
Contracts and operating expenses	69,621	14.4	69,960	13.4	61,908	11.7
Capital outlay	3,746	0.8	5,652	1.1	4,630	0.9
Other outgo	(1,122)	(0.2)	(1,828)	(0.4)	(1,469)	(0.3)
Total Expenditures	508,021	105.2	525,738	101.0	531,069	100.6
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(25,046)	(5.2)	(5,032)	(1.0)	(3,128)	(0.6)
OTHER FINANCING USES						
Operating transfers in	10,286	2.1	12,547	2.4	-	-
Operating transfers out	-	0.0	(372)	(0.1)	(2,952)	(0.6)
Total Other Financing Uses	10,286	2.1	12,175	2.3	(2,952)	(0.6)
INCREASE (DECREASE) IN FUND BALANCE	(14,760)	(3.1)	7,143	1.3	(6,080)	(1.2)
FUND BALANCE, BEGINNING	80,859		73,716		79,796	
FUND BALANCE, ENDING	\$ 66,099		\$ 80,859		\$ 73,716	
ENDING FUND BALANCE TO TOTAL REVENUES		13.7		15.5		14.0

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, 2010

(Dollar amounts in thousands)

	Actual Results for the Years					
	2009-2010		2008-2009		2007-2008	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 24,259	84.6	\$ 20,807	77.9	\$ 21,156	81.0
State meal program	1,842	6.4	1,668	6.2	1,757	6.7
Food sales	2,607	9.0	2,940	11.0	2,922	11.1
Other	(18)	(0.0)	1,297	4.9	293	1.2
Total Revenues	<u>28,690</u>	<u>100.0</u>	<u>26,712</u>	<u>100.0</u>	<u>26,128</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	11,094	38.7	11,361	42.5	11,179	41.9
Food	12,590	43.9	11,291	42.3	14,109	52.8
Supplies	394	1.4	261	1.0	456	1.7
Other	1,660	5.8	2,827	10.6	2,105	7.9
Total Expenditures	<u>25,738</u>	<u>89.8</u>	<u>25,740</u>	<u>96.4</u>	<u>27,849</u>	<u>104.3</u>
INCREASE (DECREASE) IN FUND BALANCE	2,952	<u>10.2</u>	972	<u>3.6</u>	(1,721)	<u>(4.3)</u>
FUND BALANCE, BEGINNING	<u>19,413</u>		<u>18,441</u>		<u>20,162</u>	
FUND BALANCE, ENDING	<u>\$ 22,365</u>		<u>\$ 19,413</u>		<u>\$ 18,441</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>78.0</u>		<u>72.7</u>		<u>70.6</u>

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2009-2010		2008-2009		2007-2008	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	428,719	6.2	531,660	7.8	611,456	9.2
Reduced price	849,812	12.4	1,066,728	15.7	1,164,477	17.4
Free	5,586,917	81.4	5,208,920	76.5	4,902,866	73.4
Total Lunches	<u>6,865,448</u>	<u>100.0</u>	<u>6,807,308</u>	<u>100.0</u>	<u>6,678,799</u>	<u>100.0</u>
BREAKFAST						
Paid	105,397	4.0	118,142	4.9	118,221	4.9
Reduced price	311,850	11.6	373,763	16.4	396,510	16.4
Free	2,265,345	84.4	2,040,951	78.7	1,895,784	78.7
Total Breakfast	<u>2,682,592</u>	<u>100.0</u>	<u>2,532,856</u>	<u>100.0</u>	<u>2,410,515</u>	<u>100.0</u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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 the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent the following:

1. Medi-Cal Billing Option: Federal fund that has been recorded as revenues in the previous fiscal year and recorded as legally restricted ending balance that was expended during 2009-2010.
2. ARRA State Fiscal Stabilization Fund: Federal fund that has been recorded as revenues in the previous fiscal year and recorded as legally restricted ending balance that was expended during 2009-2010.

Description	Federal CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Revenues, Expenses and Changes in Net Assets:		\$ 101,971,944
Medi-Cal Billing Option	93.778	9,228
ARRA: State Fiscal Stabilization Funds	84.394	13,362,900
Total Schedule of Expenditures of Federal Awards		<u>\$ 115,344,072</u>

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, 2010

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by *Education Code* Section 46201. Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

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 Balance

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

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 AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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 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 as of and for the year ended June 30, 2010, which collectively comprise San Bernardino City Unified School District's basic financial statements and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (item 2010-1). *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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino City Unified School District's financial statements are free of 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, 2010.

