

**SAN BERNARDINO CITY UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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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, 2011, 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 2010-11*, 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, 2011, 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 accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011.

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, 2011, 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 11 and budgetary comparison and other postemployment information on pages 60 and 61, are not a required part of the basic financial statements, but are 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 on it.

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.

VAJZINS, TRINE, INC. INC. + CO. LLP

Rancho Cucamonga, California
December 15, 2011

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, 2011. 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, 2011

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, 2011

- 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, 2011, than they were the year before - increasing 5.3 percent to \$768 million. Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew by \$38.0 million to \$745.2 million. The net assets of the District's business-type activities increased by \$0.4 million to \$22.8 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2011	2010	2011	2010	2011	2010
Assets						
Current and other assets	\$ 416.1	\$ 382.5	\$ 16.7	\$ 16.4	\$ 432.8	\$ 398.9
Capital assets	679.4	598.6	6.7	6.8	686.1	605.4
Total Assets	1,095.5	981.1	23.4	23.2	1,118.9	1,004.3
Liabilities						
Current liabilities	69.5	63.1	0.6	0.8	70.1	63.9
Long-term obligations	280.8	210.8	-	-	280.8	210.8
Total Liabilities	350.3	273.9	0.6	0.8	350.9	274.7
Net Assets						
Invested in capital assets, net of related debt	543.8	459.7	6.7	6.8	550.5	466.5
Restricted	195.9	222.2	-	-	195.9	222.2
Unrestricted	5.5	25.3	16.1	15.6	21.6	40.9
Total Net Assets	\$ 745.2	\$ 707.2	\$ 22.8	\$ 22.4	\$ 768.0	\$ 729.6

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Changes in Net Assets

The District's total revenues decreased by \$52.5 million (see Table A-2). State and Federal aid for specific programs contributed about 42 cents of every dollar raised. Another 56 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	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 2.4	\$ 2.0	\$ 2.1	\$ 2.6	\$ 4.5	\$ 4.6
Operating grants and contributions	155.9	155.0	26.7	26.1	182.6	181.1
Capital grants and contributions	66.6	109.3	-	-	66.6	109.3
General revenues:						
Federal and State unrestricted	305.8	302.4	-	-	305.8	302.4
Property taxes	26.4	27.5	-	-	26.4	27.5
Other general revenues	4.7	18.2	-	-	4.7	18.2
Total Revenues	561.8	614.4	28.8	28.7	590.6	643.1
Expenses						
Instruction-related	385.1	394.7	-	-	385.1	394.7
Student support services	49.2	50.7	-	-	49.2	50.7
Administration	23.4	33.5	-	-	23.4	33.5
Maintenance and operations	45.8	52.4	-	-	45.8	52.4
Other	20.3	17.7	28.4	25.7	48.7	43.4
Total Expenses	523.8	549.0	28.4	25.7	552.2	574.7
Change in Net Assets	\$ 38.0	\$ 65.4	\$ 0.4	\$ 3.0	\$ 38.4	\$ 68.4

The total cost of all programs and services declined by \$22.5 million. The District's expenses are predominantly related to educating and caring for students (78.6 percent). The purely administrative activities of the District accounted for just 4.2 percent of total costs.

Total revenues surpassed expenses, increasing net assets to \$38.4 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, 2011

Governmental Activities

Revenues for the District's governmental activities were \$561.8 million, whereas total expenses were \$523.8 million. The increase in net assets for governmental activities occurred due to an overall decline in expenditures.

- Some of the District's activities (\$2.4 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 (\$222.5 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$28.8 million, and expenses were \$28.4 million. (Refer to Table A-2)

Net Cost of Services

Table A-3 presents the costs of major District governmental activities: instruction, instruction-related activities, home-to-school transportation, other pupil services (guidance, counseling, and evaluation), general administration, 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 governmental activity net costs (\$298.8 million) were financed by District taxpayers and the taxpayers of our State.
 - This portion of governmental activities was financed with \$26.4 million in property taxes, and \$305.8 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	
	2011	2010	2011	2010
Instruction	\$ 311.1	\$ 320.2	\$ 144.7	\$ 119.8
Instruction-related activities	74.0	74.5	43.5	40.4
Home-to-school transportation	16.5	17.7	12.9	14.1
Other pupil services	32.7	33.0	22.5	23.7
General administration	23.4	33.5	18.4	28.1
Maintenance and operations	45.8	52.4	44.3	49.1
Other	20.3	17.7	12.5	7.5
Total	\$ 523.8	\$ 549.0	\$ 298.8	\$ 282.7

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 \$317.6 million, an increase of 10.8 percent from the previous year.

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 \$12.0 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, 2010	Revenues	Expenditures	June 30, 2011
General	\$ 66.1	\$ 477.5	\$ 489.5	\$ 54.1
County School Facilities	170.0	69.1	95.6	143.5
Capital Projects Component Units				
Fund	-	58.8	2.5	56.3
Adult Education	0.7	1.4	2.0	0.1
Child Development	3.1	6.0	9.1	-
Special Reserve Fund for Other than				
Capital Outlay Projects	-	-	-	-
Building	21.9	19.5	3.5	37.9
Capital Facilities	12.2	4.2	2.5	13.9
Special Reserve Fund for Capital				
Outlay Projects	1.2	0.2	0.9	0.5
Bond Interest and Redemption	11.5	10.0	10.3	11.2
Tax Override	0.1	-	-	0.1
Total	\$ 286.8	\$ 646.7	\$ 615.9	\$ 317.6

General Fund Budgetary Highlights

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

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$39.8 million and the actual results for the year show expenditures exceeding revenues by \$12.3 million.

- Actual revenues were \$12.8 million lower than expected, due primarily to lower Revenue sources.
- The actual expenditures were \$40.4 million under budget, due primarily to budget cuts and other cost saving measures enacted by the District.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2011, the District had invested an additional \$80.7 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$15.0 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	
	2011	2010	2011	2010	2011	2010
Land and construction in process	\$ 296.5	\$ 241.3	\$ -	\$ -	\$ 296.5	\$ 241.3
Buildings and improvements	376.8	351.3	5.6	6.0	382.4	357.3
Equipment	6.1	6.0	1.1	0.8	7.2	6.8
Total	\$ 679.4	\$ 598.6	\$ 6.7	\$ 6.8	\$ 686.1	\$ 605.4

The District was apportioned and received \$45.7 million of Proposition 1D and \$19.4 million of Proposition 47 State bond funds. These funds are being used for new construction and modernization projects across the District.

Long-Term Obligations

At year-end, the District had \$189.1 million in general obligation bonds increasing last year's balance by \$17.2 million.

Table A-6

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds (financed with property taxes)	\$ 189.1	\$ 171.9	\$ -	\$ -	\$ 189.1	\$ 171.9
Certificates of participation	52.5	-	-	-	52.5	-
Childcare Facilities						
Revolving Fund	0.2	0.6	-	-	0.2	0.6
Accumulated vacation	1.5	1.6	-	-	1.5	1.6
Claims liability	10.1	10.1	-	-	10.1	10.1
SELF assessment	3.7	3.5	-	-	3.7	3.5
Supplemental Early Retirement Plan	16.0	17.4	-	-	16.0	17.4
Other postemployment benefits	7.7	5.7	-	-	7.7	5.7
Total	\$ 280.8	\$ 210.8	\$ -	\$ -	\$ 280.8	\$ 210.8

The increase in General Obligation Bonds is due to the issuance of the new bonds, 2004 General Obligation,

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

The increase in General Obligation Bonds is due to the issuance of the new bonds, 2004 General Obligation, Series D and E. New debt resulted mainly from the Certificates of Participation, 2011 Series A (Direct Subsidy Qualified Construction Bonds - QSCB).

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 (0.6 percent decline in 2010-2011) will impact the financial condition of the District.
3. Collective bargaining.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 304,898,665	\$ 13,567,522	\$ 318,466,187
Receivables	103,455,544	3,686,613	107,142,157
Internal balances	1,636,626	(1,636,626)	-
Prepaid expenses	25,173	-	25,173
Stores inventories	417,979	1,026,263	1,444,242
Deferred costs on issuance	4,713,931	-	4,713,931
Deferred charges on refunding	1,028,920	-	1,028,920
Capital assets			
Land and construction in process	296,500,674	-	296,500,674
Other capital assets	528,940,749	14,810,787	543,751,536
Less: Accumulated depreciation	(146,081,930)	(8,097,272)	(154,179,202)
Total Capital Assets	679,359,493	6,713,515	686,073,008
Total Assets	1,095,536,331	23,357,287	1,118,893,618
LIABILITIES			
Accounts payable	56,801,677	591,587	57,393,264
Interest payable	3,569,994	-	3,569,994
Deferred revenue	9,167,154	-	9,167,154
Long-term obligations			
Current portion of long-term obligations	12,651,627	-	12,651,627
Noncurrent portion of long-term obligations	268,165,994	-	268,165,994
Total Long-Term Obligations	280,817,621	-	280,817,621
Total Liabilities	350,356,446	591,587	350,948,033
NET ASSETS			
Invested in capital assets, net of related debt	543,839,496	6,713,515	550,553,011
Restricted for:			
Debt service	7,716,748	-	7,716,748
Capital projects	157,362,389	-	157,362,389
Educational programs	17,752,423	-	17,752,423
Other activities	13,069,129	-	13,069,129
Other restrictions	-	16,052,185	16,052,185
Unrestricted	5,439,700	-	5,439,700
Total Net Assets	\$ 745,179,885	\$ 22,765,700	\$ 767,945,585

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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 311,065,621	\$ 464,503	\$ 99,238,219	\$ 66,621,164
Instruction-related activities:				
Supervision of instruction	25,835,909	250,950	17,277,135	-
Instructional library, media, and technology	2,942,924	-	256,256	-
School site administration	45,210,896	5,577	12,668,943	-
Pupil services:				
Home-to-school transportation	16,505,231	-	3,645,966	-
Food services	212,100	-	-	-
All other pupil services	32,443,215	579	10,186,145	-
Administration:				
Data processing	5,487,974	3,339	4,969	-
All other administration	17,928,976	68,233	4,971,307	-
Plant services	45,788,558	398,630	1,099,436	-
Community services	9,401,624	395,139	5,123,238	-
Interest on long-term obligations	10,871,734	-	-	-
Other outgo	70,016	778,182	1,476,448	-
Total Governmental Activities	523,764,778	2,365,132	155,948,062	66,621,164
Business-Type Activities				
Food services	28,376,230	2,109,864	26,659,950	-
Total Business-Type Activities	28,376,230	2,109,864	26,659,950	-
Total School District	\$ 552,141,008	\$ 4,474,996	\$ 182,608,012	\$ 66,621,164

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
 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
\$ (144,741,735)	\$ -	\$ (144,741,735)
(8,307,824)	-	(8,307,824)
(2,686,668)	-	(2,686,668)
(32,536,376)	-	(32,536,376)
(12,859,265)	-	(12,859,265)
(212,100)	-	(212,100)
(22,256,491)	-	(22,256,491)
(5,479,666)	-	(5,479,666)
(12,889,436)	-	(12,889,436)
(44,290,492)	-	(44,290,492)
(3,883,247)	-	(3,883,247)
(10,871,734)	-	(10,871,734)
2,184,614	-	2,184,614
(298,830,420)	-	(298,830,420)
-	393,584	393,584
-	393,584	393,584
(298,830,420)	393,584	(298,436,836)
16,095,278	-	16,095,278
9,738,740	-	9,738,740
528,335	-	528,335
305,783,759	-	305,783,759
563,484	6,736	570,220
23,412	-	23,412
4,016,261	-	4,016,261
336,749,269	6,736	336,756,005
37,918,849	400,320	38,319,169
707,261,036	22,365,380	729,626,416
\$ 745,179,885	\$ 22,765,700	\$ 767,945,585

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units
ASSETS			
Deposits and investments	\$ 43,330,675	\$ 120,041,785	\$ 56,513,568
Receivables	102,048,142	293,583	-
Due from other funds	2,157,453	35,051,040	-
Prepaid expenditures	25,173	-	-
Stores inventories	417,979	-	-
Total Assets	\$ 147,979,422	\$ 155,386,408	\$ 56,513,568
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	44,587,212	9,627,889	230,371
Due to other funds	40,958,021	2,316,909	-
Deferred revenue	8,350,117	-	-
Total Liabilities	93,895,350	11,944,798	230,371
Fund Balances:			
Nonspendable	654,152	-	-
Restricted	17,752,423	143,441,610	56,283,197
Assigned	26,077,497	-	-
Unassigned	9,600,000	-	-
Total Fund Balances	54,084,072	143,441,610	56,283,197
Total Liabilities and Fund Balances	\$ 147,979,422	\$ 155,386,408	\$ 56,513,568

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

Non-Major Governmental Funds		Total Governmental Funds	
\$	57,912,728	\$	277,798,756
	1,045,773		103,387,498
	8,499,594		45,708,087
	-		25,173
	-		417,979
\$	67,458,095	\$	427,337,493

	2,116,717		56,562,189
	717,050		43,991,980
	817,037		9,167,154
	3,650,804		109,721,323

	-		654,152
	63,206,789		280,684,019
	600,502		26,677,999
	-		9,600,000
	63,807,291		317,616,170

\$	67,458,095	\$	427,337,493
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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2011

Total Fund Balance - Governmental Funds \$ 317,616,170

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	\$ 825,441,423	
Accumulated depreciation is	<u>(146,081,930)</u>	
Net Capital Assets		679,359,493

The District has refunded various debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2011. 1,028,920

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 cost on issuance. 4,713,931

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. (3,569,994)

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. 13,009,190

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

Long-term obligations at year-end consist of:

Bonds payable	166,305,077
Unamortized premium on issuance	8,530,792
Certificates of participation	53,080,000
Unamortized discount on issuance	(585,839)
Child care facilities revolving fund	185,250
Compensated absences (vacations)	1,477,725
Other postemployment benefits	7,746,202
Supplemental early retirement	16,007,644

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

The accretion of interest on unmatured general obligation bond to date is:	<u>14,230,974</u>	
Total Long-Term Obligations		<u>(266,977,825)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 745,179,885</u></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 BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units
REVENUES			
Revenue limit sources	\$ 255,184,204	\$ -	\$ -
Federal sources	71,954,170	-	-
Other State sources	141,375,324	64,878,692	-
Other local sources	8,256,678	1,816,654	6,751
Total Revenues	476,770,376	66,695,346	6,751
EXPENDITURES			
Current			
Instruction	294,166,261	-	-
Instruction-related activities:			
Supervision of instruction	25,449,047	-	-
Instructional library, media and technology	2,887,067	-	-
School site administration	44,301,515	-	-
Pupil services:			
Home-to-school transportation	16,494,175	-	-
Food services	63,830	-	-
All other pupil services	31,643,502	-	-
Administration:			
Data processing	5,410,512	-	-
All other administration	17,773,037	-	-
Plant services	44,762,995	-	-
Facility acquisition and construction	4,413,670	85,500,290	418,920
Community services	1,619,033	-	-
Other outgo	70,016	-	1,492,416
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	489,054,660	85,500,290	1,911,336
Deficiency of Revenues Over Expenditures	(12,284,284)	(18,804,944)	(1,904,585)
Other Financing Sources (Uses)			
Transfers in	715,478	2,393,471	-
Other sources - certificates of participation	-	-	53,080,000
Other sources - general obligation bonds	-	-	5,477,434
Other sources - premium on issuance of general obligation bonds	-	-	229,502
Transfers out	(446,150)	(10,114,948)	-
Other uses - discount on issuance of certificates participation	-	-	(599,154)
Net Financing Sources (Uses)	269,328	(7,721,477)	58,187,782
NET CHANGE IN FUND BALANCES	(12,014,956)	(26,526,421)	56,283,197
Fund Balances - Beginning	66,099,028	169,968,031	-
Fund Balances - Ending	\$ 54,084,072	\$ 143,441,610	\$ 56,283,197

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 255,184,204
873,391	72,827,561
5,646,861	211,900,877
12,108,876	22,188,959
18,629,128	562,101,601
1,264,112	295,430,373
165,000	25,614,047
-	2,887,067
270,398	44,571,913
-	16,494,175
-	63,830
27,984	31,671,486
-	5,410,512
319,581	18,092,618
230,366	44,993,361
3,815,957	94,148,837
7,671,839	9,290,872
480,802	2,043,234
4,443,250	4,443,250
6,273,250	6,273,250
24,962,539	601,428,825
(6,333,411)	(39,327,224)
10,667,259	13,776,208
-	53,080,000
11,525,419	17,002,853
505,866	735,368
(3,215,110)	(13,776,208)
-	(599,154)
19,483,434	70,219,067
13,150,023	30,891,843
50,657,268	286,724,327
\$ 63,807,291	\$ 317,616,170