San Bernardino City Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit San Bernardino City Unified School District's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VADINER, TRIN, DY + CO LLP

Rancho Cucamonga, California
December 15, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of San Bernardino City Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Bernardino City Unified School District's management. Our responsibility is to express an opinion on San Bernardino City Unified School District's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

The management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered San Bernardino City Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 the 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vajiravex, Travis, DM + Co. LLP

Rancho Cucamonga, California
December 15, 2010



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited 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 as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of San Bernardino City Unified School District's management. 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:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes

	Procedures in Audit Guide	Procedures Performed
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the San Bernardino City Unified School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs (item 2010-2). Further, based on our audit, for items not tested, nothing came to our attention to indicate that the San Bernardino City Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on San Bernardino City Unified School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VAJIRING, TRWS, Day + Co, LLP

Rancho Cucamonga, California
December 15, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I, Part A Cluster (including ARRA)</u>
<u>84.027, 84.391 (ARRA), 84.173, 84.392 (ARRA), 84.027A, 84.173A</u>	<u>Special Education Cluster (IDEA) (including ARRA)</u>
<u>84.394(ARRA)</u>	<u>ARRA State Fiscal Stabilization Fund</u>
<u>84.287</u>	<u>Twenty-First Century Community Learning Centers</u>
<u>10.579 (ARRA)</u>	<u>ARRA Equipment Assistance Grant</u>
<u>84.377</u>	<u>Title I, School Improvement Grants for QEIA Schools</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 3,460,322</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent significant deficiencies or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2010-1 30000

Allred Child Development Center - Cash Receipting

Criteria

The District is required to implement a properly designed internal control structure related to cash receipting processes. The District's internal control structure should be designed to ensure that cash deposits are complete and timely. The District's child development program should be able to readily determine outstanding balances associated with each of the program participants.

Condition

During our audit of the Allred Child Development Center, we identified the following control deficiencies:

1. The site was unable to provide a complete set of receipt books to account for current year cash/checks received on behalf of all child development sites operating throughout the District.
2. The site does not appear to be properly following up on outstanding balances in a timely manner.

Cause

Multiple factors contribute to the conditions identified above. First, there is inadequate segregation of duties with respect to issuing receipts and recording payments in the respective families' accounts. Second, the District has not implemented a computerized method of tracking the outstanding balances for each of the program participants. The District's reliance on manual methods of tracking cash receipts and outstanding balances appears to be inefficient and ineffective. Lastly, there appears to be inconsistent monitoring of outstanding balances and the associated cash deposits.

Effect

The District's child development program maintains waiting lists for potential program participants. In many cases, the collection of assigned fees is one of the criteria for eligibility to participate in the District's child development programs. Therefore, timely monitoring of outstanding balances is essential to ensure proper eligibility determinations. In addition, the completeness of cash deposits is directly affected by the design and implementation of internal controls.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Recommendation

The District should consider establishing a computerized method of tracking cash/ checks received on behalf of programs operating throughout the District. The system should allow the user to easily identify the outstanding balances by site and family. The employee responsible for maintaining the information in the system should not be authorized to collect cash/ checks and issue receipts. Finally, the District should ensure that all relevant documents and information are readily available for audit purposes.

District Response

District concurs with the audit finding.

- The Child Development Department has implemented the use of a single cash receipt book accessible only by approved employees.
- The center's employees responsible for issuing cash receipts have been in-serviced on the department's receipting procedures.
- Implemented procedure in which a parent with an outstanding balance will be sent a letter notifying them of the department's family fee payment procedures.
- Child Development Coordinator and School-Linked Services Director have met with the District's Information Technology Department regarding the use of a California Department of Education approved program for tracking parent fee payments. Until the program is implemented, an Excel spreadsheet has been developed to record parent payments and receipt numbers.
- Coordinator has segregated staff duties to ensure employees receipting payments are not recording them or preparing the bank deposit.
- Coordinator and site secretary review cash receipts on a daily basis.
- Site will retain and ensure all documents and information is available for audit purposes.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent instances of noncompliance and/or questioned costs 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

2010-2 40000

After School Education and Safety Program - Attendance Reporting

Criteria or Specific Requirements

- Per California *Education Code* Section 8483.1 and as directed by the State Controllers audit guide, an elementary, middle or junior high school student who attends less than one-half of the daily before school program shall not be counted for the purposes of attendance.
- Per California *Education Code* Section 8483(a)(2) and as directed by the State Controllers audit guide, pupils in middle school or junior high school must participate a minimum of nine hours a week and three days a week to accomplish program goals.