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 30,891,843
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 outlay exceeds depreciation in the period.	
Capital outlays	\$ 95,238,525
Depreciation expense	<u>(14,324,227)</u>
Net Expense Adjustment	80,914,298
Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds.	(106,989)
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 \$2,259,830 to be paid.	(2,259,830)
In the Statement of Activities, certain operating expenses - compensated absences (vacation) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$75,162. Additionally, payments for supplemental early incentive program amounted to \$3,662,258.	3,737,420
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 statement as an expense. The actual amount of the contribution was less than the annual required contribution.	(2,030,617)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. This year the District issued the following:	
General obligation bonds	(17,002,853)
Certificates of participation	(53,080,000)

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, 2011

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

Premium on issuance	\$ (735,368)
Discount on issuance	599,154
Deferred cost of issuance	1,973,218

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	4,050,000
Child care facilities revolving fund	393,250

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	\$ 444,732	
Amortization of debt discount	(13,315)	
Amortization of deferred cost of issuance	(180,684)	
Amortization of deferred charges on refunding	(342,972)	
Combined Adjustment		(92,239)

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 increased \$1,212,482, and second, \$3,892,917 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(5,105,399)

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

(4,227,039)

Change in Net Assets of Governmental Activities

\$ 37,918,849

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, 2011

	Business-Type Activities Enterprise Funds Food Service	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 13,567,522	\$ 27,099,909
Receivables	3,686,613	68,046
Stores inventories	1,026,263	-
Total Current Assets	18,280,398	27,167,955
Noncurrent Assets		
Capital assets	14,810,787	-
Less: accumulated depreciation	(8,097,272)	-
Total Noncurrent Assets	6,713,515	-
Total Assets	24,993,913	27,167,955
LIABILITIES		
Current Liabilities		
Accounts payable	591,587	239,488
Due to other funds	1,636,626	79,481
Current portion of claims liability	-	3,775,139
Current portion of SELF assessment	-	232,014
Total Current Liabilities	2,228,213	4,326,122
Noncurrent Liabilities		
Noncurrent portion of claims liability and assessment	-	9,832,643
NET ASSETS		
Invested in capital assets, net of related debt	6,713,515	-
Restricted	16,052,185	13,009,190
Total Net Assets	\$ 22,765,700	\$ 13,009,190

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, 2011

	Business-Type Activities Enterprise Funds Food Service	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 2,113,550	\$ -
Charges to other funds and miscellaneous revenues	(3,686)	2,936,299
Total Operating Revenues	2,109,864	2,936,299
OPERATING EXPENSES		
Payroll costs	10,893,046	2,807,175
Professional and contract services	691,627	-
Supplies and materials	15,049,859	11,386
Facility rental	69,278	801
Other operating cost	972,100	4,632,145
Depreciation	700,320	-
Total Operating Expenses	28,376,230	7,451,507
Operating Loss	(26,266,366)	(4,515,208)
NONOPERATING REVENUES		
Interest income	6,736	288,169
Grants	26,659,950	-
Total Nonoperating Revenues	26,666,686	288,169
Change in Net Assets	400,320	(4,227,039)
Total Net Assets - Beginning	22,365,380	17,236,229
Total Net Assets - Ending	\$ 22,765,700	\$ 13,009,190

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, 2011

	Business-Type Activities Enterprise Funds Food Service	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 5,594,717	\$ -
Cash receipts from interfund services provided	-	3,244,935
Cash payments to other suppliers of goods or services	(15,741,486)	(42,830)
Cash payments to employees for services	(10,863,636)	(2,807,175)
Cash payments for insurance claims	-	(4,426,313)
Other operating cash payments	(1,041,378)	-
Net Cash Used for Operating Activities	(22,051,783)	(4,031,383)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	26,659,950	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(592,939)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	6,736	288,169
Net Increase (Decrease) in Cash and Cash Equivalents	4,021,964	(3,743,214)
Cash and Cash Equivalents - Beginning	9,545,558	30,843,123
Cash and Cash Equivalents - Ending	\$ 13,567,522	\$ 27,099,909
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (26,266,366)	\$ (4,515,208)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	700,320	-
Changes in assets and liabilities:		
Receivables	3,484,853	28,169
Due from other fund	-	413,860
Inventories	247,318	-
Accrued liabilities	(244,551)	(58,812)
Due to other fund	26,643	(105,224)
Claims liability and assessment	-	205,832
NET CASH USED FOR OPERATING ACTIVITIES	\$ (22,051,783)	\$ (4,031,383)
NONCASH, NONCAPITAL FINANCING ACTIVITIES		
During the year, the District received \$1,778,160 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, 2011

	Private- Purpose Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 448,306	\$ 1,211,982
Receivables	912	5,443
Stores inventories	-	110,984
Total Assets	<u>449,218</u>	<u>\$ 1,328,409</u>
LIABILITIES		
Accounts payable	-	\$ 93,213
Due to student groups	-	1,235,196
Total Liabilities	<u>-</u>	<u>\$ 1,328,409</u>
NET ASSETS		
Held in reserve for scholarships	449,218	
Total Net Assets	<u>\$ 449,218</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, 2011

	Private- Purpose Trust
ADDITIONS	
Interest	<u>\$ 4,618</u>
DEDUCTIONS	
Scholarships awarded	<u>18,250</u>
Change in Net Assets	(13,632)
Net Assets - Beginning	<u>462,850</u>
Net Assets - Ending	<u><u>\$ 449,218</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, 2011

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, one community day school, an adult education school, and three special schools.

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

Component Units

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

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

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, Carden Virtual Academy, Crown Ridge Academy, Hardy Brown College Prep., Excel Prep. Charter and SOAR Academy Schools pursuant to *Education Code* Section 47605.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 and report all financial resources not accounted for and reported in another fund.

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.).

Capital Project Fund for Blended Component Units Fund The Capital Project Fund for Blended Component Units Fund are used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (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).

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 used to account for and report financial resources that are restricted, committed, or assigned to expenditures for 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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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

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 internal service fund 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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2011

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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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.

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.

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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.

Investments

Investments held at June 30, 2011, 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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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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.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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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 Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted one-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of General Fund expenditures and other financing uses.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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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 \$195,900,689 of restricted net assets, which is restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented 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

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

Property Tax

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

Changes in Accounting Principles

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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this Statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 304,898,665
Business-type activities	13,567,522
Fiduciary funds	<u>1,660,288</u>
Total Deposits and Investments	<u><u>\$ 320,126,475</u></u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 60,190,922
Cash in revolving	519,595
Investments	<u>259,415,958</u>
Total Deposits and Investments	<u><u>\$ 320,126,475</u></u>

Policies and Practices

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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	Weighted Average Maturity in Days
San Bernardino County Investment Pool	\$ 248,297,339	\$ 249,046,215	344
Wells Fargo Advantage Money Market Mutual Funds	4,546,645	4,546,645	30
Wells Fargo Advantage Repurchase Agreement			
Overland Express Sweep Account	6,571,974	6,571,974	1
Total	<u>\$ 259,415,958</u>	<u>\$ 260,164,834</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, 2011, the District's bank balance of \$56,288,632 was exposed to custodial credit risk because it was uninsured and uncollateralized.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, 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	\$ 9,036,855	\$ -	\$ 699,342	\$ -	\$ 9,736,197
State Government					
Apportionment	69,756,372	-	-	-	69,756,372
Categorical aid	9,966,382	-	25,768	-	9,992,150
Lottery	3,520,262	-	-	-	3,520,262
Special Education	7,407,018	-	-	-	7,407,018
ROP	1,293,835	-	-	-	1,293,835
Local Government					
Interest	75,066	288,871	97,181	56,238	517,356
Other Local Sources					
Other	992,352	4,712	223,482	11,808	1,232,354
Total	<u>\$ 102,048,142</u>	<u>\$ 293,583</u>	<u>\$ 1,045,773</u>	<u>\$ 68,046</u>	<u>\$ 103,455,544</u>

	Food Service Enterprise Fund	Fiduciary Funds
Federal Government		
Categorical aid	\$ 3,359,482	\$ -
State Government		
Categorical aid	293,680	-
Local Government		
Interest	-	912
Other Local Sources		
Other	33,451	5,443
Total	<u>\$ 3,686,613</u>	<u>\$ 6,355</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 32,151,833	\$ -	\$ -	\$ 32,151,833
Construction in process	209,160,987	91,381,506	36,193,652	264,348,841
Total Capital Assets Not Being Depreciated	241,312,820	91,381,506	36,193,652	296,500,674
Capital Assets Being Depreciated				
Land improvements	42,482,436	438,376	-	42,920,812
Buildings and improvements	424,812,678	35,608,306	-	460,420,984
Furniture and equipment	24,095,116	4,003,989	2,500,152	25,598,953
Total Capital Assets Being Depreciated	491,390,230	40,050,671	2,500,152	528,940,749
Less Accumulated Depreciation				
Land improvements	30,470,675	828,855	-	31,299,530
Buildings and improvements	85,561,313	9,678,244	-	95,239,557
Furniture and equipment	18,118,878	3,817,128	2,393,163	19,542,843
Total Accumulated Depreciation	134,150,866	14,324,227	2,393,163	146,081,930
Governmental Activities Capital Assets, Net	\$ 598,552,184	\$ 117,107,950	\$ 36,300,641	\$ 679,359,493
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,828,028	\$ -	\$ -	\$ 8,828,028
Furniture and equipment	4,599,985	592,939	16,574	5,176,350
Vehicles	806,409	-	-	806,409
Total Capital Assets Being Depreciated	14,234,422	592,939	16,574	14,810,787
Less Accumulated Depreciation				
Buildings and improvements	2,814,762	441,401	-	3,256,163
Furniture and equipment	3,820,315	308,932	16,574	4,112,673
Vehicles	778,449	(50,013)	-	728,436
Total Accumulated Depreciation	7,413,526	700,320	16,574	8,097,272
Business-Type Activities Capital Assets, Net	\$ 6,820,896	\$ (107,381)	\$ -	\$ 6,713,515

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

Governmental Activities

Instruction	\$ 12,891,804
All other pupil services	286,484
All other general administration	143,243
Plant services	<u>1,002,696</u>
Total Depreciation Expenses Governmental Activities	14,324,227

Business-Type Activities

Food services	<u>700,320</u>
Total Depreciation Expenses All Activities	<u><u>\$ 15,024,547</u></u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2011, 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	\$ -	\$ 10,251	\$ 431,095	\$ 79,481	\$ 1,636,626	\$ 2,157,453
County School Facilities Fund	35,026,986	-	24,054	-	-	35,051,040
Non-Major Governmental Funds	5,931,035	2,306,658	261,901	-	-	8,499,594
Total	\$ 40,958,021	\$ 2,316,909	\$ 717,050	\$ 79,481	\$ 1,636,626	\$ 45,708,087

A balance of \$162,817 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 \$1,636,626 due to the General Fund from the Cafeteria Major Enterprise Fund resulted from payroll, indirect costs, benefits, and other operating costs.

A balance of \$2,149,571 due to the Building Non-Major Governmental Fund from the County School Facilities Fund resulted from transfer of project costs.

A balance of \$149,431 due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the County School Facilities Fund was due to the allocation of project costs.

A balance of \$35,000,000 due to the County School Facilities Fund from the General Fund was due to an interfund borrowing for cash flow needs.

A balance of \$5,000,000 due to the Capital Facilities Non-Major Governmental Fund from the General Fund was due to an interfund borrowing for cash flow needs.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 2,453	\$ 713,025	\$ 715,478
County School Facilities Fund	14,236	-	2,379,235	2,393,471
Non-Major Governmental Funds	431,914	10,112,495	122,850	10,667,259
Total	\$ 446,150	\$ 10,114,948	\$ 3,215,110	\$ 13,776,208

The General Fund transferred qualified capital expenditures to the County School Facilities Fund.

\$ 14,236

The General Fund transferred operating contributions to the Adult Education Non-Major Governmental Fund.

90,000

The General Fund transferred operating contributions to the Child Development Non-Major Governmental Fund.

341,914

The County School Facilities Fund transferred qualified capital expenditures to the following funds:

General Fund	2,453
Special Reserve Non-Major Governmental Fund for Capital Outlay Projects	95,118
Building Non-Major Governmental Fund	7,104,011
Capital Facilities Non-Major Governmental Fund	2,913,366

The Adult Education Non-Major Governmental Fund transferred monies in accordance to the flexibility provision allowed by SBX34 to the General Fund.

669,697

The Special Reserve Non-Major Governmental Fund for Other Than Capital Outlay Projects transferred its remaining fund balance to the General Fund to close out the fund.

1,868

The Building Non-Major Governmental Fund transferred qualified capital expenditures to the following funds:

General Fund	41,460
County School Facilities Fund	869,524
Capital Facilities Non-Major Governmental Fund	50

The Capital Facilities Non-Major Governmental Fund transferred qualified capital expenditures to the following Funds:

County School Facilities Fund	1,499,419
Building Non-Major Governmental Fund	122,800

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred qualifying capital expenditures to the County School Facilities Fund.

10,292

Total

\$ 13,776,208

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds
Accrued salaries and benefits	\$ 24,834,051	\$ 99,360	\$ -	\$ 492,024
State apportionment	2,889,852	-	-	-
Books and supplies	3,068,749	-	-	42,040
Services and other operating	11,687,080	191,247	-	704,711
Construction	1,710,278	9,337,282	230,371	856,620
Other vendor payables	397,202	-	-	21,322
Total	<u>\$ 44,587,212</u>	<u>\$ 9,627,889</u>	<u>\$ 230,371</u>	<u>\$ 2,116,717</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Accrued salaries and benefits	\$ 82,636	\$ 25,508,071	\$ 554,087	\$ -
State apportionment	-	2,889,852	-	-
Books and supplies	776	3,111,565	-	-
Services and other operating	156,076	12,739,114	26,478	-
Construction	-	12,134,551	-	-
Other vendor payables	-	418,524	11,022	93,213
Total	<u>\$ 239,488</u>	<u>\$ 56,801,677</u>	<u>\$ 591,587</u>	<u>\$ 93,213</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 8,302,288	\$ 1,426	\$ 8,303,714
State categorical aid	1,205	-	1,205
Other local	46,624	815,611	862,235
Total	<u>\$ 8,350,117</u>	<u>\$ 817,037</u>	<u>\$ 9,167,154</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 163,690,281	\$ 20,895,770	\$ 4,050,000	\$ 180,536,051	\$ 4,345,000
Premium on issuance	8,240,156	735,368	444,732	8,530,792	-
2011 Certificates of Participation	-	53,080,000	-	53,080,000	-
Discount on issuance	-	(599,154)	(13,315)	(585,839)	-
Child care facilities revolving fund	578,500	-	393,250	185,250	185,250
Accumulated vacation - net	1,552,887	-	75,162	1,477,725	-
Claims liability	10,150,707	3,775,139	3,775,139	10,150,707	3,775,139
SELF assessment	3,483,257	437,846	232,014	3,689,089	232,014
Supplemental early retirement plan	17,410,072	2,259,830	3,662,258	16,007,644	4,114,224
Other postemployment benefits	5,715,585	3,651,941	1,621,324	7,746,202	-
	<u>\$ 210,821,445</u>	<u>\$ 84,236,740</u>	<u>\$ 14,240,564</u>	<u>\$ 280,817,621</u>	<u>\$ 12,651,627</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Certificates of Participation are paid from the Capital Facilities Fund. 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, 2010	Issued	Accreted	Redeemed	Bonds Outstanding June 30, 2011
9/1/99	8/1/14	4.20-5.60%	\$ 7,300,000	\$ 3,469,323	\$ -	\$ 171,451	\$ 750,000	\$ 2,890,774
5/1/03	8/1/27	1.10-5.46%	15,000,000	11,109,561	-	605,459	-	11,715,020
9/16/04	8/1/24	1.25-4.59%	37,055,000	33,145,000	-	-	1,180,000	31,965,000
9/16/04	8/1/29	1.25-5.46%	44,999,498	36,364,553	-	66,978	980,000	35,451,531
5/18/06	8/1/30	4.50-5.15%	67,999,967	70,262,529	-	776,972	820,000	70,219,501
3/14/07	8/1/30	3.77-4.74%	9,997,217	9,339,315	-	1,016,316	320,000	10,035,631
3/3/11	8/1/42	7.41-7.50%	11,525,419	-	11,525,419	839,024	-	12,364,443
3/3/11	8/1/35	7.41-7.50%	5,477,434	-	5,477,434	416,717	-	5,894,151
				<u>\$ 163,690,281</u>	<u>\$ 17,002,853</u>	<u>\$ 3,892,917</u>	<u>\$ 4,050,000</u>	<u>\$ 180,536,051</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, 1999 General Obligation Bonds, Series B, totaling \$2,890,774 (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, 2011, 1999 General Obligation Bonds, Series C totaling \$11,715,020 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$314,625.