Condition

- The District does not currently have a procedure in place to identify students that are present for less than half of the daily before school program. Per review of the sign-in sheets for a four week period selected for testing, we noted three instances from a population of 1,101 students served where it appeared students are participating in less than half of the program and receiving full attendance credit as sufficient documentation to demonstrate that participation was taking place at sample sites selected was not in evidence.
- The administration of the District's After School Education and Safety program is administered by both the District and an external agency, identified as Think Together. Administrators of the program currently utilize appropriate sign-in sheets to document students participating in the programs. Per review of the sign-in sheet for a four week period selected for testing, we noted 32 instances from a population of 2,832 where neither the students nor the parents were participating in the sign-in/sign-out process, where sign-in/sign-out times were not provided, or where sign-out signatures were omitted. It appears the District does not have an established procedure in place to track whether students participating in the program are meeting the minimum required hours set forth by the State.

Questioned Costs

There were no questioned costs associated with the conditions identified.

Context

The conditions were identified during the course of reviewing sample source documents used by the sites to record student attendance. Review was conducted in an effort to verify the accuracy and consistency of semi-annual reports being remitted to the California Department of Education.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

Effect

The District appears to be unable to demonstrate its compliance with California *Education Code* Section 8483.1 and 8483(a)(2), with respect to the attendance reporting requirements of both the before and after school components of the program. Per *Education Code* Section 8483.7, California Department of Education (CDE) may terminate a grant that does not comply with fiscal reporting, attendance reporting or outcomes reporting requirements. CDE may also withhold the grant allocation for a program if the prior year reporting is outstanding.

Cause

- The program administrators did not appear to be aware of the before school requirement of omitting students participating in less than half the program from the attendance reports. Therefore, appropriate procedures were not established to mitigate the potential overstatement of program attendance.
- The program administrators were aware of the program's minimum required hours set forth by the State. However, the administrators have not implemented appropriate procedures to ensure that participating students are meeting the minimum hours.

Recommendation

- The District should establish appropriate review procedures to prevent students participating in less than half of the before school program from receiving attendance credit.
- The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues. It appears that attendance sign-in sheets currently being used by administration incorporates all elements essential for reporting and to demonstrate the District's compliance with California *Education Code* Section 8483(a)(2) and the State Controller's audit guide. The District should encourage program administrators to fully utilize its attendance sign-in sheets.

District Response

District concurs with the audit finding. It has established a procedure to track students in this program and to comply with the State's Minimum Hours which is as follows:

- Before School Program (Sunrise) staff has been directed to remove Attendance sign-in/sign-out sheet from the program area daily at 7:45 a.m. and not allow students to sign-in after that time.
- After School Program staff will be in service on the Attendance Sheet's sign-in/sign-out process. Namely, enforcing students and parents participating in the program to sign-in/sign-out and noting the time of their attendance.
- The District has officially terminated its contract with the external agency effective November 12, 2010 to restore requirement under California *Education Code* Section 8483(a) (2).

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2009-1 30000

INDIRECT COST ACCOUNTING

Criteria or Specific Requirement

Per California *Education Code* Section 52616.4(a)(3), the District is limited to the amount of indirect cost derived using lesser of the District's indirect cost rate (approved by the California Department of Education) or the statewide average indirect cost rate for the program.

Condition

The District has not applied the correct indirect cost rate to the cost pool subject to indirect cost calculation.

Questioned Cost

As a result of the condition identified, a total of \$45,657.46 in questioned costs was identified.

Context

The condition identified was determined based on the independent calculation of amounts charged to the Adult Education program as indirect costs. Specifically, it appears that the District used a rate that closely mirrors the prior year's (2007-2008) State-wide average of 4.53 percent instead of the District's 2008-2009 fiscal year's approved indirect cost rate of 3.99 percent.

Effect

The District has overcharged the Adult Education program with indirect cost by the amount of the questioned cost identified. The District must make the program whole by reimbursing the program.

Cause

The District used the incorrect indirect cost rate.