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, 2011, 2004 General Obligation Bonds, Series A, totaling \$35,451,531 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$1,401,339.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, 2004 General Obligation Refunding Bonds totaling \$31,965,000 were still outstanding. Unamortized premium received on issuance amounted to \$1,347,082.

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, 2011, the principal balance outstanding (including accretion) was \$70,219,501. Unamortized premium received on issuance amounted to \$4,483,380.

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, 2011, the principal balance outstanding (including accretion) was \$10,035,631. Unamortized premium received on issuance amounted to \$257,328.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

2004 General Obligation Bonds, Series D

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

The bonds have a final maturity which occurs on August 1, 2042, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2011, the principal balance outstanding (including accretion) was \$12,364,443. Unamortized premium received on issuance amounted to \$500,597.

2004 General Obligation Bonds, Series E

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

The bonds have a final maturity which occurs on August 1, 2035, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to fund capitalized interest and to pay the premiums of bond insurance and a reserve surety bond for 2011 Certificates of Participation Series A. At June 30, 2011, the principal balance outstanding (including accretion) was \$5,894,151. Unamortized premium on issuance amounted to \$226,441.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2012	\$ 4,317,010	\$ 27,990	\$ 6,186,675	\$ 10,531,675
2013	4,512,024	202,976	6,094,013	10,809,013
2014	4,871,421	388,579	6,005,447	11,265,447
2015	5,014,893	590,107	5,905,500	11,510,500
2016	5,145,228	614,772	5,766,531	11,526,531
2017-2021	38,040,408	669,592	24,043,294	62,753,294
2022-2026	52,705,139	6,369,861	13,732,503	72,807,503
2027-2031	42,787,444	22,457,556	2,649,875	67,894,875
2032-2036	11,998,980	48,396,020	-	60,395,000
2037-2041	9,322,854	58,267,146	-	67,590,000
2042-2043	1,820,650	14,899,350	-	16,720,000
Total	<u>\$ 180,536,051</u>	<u>\$ 152,883,949</u>	<u>\$ 70,383,838</u>	<u>\$ 403,803,838</u>

2011 Certificates of Participation, Series A

On March 3, 2011, the San Bernardino City Unified School District issued the 2011 Certificates of Participation Series A in the amount of \$53,080,000. The certificates were issued at an aggregate price of \$52,092,198 (representing the principal amount of \$53,080,000 less an original issue discount of \$599,154 and cost of issuance of \$388,648). The certificates have a final maturity date of February 1, 2026, with interest rates ranging from 7.903 to 8.403 percent. Proceeds from the sale of certificates will be used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2011, the principal balance outstanding was \$53,080,000. Unamortized discount on issuance amounted to \$585,839.

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2012	\$ -	\$ 3,599,040	\$ 3,599,040
2013	-	4,220,372	4,220,372
2014	-	4,220,372	4,220,372
2015	-	4,220,372	4,220,372
2016	-	4,220,373	4,220,373
2017-2021	22,105,000	18,598,387	40,703,387
2022-2026	30,975,000	7,747,497	38,722,497
Total	<u>\$ 53,080,000</u>	<u>\$ 46,826,413</u>	<u>\$ 99,906,413</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, the outstanding balance was \$185,250.

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$1,477,725.

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, 2011, amounted to \$10,150,707, using a discount factor of three percent.

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, 2011 the District's outstanding obligation on their pro-rata share of equity assessed was \$3,689,089.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

During 2011, 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 purchase purchased for 62 employees who retired during 2010-2011 school year, were purchased from United of Omaha Life Insurance Company.

As of June 30, 2011, the outstanding obligation for the aforementioned Supplemental Early Retirement Plan was \$16,007,644.

Year Ending June 30,	Annual Payment
2011	\$ 4,114,224
2012	4,114,224
2013	4,114,224
2014	3,213,006
2015	451,966
Total	<u>\$ 16,007,644</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$3,550,054, and contributions made by the District during the year were \$1,621,324. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$442,958 and (\$341,071), respectively, which resulted in an increase to the net OPEB obligation of \$2,030,617. As of June 30, 2011, the net OPEB obligation was \$7,746,202. 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, 2011

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 211,000	\$ -	\$ -	\$ -	\$ 211,000
Stores inventories	417,979	-	-	-	417,979
Prepaid expenditures	25,173	-	-	-	25,173
Total Nonspendable	654,152	-	-	-	654,152
Restricted					
Legally restricted programs	17,752,423	-	-	59,939	17,812,362
Capital projects	-	143,441,610	56,283,197	51,860,108	251,584,915
Debt services	-	-	-	11,286,742	11,286,742
Total Restricted	17,752,423	143,441,610	56,283,197	63,206,789	280,684,019
Assigned					
Reserve for operating deficit	23,952,752	-	-	-	23,952,752
Salary reserve	1,477,725	-	-	-	1,477,725
CAHSEE intensive instruction	221,737	-	-	-	221,737
Williams Case instructional material	425,283	-	-	-	425,283
Adult education	-	-	-	81,000	81,000
Future capital projects	-	-	-	519,502	519,502
Total Assigned	26,077,497	-	-	600,502	26,677,999
Unassigned					
Reserve for economic uncertainties	9,600,000	-	-	-	9,600,000
Total	\$ 54,084,072	\$ 143,441,610	\$ 56,283,197	\$ 63,807,291	\$ 317,616,170

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Bernardino City Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 433 retirees and beneficiaries currently receiving benefits, 44 terminated Plan members entitled to but not yet receiving benefits, and 4,472 active Plan members.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-11, the District contributed \$1,621,324 to the Plan, all of which was used for current premiums (approximately 69 percent of total premiums). Plan members receiving benefits contributed \$724,171, or approximately 31 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 3,550,054
Interest on net OPEB obligation	442,958
Adjustment to annual required contribution	(341,071)
Annual OPEB cost (expense)	3,651,941
Contributions made	(1,621,324)
Increase in net OPEB obligation	2,030,617
Net OPEB obligation, beginning of year	5,715,585
Net OPEB obligation, end of year	<u>\$ 7,746,202</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
2011	3,651,941	1,621,324	44.40%	7,746,202

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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	\$ 1,348,550	\$ 34,233,825	\$ 32,885,275	3.94%	\$ 333,483,774	9.86%

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

Actuarial Methods and Assumptions

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

In the 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, 2011, was 26 years.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, 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 2011, 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, 2009 to June 30, 2011:

	Workers' Compensation
Liability Balance, July 1, 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
Claims and changes in estimates	3,775,139
Claims payments	(3,775,139)
Liability Balance, June 30, 2011	\$ 10,150,707
Assets available to pay claims at June 30, 2011	\$ 27,167,955

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 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, 2011, 2010, and 2009 were \$19,222,459, \$20,142,562 and \$20,903,267, 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, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$8,028,509, \$7,787,604, and \$7,778,407, 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 \$9,940,181 (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 budgeted 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 \$44,219, which was one percent of its current-year covered payroll. Employee contributions amounted to \$287,421.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011.

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, 2011.

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, 2011.

Year Ending June 30, <u>2012</u>	Lease Payment <u>\$ 3,897</u>
--	-------------------------------------

Total expenditures charged for leases during 2011 were \$93,675.

Construction Commitments

As of June 30, 2011, 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	\$ 73,522,000	11/01/13
New school construction - various sites	223,356,000	05/01/13
Miscellaneous/other projects	34,351,000	08/01/12
	<u>\$ 331,229,000</u>	

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, the District made payments of \$1,900,625, \$5,240,118, and \$232,014 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 2009-2010 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), approximately 28 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 244,639,431	\$ 254,289,332	\$ 255,184,204	\$ 894,872
Federal sources	57,592,572	94,459,461	71,954,170	(22,505,291)
Other State sources	123,579,437	131,723,627	141,375,324	9,651,697
Other local sources	8,704,738	9,145,523	8,256,678	(888,845)
Total Revenues ¹	434,516,178	489,617,943	476,770,376	(12,847,567)
EXPENDITURES				
Current				
Certificated salaries	229,897,980	245,926,897	235,799,068	10,127,829
Classified salaries	66,272,014	72,569,485	67,046,074	5,523,411
Employee benefits	88,154,422	94,033,357	96,229,692	(2,196,335)
Books and supplies	27,105,067	34,371,577	22,558,121	11,813,456
Services and operating expenditures	65,319,405	76,074,879	63,443,752	12,631,127
Other outgo	(950,826)	(1,307,500)	(1,221,666)	(85,834)
Capital outlay	5,398,960	7,769,095	5,199,619	2,569,476
Total Expenditures ¹	481,197,022	529,437,790	489,054,660	40,383,130
Excess (Deficiency) of Revenues Over Expenditures	(46,680,844)	(39,819,847)	(12,284,284)	27,535,563
Other Financing Sources (Uses)				
Transfers in	2,453	720,664	715,478	(5,186)
Transfers out	-	(444,696)	(446,150)	(1,454)
Net Financing Sources (Uses)	2,453	275,968	269,328	(6,640)
NET CHANGE IN FUND BALANCE	(46,678,391)	(39,543,879)	(12,014,956)	27,528,923
Fund Balance - Beginning	66,099,028	66,099,028	66,099,028	-
Fund Balance - Ending	\$ 19,420,637	\$ 26,555,149	\$ 54,084,072	\$ 27,528,923

¹ On behalf payments of \$9,940,181 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, 2011**

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 30, 2008	\$ -	\$ 24,424,565	\$ 24,424,565	0.00%	\$ 335,800,369	7.27%
August 1, 2009	1,348,550	34,233,825	32,885,275	3.94%	333,483,774	9.86%

SUPPLEMENTARY INFORMATION

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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060A	[1]	\$ 127,825
Funds for the Improvement of Education - Every Student Connected	84.215L	[1]	200,114
Passed through California Department of Education (CDE)			
ARRA State Fiscal Stabilization Fund	84.394	25008	8,998,224
Education Jobs Fund	84.410	25152	1,751,764
Adult Basic Education			
Adult Education - Basic Grants to States			
Adult Basic Education and ESL	84.002A	14508	521,873
Adult Secondary Education	84.002	13978	65,317
Adult English Literacy and Civics Education	84.002A	14109	254,562
Subtotal Adult Education - Basic Grants to States			841,752
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster			
Title I, Part A - Low Income and Neglected	84.010	14329	22,262,336
ARRA Title I, Part - Low Income and Neglected	84.389	15005	6,656,796
ARRA Title I School Improvement Grants for QEIA Schools	84.389	15004	1,979,375
Subtotal Title I, Part A Cluster			30,898,507
School Improvement Grants Cluster			
Title I, School Improvement Grant for QEIA Schools	84.377	15127	681,026
ARRA Title I School Improvement Grants	84.388	15020	8,509,280
Subtotal School Improvement Grants Cluster			9,190,306
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.333	14831	66,896
Improving Teacher Quality State Grants			
Title II, Part A - Improving Teacher Quality	84.367	14341	3,980,910
Title II, Part A - Administrator Training Program	84.367	14344	60,274
Subtotal Improving Teacher Quality State Grants			4,041,184

[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, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (continued)			
Educational Technology State Grants Cluster			
Title II, Part D - Enhancing Education Through Technology Formula Grant	84.318	14334	\$ 250,980
ARRA Title II, Part D - Enhancing Education Through Technology Formula Grant	84.386	15019	536,351
ARRA Title II, Part D - Enhancing Education Through Technology Competitive Grant	84.386	15126	370,308
Subtotal Educational Technology State Grants Cluster			<u>1,157,639</u>
English Language Acquisition Grants Cluster			
Title III - Immigrant Education Program	84.365	15146	115,932
Title III - Limited English Proficient Student Program	84.365	10084	1,630,238
Subtotal English Language Acquisition Grants Cluster			<u>1,746,170</u>
Title IV, Part A - Drug-Free Schools	84.186	14347	194,879
Twenty-First Century Community Learning Centers			
Title IV, Part B - 21st Century Community Learning Centers: High School ASSET Program	84.287	14535	1,050,000
Title IV, Part B - 21st Century Community Learning Centers: CORE	84.287	14349	1,514,844
Title IV, Part B - 21st Century Community Learning Centers: Family Literacy	84.287	14788	64,407
Subtotal Twenty-First Century Community Learning Centers			<u>2,629,251</u>
Education of Homeless Children and Youth Cluster			
Title X - McKinney-Vento Homeless Assistance Grants	84.196	14332	69,336
ARRA Title X - McKinney-Vento Homeless Assistance Grants	84.387	15007	85,601
Subtotal Education of Homeless Children and Youth Cluster			<u>154,937</u>
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Part B, Sec 611, Basic Local Assistance	84.027	13379	9,692,225
ARRA Part B, Sec 611, Basic Local Assistance	84.391	15003	5,074,061
Part B, Sec 619, Preschool Grants	84.173	13430	164,879
ARRA Part B, Sec 619, Preschool Grants	84.392	15000	205,620
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	264,040
ARRA Part B, Sec 611, Preschool Local Entitlement	84.391	15002	152,780
Part B, Sec 619, Preschool Staff Development	84.173A	13431	2,146
Subtotal Special Education (IDEA) Cluster			<u>15,555,751</u>
Part C, Early Intervention Grants	84.181	23761	59,698

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, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION (continued)			
Carl D. Perkins Vocational and Technical Education Act of 1998			
Secondary Education	84.048	13924	\$ 601,210
Passed through California Department of Rehabilitation			
Vocational Rehabilitation Cluster			
Workability II, Transition Partnership	84.126A	10006	319,662
ARRA Workability II, Transition Partnership	84.390	10130	60,113
Subtotal Vocational Rehabilitation Cluster			<u>379,775</u>
Total U.S. Department of Education			<u>78,595,882</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Education to Prevent AIDS	93.938	[1]	39,333
Passed through California Department of Health Services			
Medical Assistance Program			
Medi-Cal Billing Option	93.778	10013	71,366
Medi-Cal Administrative Activities	93.778	10060	547,341
Subtotal Medical Assistance Program			<u>618,707</u>
Passed through CDE			
Child Development Block Grant			
ARRA Facilities Renovation and Repair	93.713	15010	25,942
ARRA Infant Toddler Resource	93.713	15011	5,697
Subtotal Child Development Block Grant			<u>31,639</u>
Total U.S. Department of Health and Human Services			<u>689,679</u>
U.S. DEPARTMENT OF JUSTICE			
Operation Close the Achievement Gap	16.548	[1]	54,582
Total U.S. Department of Justice			<u>54,582</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	17,502,127
Especially Needy Breakfast Program	10.553	13526	4,510,720
Meal Supplements	10.556	13392	797,621
Seamless Summer Food Program	10.559	13004	101,174
Commodities	10.555	13396	1,778,160
Subtotal Child Nutrition Cluster			<u>24,689,802</u>
Total U.S. Department of Agriculture			<u>24,689,802</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	161,754
U.S. Department of Defense Total			<u>161,754</u>
Total Expenditure of Federal Awards			<u>\$ 104,191,699</u>

[1] Direct award, PCA number not available

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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, one 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
Mohammad Z. Islam	Chief Business and Financial Officer
Dr. Harold Vollkommer	Assistant Superintendent, Human Resources-Certificated/Student Services
Mel Albiso	Associate Superintendent, Administrative Services
John Peukert	Assistant Superintendent, Facilities/Operations
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, 2011

		Final Report	
		Second Period Report	Annual Report
ELEMENTARY			
Kindergarten		3,911	3,944
First through third		11,769	11,782
Fourth through sixth		11,122	11,112
Seventh and eighth		6,898	6,877
Opportunity schools		55	62
Home and hospital		11	13
Community day school		20	22
Special education		904	922
Total Elementary		34,690	34,734
SECONDARY			
Regular classes		11,610	11,482
Continuation education		998	979
Opportunity schools		95	92
Home and hospital		18	19
Special education		732	729
Total Secondary		13,453	13,301
Total K-12		48,143	48,035