Recommendation

In accordance with California *Education Code* Section 52616.4(a)(3), the District should compare its approved indirect cost rate with the State-wide average rate to determine the lesser rate to be used in calculating the amount of indirect cost charged to the Adult Education program. Additionally, the District should ensure that independent reviews of indirect cost calculations are performed to prevent the District from overcharging categorical programs.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Current Status

Implemented.



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, 2010, 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, 2010, on the financial statements of San Bernardino City Unified School District.

ASSOCIATED STUDENT BODY (ASB)

USE OF RECEIPTS

Rio Vista Elementary School

Observation

Receipts or other supporting documentations are not generated for all monies collected and deposited into the ASB account. The auditor noted deposits to the bank account for which receipts were not available. As a result, the auditor was unable to determine whether cash collections taking place were intact and timely.

Recommendation

As part of cash control procedures, receipts or other supporting documentation should be used to document all transactions that involve the exchange of cash custody. Prior to deposits being made, there should be a reconciliation procedure where an independent party, other than the person receipting, is comparing the receipts generated with the actual cash collected to ensure that cash documented as being receipted agrees with the cash collected.

Arrowview Middle School

Observation

Revenues and expenses related to gram sales are not properly tracked. In several cases, teachers purchase candy for the gram sales as a donation. Receipts showing the quantity of candy purchased by teachers are not forwarded to the ASB bookkeeper. Accordingly, there is no reconciliation between cash forwarded for deposit and actual gram sales.

Recommendation

All receipts for candy purchased by teachers should be forwarded to the ASB bookkeeper along with any candy not sold during the gram sales. The ASB bookkeeper should reconcile the amount of grams sold to the actual cash submitted for deposit.

Hunt Elementary School

Observation

In reviewing cash receipts for the year, one receipt was identified as being out of sequence with the two previous receipts.

Recommendation

The ASB should ensure that all receipts are properly documented. This includes verifying the accuracy of all dates indicated on receipts. Moreover, all receipts should be issued in sequential order to provide proper history of the transactions.

PRE-APPROVAL FUNDRAISER

Hunt Elementary School

Observation

The Fundraiser Request Form for the cake sale fundraiser lacked written approval by the principal prior to the fundraiser taking place.

Recommendation

The ASB should ensure that all fundraisers are properly pre-approved by the principal prior to any purchases or sales taking place.

Arrowview Middle School

Observation

The Cadet Corps held a cookie dough fundraiser which was not approved by site and District-level administrators until after all sales had already taken place. In addition, the club did not receive approval within the ASB meeting minutes beforehand.

Recommendation

The site should ensure that each ASB fundraiser is approved by site and District-level administrators prior to any purchases or sales related to the specific fundraiser taking place. Fundraisers should be pre-approved within the ASB meeting minutes.

PRE-APPROVAL OF DISBURSEMENT

Rio Vista Elementary School

Observation

One out of ten expenditures reviewed did not receive prior approval. This could potentially lead to spending in excess of available funds. Additionally, expenditures of questionable nature could arise if disbursements are not pre-approved.

Recommendation

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.

North Park Elementary School

Observation

One of the 15 transactions tested lacked the pre-approval of the site administrator.

Recommendation

All expenditures, prior to the items being purchased, should be approved by the site administrator to ensure that the proper funding is available. This will ensure that sufficient funding is available and that items being purchased are student approved items.

IMPROPER ACCOUNTING OF ASB TRANSACTIONS

Hunt Elementary School

Observation

The ASB only deposited the profit made on the Holiday Store Sales Fundraiser. The percent of sales owed to the vendor was paid directly from cash collections without ever being deposited into the ASB bank account.

Recommendation

The ASB should deposit all fundraiser revenues intact to the ASB bank account to provide proper safeguarding of the cash and accurate recording of transactions.

REVENUE POTENTIAL DEFICIENCIES

North Park Elementary School

Observation

Revenue potential forms are not being completed at the conclusion of the fundraiser. Therefore, they are not being used to explain the differences between anticipated sales and actual sales. These forms supply an element of internal controls which allow the ASB the ability to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it 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 also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth. A complete revenue potential requires the following four major elements:

1. Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.
2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

LOCAL REVENUE

Rio Vista Elementary

Observation

In review of a disbursement, the auditor noted that funds were used from a Kid Healthy scholarship received in the 2008-09 school year. The scholarship is restricted for expenditures that promote health and increase physical activity. These funds should have been deposited into the site's budget in order to receive the proper monitoring from the District's account office.