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Minutes	Requirement	Requirement	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	54,050	180	180	Complied
Grades 7 - 8								
Grade 7	60,720	59,033	54,000	52,500	60,809	180	180	Complied
Grade 8	60,720	59,033	54,000	52,500	60,809	180	180	Complied
Grades 9 - 12								
Grade 9	57,510	55,913	64,800	63,000	65,116	180	-	Complied
Grade 10	57,510	55,913	64,800	63,000	65,116	180	-	Complied
Grade 11	57,510	55,913	64,800	63,000	65,116	180	-	Complied
Grade 12	57,510	55,913	64,800	63,000	65,116	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, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) ¹			
	2012	2011	2010	2009
GENERAL FUND				
Revenues and other sources	\$ 455,391,985	\$ 477,485,854	\$ 493,261,707	\$ 533,252,395
Expenditures	(485,524,754)	(489,054,660)	(508,021,842)	(525,737,623)
Other uses and transfers out	-	(446,150)	-	(371,809)
Total Expenditures and Other Uses	(485,524,754)	(489,500,810)	(508,021,842)	(526,109,432)
INCREASE (DECREASE) IN FUND BALANCE	\$ (30,132,769)	\$ (12,014,956)	\$ (14,760,135)	\$ 7,142,963
ENDING FUND BALANCE	\$ 23,951,303	\$ 54,084,072	\$ 66,099,028	\$ 80,859,163
AVAILABLE RESERVES ²	\$ 9,720,000	\$ 9,600,000	\$ 9,953,987	\$ 10,285,724
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.0%	2.0%	2.0%	2.0%
LONG-TERM OBLIGATIONS	N/A	\$ 280,817,621	\$ 210,821,445	\$ 200,336,518
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	46,498	48,143	48,425	49,333

The General Fund balance has decreased by \$26,775,091 over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$30,132,769 (55.7 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 2011-2012 fiscal year. Total long-term obligations have increased by \$80,481,103 over the past two years.

Average daily attendance has decreased by 1,190 over the past two years. An additional decline of 1,645 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

³ On behalf payments of \$9,940,181, \$10,415,519, and \$11,451,446 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009, 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, 2011

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
PAL Academy (0335)	No
ASA Charter (0677)	No
Public Safety Academy (0731)	No
Casa Ramona Academy (0897)	No
SOAR Charter Academy (0982)	No
Options for Youth (1132)	No
New Vision Middle (1089)	No
Crown Ridge Academy (1134)	No
Hardy Brown College Prep (1155)	No
Excel Prep Charter (1153)	No
Carden Virtual Academy (1222)	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2011

	Adult Education Fund	Child Development Fund	Special Reserve Fund for Other Than Capital Outlay Projects
ASSETS			
Deposits and investments	\$ 228,042	\$ 557,608	\$ 8
Receivables	774,648	68,743	-
Due from other funds	162,817	366,072	-
Total Assets	\$ 1,165,507	\$ 992,423	\$ 8
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 60,400	\$ 713,239	\$ -
Due to other funds	177,572	248,743	8
Deferred revenue	810,611	6,426	-
Total Liabilities	1,048,583	968,408	8
Fund Balances:			
Restricted	35,924	24,015	-
Assigned	81,000	-	-
Total Fund Balances	116,924	24,015	-
Total Liabilities and Fund Balances	\$ 1,165,507	\$ 992,423	\$ 8

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
\$ 36,271,105	\$ 9,071,411	\$ 497,926	\$ 11,230,675	\$ 55,953	\$ 57,912,728
92,236	108,941	1,091	-	114	1,045,773
2,809,605	5,009,583	151,517	-	-	8,499,594
<u>\$ 39,172,946</u>	<u>\$ 14,189,935</u>	<u>\$ 650,534</u>	<u>\$ 11,230,675</u>	<u>\$ 56,067</u>	<u>\$ 67,458,095</u>
\$ 1,205,339	\$ 6,707	\$ 131,032	\$ -	\$ -	\$ 2,116,717
28,278	262,449	-	-	-	717,050
-	-	-	-	-	817,037
<u>1,233,617</u>	<u>269,156</u>	<u>131,032</u>	<u>-</u>	<u>-</u>	<u>3,650,804</u>
37,939,329	13,920,779	-	11,230,675	56,067	63,206,789
-	-	519,502	-	-	600,502
<u>37,939,329</u>	<u>13,920,779</u>	<u>519,502</u>	<u>11,230,675</u>	<u>56,067</u>	<u>63,807,291</u>
<u>\$ 39,172,946</u>	<u>\$ 14,189,935</u>	<u>\$ 650,534</u>	<u>\$ 11,230,675</u>	<u>\$ 56,067</u>	<u>\$ 67,458,095</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	Adult Education Fund	Child Development Fund	Special Reserve Fund for Other Than Capital Outlay Projects
REVENUES			
Federal sources	\$ 841,752	\$ 31,639	\$ -
Other State sources	74,725	5,418,950	-
Other local sources	352,498	226,530	8
Total Revenues	1,268,975	5,677,119	8
EXPENDITURES			
Current			
Instruction	1,264,112	-	-
Instruction-related activities:			
Supervision of instruction	-	165,000	-
School site administration	639	269,759	-
Pupil services:			
All other pupil services	-	27,984	-
Administration:			
All other administration	13,224	306,357	-
Plant services	-	230,366	-
Facility acquisition and construction	-	8,106	-
Community services	-	7,671,839	-
Other outgo	-	-	-
Debt service			
Principal	-	393,250	-
Interest and other	-	-	-
Total Expenditures	1,277,975	9,072,661	-
Excess (Deficiency) of Revenues Over Expenditures	(9,000)	(3,395,542)	8
Other Financing Sources (Uses)			
Transfers in	90,000	341,914	-
Other sources - general obligation bonds	-	-	-
Other sources - premium on issuance of general obligation bonds	-	-	-
Transfers out	(669,697)	-	(1,868)
Net Financing Sources (Uses)	(579,697)	341,914	(1,868)
NET CHANGE IN FUND BALANCES	(588,697)	(3,053,628)	(1,860)
Fund Balances - Beginning	705,621	3,077,643	1,860
Fund Balances - Ending	\$ 116,924	\$ 24,015	\$ -

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 873,391
-	-	-	153,186	-	5,646,861
245,553	1,318,954	93,500	9,871,260	573	12,108,876
245,553	1,318,954	93,500	10,024,446	573	18,629,128
-	-	-	-	-	1,264,112
-	-	-	-	-	165,000
-	-	-	-	-	270,398
-	-	-	-	-	27,984
-	-	-	-	-	319,581
-	-	-	-	-	230,366
2,080,743	871,392	855,716	-	-	3,815,957
-	-	-	-	-	7,671,839
480,802	-	-	-	-	480,802
-	-	-	4,050,000	-	4,443,250
-	-	-	6,273,250	-	6,273,250
2,561,545	871,392	855,716	10,323,250	-	24,962,539
(2,315,992)	447,562	(762,216)	(298,804)	573	(6,333,411)
7,226,811	2,913,416	95,118	-	-	10,667,259
11,525,419	-	-	-	-	11,525,419
505,866	-	-	-	-	505,866
(911,034)	(1,622,219)	(10,292)	-	-	(3,215,110)
18,347,062	1,291,197	84,826	-	-	19,483,434
16,031,070	1,738,759	(677,390)	(298,804)	573	13,150,023
21,908,259	12,182,020	1,196,892	11,529,479	55,494	50,657,268
\$ 37,939,329	\$ 13,920,779	\$ 519,502	\$ 11,230,675	\$ 56,067	\$ 63,807,291

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, 2011

(Amounts in thousands)