Recommendation

The District should establish a process through which they can identify the receipt of local funds at ASBs. This will allow the District to monitor funds and comply with funding restrictions.

INVENTORY RECONCILIATION

Rio Vista Elementary School

Observations

The site sells school spirit shirts throughout the year; however, the site lacks the proper procedure to account for all sales and inventory.

1. The sale of spirit shirts is documented in a receipt book; however, when preparing a deposit, the receipts issued for the specific sale's period are not reconciled to the cash being deposited.
2. A perpetual inventory of the spirit shirts purchased, sold, gifted and on hand are not kept. Consequently, there is no reconciliation of the total funds that should have been collected from the sales based on the number of shirts sold.

Recommendations

1. When preparing a deposit for the sale of spirit shirts, the employee preparing the deposit should document the series of receipts that were issued during the deposit period. The total sales from the receipts should be agreed to total cash being deposited. Any variance should be accompanied by an explanation. This will allow the ASB to identify incomplete deposits or untimely deposits.
2. Physical inventory of spirit shirts should be taken at least once a year. However, through the year the ASB should maintain records of the spirit shirts purchased, sold, and given away. The ASB should reconcile the change in inventory to the amount sales generated on a quarterly basis. This process will allow the ASB to properly assess if all the cash collected for spirit shirts is being deposited intact. Furthermore, this will allow the ASB to identify instances of inventory theft.

RECEIPTING/DEPOSITING – TIMELY DEPOSITS

Curtis Middle School

Observation

Deposits are not being made in accordance with the District's depositing policy. In twelve instances, the delay in deposit ranged from nine days to approximately 18 days from the date of receipt to deposit. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

The ASB's should adhere to the District's depositing policy which dictates that the ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit.

RECEIPTING/DEPOSITING – INTACT SUPPORTING DOCUMENTATION

Curtis Middle School

Observation

Copies of the receipts issued are not maintained intact and in the original state upon issuance. In 15 carbon copies of the receipt, the auditor noted the amount issued on the original receipt was crossed out and a new amount was entered. When reconciling the cash collected, the deposit was reconciled to the new amount entered on the receipt. In four carbon copies, the copy was made in ink instead of the carbon imprint made when the original receipt is completed. As a result, the auditor was unable to verify the cash collected for these receipt was indeed the amount noted on the altered receipt copy

Recommendation

Supporting documentation should be kept intact and in its original state. If an error is made during the preparation of a receipt, the receipt should be voided and the next receipt in the sequence should be issued. If the imprint left from the receipt is not legible, then the person making the receipt needs to retrace the receipt. These practices will prevent the alteration of receipt copies to make the deposit agree to receipt on hand.

QUESTIONABLE EXPENSES

Curtis Middle School

Observation

In review of a reimbursement made for a purchase at an office supply store, the auditor noted items purchased were not reasonable for the level of activity at Curtis Middle School's ASB. Several items in the receipt were purchased in excessive quantities, for example full reams of pastel colored paper, glue sticks, pens, rubber bands, dry eraser pens, highlighters, etc. The remaining items do not seem appropriate for an ASB or for the benefit of students. Some of these items include batteries, expensive pens and pencils, Clorox wipes, facial wipes, CDs, etc. Under normal circumstances, activities identified above are typically purchased using District's resources or are not allowed since it does not provide a direct benefit to the students.

Recommendation

The site should ensure that ASB funds are only used for expenditures that are directly linked to the students' benefit and are outside of what must be provided by the District's general funding sources. Expenditures identified are not considered allowable ASB expenditures since they do not directly promote the general welfare, morale, or educational experience of the students.

Arrowview Middle School

Observation

Two unallowable expenditures were identified within the Team Act Now account. The ASB purchased shirts for site staff members at a cost of \$3,373.01. There was only one deposit associated with staff payments for the purchased shirts in the amount of \$507.00. The account was also used to supply food and a coffee urn for a staff breakfast at a cost of \$162.03. The ASB's Team Act Now account had a beginning balance of \$9,966.44 which resulted from the elimination of past club accounts that are no longer active. The site principal is the stated advisor for this account.

Recommendation

The ASB should receive full reimbursement for all expenses that do not directly promote the general welfare, morale, or educational experience of the students. Furthermore, the Team Act Now account should be closed with any remaining funds transferred to the "Student Government" account.

YEARBOOK SALES DEPOSITS

Arrowview Middle School

Observation

Yearbook sales are tracked using several different pre-numbered receipt books which are provided by the publisher. The ASB bookkeeper does not have a method to ensure that there are no gaps in the various sequences of receipt numbers being submitted in support of cash deposits.

Recommendation

The ASB bookkeeper should maintain a spreadsheet with separate columns for each receipt book used to account for yearbook sales. An entry should be made for each deposit to document the range of receipt numbers included. The ASB bookkeeper should document the reason for any gaps in the sequences of receipt numbers as evidence that cash deposits are complete.

IMPROPER USE OF PURCHASE ORDERS

Arrowview Middle School

Observation

The ASB utilizes "not to exceed" amounts for its purchase orders and these purchases orders were in excess of their actual operating budget for the year. Additionally, approved purchase orders did not indicate specific vendors that the ASB would engage in business transactions with. Instead, a "to be announced" notation was used on purchase orders. The use of such purchase orders prevents the ASB from identifying deficit spending and prevents the ASB from engaging in proper pre-approval of transactions.

Recommendation

The ASB should minimize the use of open purchase orders with high authorization amounts. The ASB should also be cognizant of its operating budget when creating these open purchase orders in order to prevent any instances of deficit spending. Furthermore, all purchase orders created and approved by the ASB should identify specific vendors that the ASB would engage in business transactions with. This would allow the ASB to facilitate the pre-approval of disbursement transactions.

SAN GORGONIO HIGH SCHOOL

TRACKS System Weakness

Observation

The ASB's TRACKS system does not allow the bookkeeper to alter the amount of receipts generated and issued. However, the TRACKS system does allow the bookkeeper to go in to previously generated receipt and reverse the receipt, effectively eliminating the transaction. This system capability is susceptible to abuse and can easily be used to take advantage of collected cash. Currently, the auditor noted that there are no compensating controls to prevent potential abuse from taking place.

Recommendation

In light of the potential risk identified with the ASB's TRACKS system, the District should consider control procedures to mitigate the risk identified. Specifically, the auditor recommends the following control procedures:

- 1) ASB bookkeeper should make additional notation as to why certain receipts were voided.
- 2) Site's administrator should review the detail of voided receipts and provide additional assurance that voided receipts were done for valid reasons (i.e. error in data entry, etc.)
- 3) If possible, the site administrator should make regular efforts to confirm with intended parties of receipts to verify if the amount on receipts that were voided were actual receipts issued.

Untimely Bank Reconciliation

Observation

Bank reconciliations for the months of October 2009, November 2009, and December 2009, were not completed in a timely manner. However, documented signatures affixed on the bank reconciliation report indicated that all three bank reconciliations were completed in a timely manner.

Recommendation

Per District's standardized procedure over the ASB, bank reconciliations must be prepared and submitted to the District for review by the 15th of the following month. Additionally, timely bank reconciliations are essential in understanding the real cash balance of the ASB and to verify if bank has accurately posted all deposits and checks.

Lack of Trust Account Monthly Summaries/Statements

Observation

The ASB is currently not issuing a monthly summary/statement to each of its trust accounts for all deposits and expenses taking place in a given month. As a result, trust account advisors are unable to verify if postings made by the ASB bookkeeper are accurate and complete. Additionally, the trust account advisors are unable to verify if their internal records regarding their balances are consistent with amounts reported by the ASB bookkeeper in the ASB's accounting records.

Recommendation

Monthly account activity statements should be prepared and the information should be disseminated to site personnel supervising each of the trust accounts. The statements should include a detailed identification of checks disbursed and also a detailed deposit history. The statements will allow trust account advisors to verify whether records maintained by the ASB bookkeeper are consistent with their internal records and it would allow the trust account advisors to communicate discrepancies, if any. Additionally, the statements would facilitate the planning of activities since the advisors would have a clear understanding of how much funds are available in their accounts.

Deficient Depositing Procedure

Finding

The ASB generally makes daily deposits for considerable sum of currency. Currently, all deposits are being made by the ASB bookkeeper and the current deposit procedure compromises the safety of the ASB clerk and also the ASB funds.

Recommendation

The District should consider contracting an external courier service to eliminate the ASB funds from being compromised during the transportation process. Additionally, the ASB bookkeeper will be relieved from the burden of transporting the funds and their personal safety will be protected.

Inadequate Support for Concession Sales Activities

Finding

Trusts accounts were engaged in concession sales at various ASB sponsored events. There is currently no accountability for cash collections taking place since there appears to be no sales reconciliation taking place. As a result, the auditor was unable to verify the completeness and intactness of cash remitted for deposits from these events.

Recommendation

Concession sales should be properly accounted for. The ASB should consider taking the beginning and ending inventory of goods being sold in order to reconcile actual cash collected from various events. In theory, the difference in beginning and ending inventory multiplied by sale price of a single unit should result in the expected cash collections from concession sales.

Untimely Remittance of Fundraising Revenues

Observation

Cash collections from fundraising activities are not promptly remitted to the ASB bookkeeper for deposit. Based on supporting documents reviewed, it appears that 50 percent of advisors have held on to cash ranging from 5 to 63 days before the fundraising monies were remitted to the ASB bookkeeper.

Recommendation

There should be a minimal length of time between actual cash collections and deposit. The ASB should inform its club advisors to make prompt remittance of funds generated from fundraising events. The auditor recommends fundraising monies to be remitted within two days of the conclusion of the fundraising activity. This would minimize the risk of cash being compromised while in the custody of trust account advisors.

Incomplete/Lack of Revenue Potential Forms

Observation

Fifty percent of fundraising activities reviewed were either lacking revenue potential forms or have incomplete revenue potential forms. Incomplete revenue potential forms were missing actual results. Moreover, some of the revenue potential forms reviewed did not have a reported expense when the nature of the fundraising activity was to sell goods.

Recommendation

All fundraising activities should be accompanied by revenue potential forms. Failure to complete revenue potential forms can lead to the District being subjected to potential liability due to inappropriate fundraising activities. Additionally, analysis of fundraising results cannot be performed without properly completing revenue potential forms. Ultimately absent the completed revenue potential forms, the ASB does not have the ability to determine if fundraising results are reasonable and the ASB also does not have the ability to make future decisions regarding the continuation of a similar fundraising activity.

Untimely Deposit of ASB Funds

Observation

Deposits are not always being made in accordance with the District's depositing policy. Based on the review of sample deposits, two instances were identified where the ASB has delayed the deposit in excess of 8 days. This could result in larger than desired cash balance being maintained at the ASB which can hinder the safeguarding of ASB assets.

Recommendation

The ASB's should adhere to the District's depositing policy which dictates that the ASB's should, at a minimum, make their deposits once a week to minimize the amount of cash held at the site level. During weeks of high cash activity, there may be a need to make more than one deposit. The District should establish a specific guideline for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with individual ASB bookkeepers to make the deposits in a timely manner.

Inadequate Documentation for Official Payments

Observation

Per review of supporting documentation attached for disbursements made to compensate various sporting officials, it appears that there is no indication of a District administrator authorizing payment for services rendered. The auditor observed the supporting documents solely being signed by the official providing his/her services.

Recommendation

The ASB should consider implementing an additional authorization process for payment of sports officials. The District should modify its current form to include a field where a District administrator must sign to provide explicit authorization to pay the sporting officials. Under no circumstances should sports officials be paid without an administrator signing off on the form. This should ensure that the ASB is only making legitimate payments to officials for actual services rendered.

Inadequate Support for General Fundraising Activities

Observation

There is a general lack of accountability for cash collected by trust account advisors for various fundraising activities. Receipts or a similar medium to document and reconcile cash collections are generally not being used. As a result, the auditor was unable to determine the intactness or completeness of amounts being remitted to the ASB bookkeeper.

Recommendation

Cash collections from students resulting from all fundraising activities should be properly accounted for. The ASB should receive all trust account advisors to utilize receipt books or similar documents to support the amount of cash being remitted to the ASB bookkeeper.

Inadequate Usage of Ticket Logs

Observation

The ASB is currently using tickets only for the site's sporting events and major ASB sponsored events (Homecoming, Winter Formal, and Prom). The ASB is not utilizing tickets to account for cash collections taking place at events such as plays, dramas, and other dances. As a result, reconciliation of cash collections from these events is limited.

Recommendation

All sporting events and other events sponsored by the ASB should utilize tickets to properly account for revenues generated. Master ticket log maintained at the ASB office should be used to document the beginning number of each ticket rolls checked out. Additionally, ending number of the ticket rolls should also be logged. In conjunction with ticket logs, completed ticket sales reconciliation report should be reviewed for consistency with the master ticket log and also to verify if remitted cash is complete and intact.

Potential Unauthorized External Activity - Track Club

Observation

The ASB bookkeeper reported that the Track Club trust account's advisor has opened a "Booster" club outside of the ASB. Per conversation with the trust account's advisor, the account was established using \$200 of personal funds approximately a year ago (as of March 2010). On the date of the inquiry (March 24, 2010), the advisor mentioned that the account was closed shortly after opening. The auditor was unable to confirm the closure of the account.

Recommendation

The District should follow up with the Track Club trust account's advisor and confirm the closure of the external account. Accounts outside of the ASB can circumvent established controls and lack accountability of how funds are used. Additionally, external accounts can be used to redirect fundraising revenues intended for the ASB which can potentially lead of misappropriation of ASB funds.

Improper Accounting of Equipment Acquisitions In Excess of \$500

Observation

The ASB has acquired various equipments in excess of \$500 during the 2009-2010 school year. None of the items were donated to the District for proper identification and tracking.

Recommendation

The District should create and disseminate procedures regarding how to account for equipment acquisitions in excess of \$500. At a minimum, the procedure should include the ASB donating the acquired equipment to the District in order for the District to tag and track the equipments. Through this procedure, equipment acquisitions are less prone to theft or misappropriation since monitoring takes place periodically and the acquired equipment will be covered under the District's property and liability insurance policy.

Untimely Deposit – Sporting Events

Observation

Cash collections from various sporting events are not being remitted to the ASB bookkeeper in a timely manner. Approximately 42 percent of sample ticketed transactions reviewed indicated that deposits took place in excess of five days.

Recommendation

There should be a minimal length of time between actual cash collections and deposit. The ASB should inform its club advisors to make prompt remittance of funds generated from ticketed events. The auditor recommends monies to be remitted within 2 days of the conclusion of the ticketed activity. This would minimize the risk of cash being compromised while in the custody of trust account advisors.

Excessive Reimbursements

Observation

The auditor has reviewed \$27,690 (as of March 24, 2010) in reimbursement paid to the ASB advisor for various ASB transactions. The auditor was able to identify that all transactions were initially paid by the ASB advisor using his Costco American Express credit card and subsequently reimbursed by the ASB. Through direct inquiry with the advisor, the auditor noted that the American Express credit card earns a rebate of one to three percent rebate on all purchases made. The auditor confirmed that that rebate checks were not donated to the ASB by the advisor in the past years through inquiry with the bookkeeper. It appears that the ASB is relying too much on reimbursements that can circumvent disbursement controls and there is a potential risk of abuse by the ASB advisor.

Recommendation

In order for disbursement controls to properly take effect, purchase orders should always be utilized when possible. Correct usage of purchase orders provide better supporting evidence of transactions being authorized and allow for better record keeping related to ASB disbursements. The District should consider limiting the amount of reimbursements currently taking place at the ASB since there is a strong potential for abuse.

Questionable Expenses

Observation

Per review of check number 4885, the auditor noted that the ASB advisor purchased a single count of \$50 value AMC gift card and 2 counts of \$25 value Chili's Restaurant gift card from Sam's club. Both purchases were reimbursed by the ASB. Per conversation with the ASB bookkeeper, the auditor noted that the ASB bookkeeper did not know the intent of the purchase and also did not recall the ASB awarding any gift cards to students during the 2009-2010 school year.

Recommendation

All supporting documents should be carefully examined prior to disbursements taking place. Special attention should be given to reimbursements. All items indicated on receipts should be identified even if it requires contacting the vendor before disbursements. Furthermore, the District should make a separate follow-up inquiry with the ASB advisor about how these three gift cards were used in the course of ASB activity.

Inadequate Monitoring of ASB Acquired Equipment (< \$500)

Observation

The auditor was unable to confirm the physical existence of camera lenses purchased using check number 4765 and camcorder purchased using check number 4778. It appears that there is a lack of procedure to monitor ASB acquired equipments that are valued less than \$500.

Governing Board
San Bernardino City Unified School District

Recommendation

The ASB should implement a procedure to properly monitor the usage of its equipments that are more prone to theft. The ASB should consider check-in and check-out sheets to track the custody of these equipments and the ASB should delegate the monitoring responsibility to one of the club advisors or directly to the ASB bookkeeper. Furthermore, these equipments should have restricted access when they are not in use.

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

VAJZNIK, TRUS, DAY + LO LLP

Rancho Cucamonga, California
December 15, 2010