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 71,954	15.1	\$ 77,137	16.0	\$ 81,201	15.6
State and local revenue included in revenue limit	255,184	53.5	247,236	51.2	290,547	55.8
Other State revenue	141,375	29.6	148,646	30.7	134,677	25.9
Other local revenue	8,257	1.8	9,956	2.1	14,281	2.7
Total Revenues	<u>476,770</u>	<u>100.0</u>	<u>482,975</u>	<u>100.0</u>	<u>520,706</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	235,799	49.5	247,128	51.2	251,856	48.4
Classified salaries	67,046	14.0	71,530	14.8	73,387	14.1
Employee benefits	96,229	20.2	96,665	20.0	98,242	18.9
Total Salaries and Benefits	399,074	83.7	415,323	86.0	423,485	81.4
Books and supplies	22,558	4.7	20,453	4.2	28,469	5.5
Contracts and operating expenses	63,444	13.3	69,621	14.4	69,960	13.4
Capital outlay	5,200	1.1	3,746	0.8	5,652	1.1
Other outgo	(1,222)	(0.3)	(1,122)	(0.2)	(1,828)	(0.4)
Total Expenditures	<u>489,054</u>	<u>102.5</u>	<u>508,021</u>	<u>105.2</u>	<u>525,738</u>	<u>101.0</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(12,284)</u>	<u>(2.5)</u>	<u>(25,046)</u>	<u>(5.2)</u>	<u>(5,032)</u>	<u>(1.0)</u>
OTHER FINANCING USES						
Operating transfers in	715	0.1	10,286	2.1	12,547	2.4
Operating transfers out	(446)	(0.1)	-	0.0	(372)	(0.1)
Total Other Financing Uses	269	-	10,286	2.1	12,175	2.3
INCREASE (DECREASE) IN FUND BALANCE	<u>(12,015)</u>	<u>(2.5)</u>	<u>(14,760)</u>	<u>(3.1)</u>	<u>7,143</u>	<u>1.3</u>
FUND BALANCE, BEGINNING	<u>66,099</u>		<u>80,859</u>		<u>73,716</u>	
FUND BALANCE, ENDING	<u>\$ 54,084</u>		<u>\$ 66,099</u>		<u>\$ 80,859</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>11.3</u>		<u>15.2</u>		<u>15.5</u>

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, 2011

(Dollar amounts in thousands)

	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 24,690	85.8	\$ 24,259	84.6	\$ 20,807	77.9
State meal program	1,970	6.8	1,842	6.4	1,668	6.2
Food sales	2,114	7.4	2,607	9.0	2,940	11.0
Other	2	0.0	(18)	(0.0)	1,297	4.9
Total Revenues	28,776	100.0	28,690	100.0	26,712	100.0
EXPENDITURES						
Salaries and employee benefits	10,893	37.9	11,094	38.7	11,361	42.5
Food	13,890	48.3	12,590	43.9	11,291	42.3
Supplies	1,160	4.0	394	1.4	261	1.0
Other	2,432	8.4	1,660	5.8	2,827	10.6
Total Expenditures	28,375	98.6	25,738	89.8	25,740	96.4
INCREASE IN FUND BALANCE						
	401	1.4	2,952	10.2	972	3.6
FUND BALANCE, BEGINNING	22,365		19,413		18,441	
FUND BALANCE, ENDING	\$ 22,766		\$ 22,365		\$ 19,413	
ENDING FUND BALANCE TO TOTAL REVENUES		79.1		81.3		72.7

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2010-2011		2009-2010		2008-2009	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	409,009	6.0	428,719	6.2	531,660	7.8
Reduced price	630,728	9.2	849,812	12.4	1,066,728	15.7
Free	5,807,190	84.8	5,586,917	81.4	5,208,920	76.5
Total Lunches	6,846,927	100.0	6,865,448	100.0	6,807,308	100.0
BREAKFAST						
Paid	106,550	4.0	105,397	4.0	118,142	4.9
Reduced price	230,649	8.5	311,850	11.6	373,763	16.4
Free	2,355,835	87.5	2,265,345	84.4	2,040,951	78.7
Total Breakfast	2,693,034	100.0	2,682,592	100.0	2,532,856	100.0

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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 Statement of Revenues, Expenditures and Changes in Fund Balances and in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option and ARRA State Fiscal Stabilization funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	Federal CFDA	Amount
	Number	
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Revenues, Expenses and Changes in Net Assets:		\$ 97,517,363
Medi-Cal Billing Option	93.778	72,466
ARRA State Fiscal Stabilization Funds	84.394	6,601,870
Total Schedule of Expenditures of Federal Awards		<u>\$ 104,191,699</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.

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

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INDEPENDENT AUDITORS' REPORTS

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**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, 2011, which collectively comprise San Bernardino City Unified School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of San Bernardino City Unified School District is responsible for establishing and maintaining effective 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, 2011.

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.

VAJRNICK, TRINE, DAY & CO. LLP

Rancho Cucamonga, California
December 15, 2011



**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 San Bernardino City Unified School District's compliance 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 San Bernardino City Unified School District's major Federal programs for the year ended June 30, 2011. 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, 2011.

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 the 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 was not designed to 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.

VAD RUSC. TIZINE. DM + CO. LLP

Rancho Cucamonga, California
December 15, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited San Bernardino City Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to San Bernardino City Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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
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

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.

V. J. RANG, TRANE, INC. & CO. LLP

Rancho Cucamonga, California
December 15, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2011

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>None reported</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?

No

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>84.318, 84.386 (ARRA)</u>	<u>Educational Technology State Grants Cluster (including ARRA)</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</u>
<u>84.377, 84.388 (ARRA)</u>	<u>School Improvement Grants Cluster (including ARRA)</u>
<u>84.126A, 84.390 (ARRA)</u>	<u>Vocational Rehabilitation Cluster (including ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 3,125,751

Auditee qualified as low-risk auditee?

Yes

STATE AWARDS

Type of auditors' report issued on compliance for programs:

Unqualified

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

Current Status

Implemented.

State Findings

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, students are participating in less than half of the program and receiving full attendance credit.
- 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, many instances were found where neither the students nor the parents were participating in the sign-in/ sign-out process. We noted instances in which sign-in/sign-out times were not provided, sign-out signatures were omitted, or a combination of both. 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. As a result, the auditor was unable to determine if the District is meeting the requirements set forth under California *Education Code* Section 8483(a)(2) and as required by the State Controller's audit guide.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2011

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.

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.

Current Status

Implemented.

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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, 2011, 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, 2011, on the financial statements of San Bernardino City Unified School District.

ASSOCIATED STUDENT BODY (ASB)

RECEIPTING/DEPOSITING - TIMELY DEPOSITS

Arrowview Middle School, Serrano Middle School, Rodriguez Prep Academy, Cypress Elementary School

Observation

Deposits are not being made in accordance with the District's depositing policy. Delay in deposits ranged from approximately ten to 66 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

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 sites. 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.

IMPROPER USE OF RECEIPTS

Serrano Middle School

Observation

Copies of the receipts issued are not maintained intact and in the original state upon issuance. On sub-receipts #253825-253828 and #250186, the auditor noted the amounts on the carbon copies were crossed out and new amounts were written in ink instead of the carbon imprint made when the original receipt was completed. When reconciling the cash on the master-receipt the new amount written in ink was used to reconcile the cash. As a result, the auditor was unable to verify the cash collected for these receipts 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.

Observation

Sub-receipts are being used out of sequence by the yearbook/instrumental music advisor. The advisor skipped from sub-receipt #250006 to 2500184. Sub-receipts related to the yearbook/instrumental music are being used on more than one master-receipt reconciliations and also the amounts listed on the sub-receipts do not reconcile to the master-receipts.

Recommendation

The yearbook/instrumental music advisor should issue receipts in a numerical order. The advisor should forward the sub-receipt book along with the cash being remitted to the bookkeeper, rather than just a list of the sub-receipts used for a particular cash drop. This will allow the bookkeeper to perform her own independent review/reconciliation of the sub-receipts and cash being remitted. This practice will also ensure that a sub-receipt does not get included in multiple master-receipt reconciliations

Rodriguez Prep Academy

Observation

Copies of the receipts issued are not maintained intact and in the original state upon issuance. On sub-receipts #221612-221617, the auditor noted the amounts on the carbon copies were crossed out and new amounts were written in ink instead of the carbon imprint made when the original receipt is completed. When reconciling the cash on the master-receipt the new amount written in ink was used to reconcile the cash. As a result, the auditor was unable to verify the cash collected for these receipts was indeed the amount noted on the altered receipt copy.

Recommendation

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DISBURSEMENTS – PRE-APPROVAL OF TRANSACTIONS

Pacific High School, Serrano Middle School, Arroyo Valley High School, Shandin Hills Middle School

Observation

ASB disbursements are not consistently being approved prior to transactions taking place. 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 (if applicable). 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.

DISBURSEMENTS - RECEIVING DOCUMENTATION

Pacific High School, Del Vallejo Middle School, Shandin Hills Elementary

Observation

ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, vendor invoices were being paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.

Recommendation

All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.

DISBURSEMENTS – SUPPORTING DOCUMENTATION

Arroyo Valley High School, Del Vallejo Middle School

Observation

The ASB disbursements were being made without supporting documentation such as invoices or receipts to substantiate the payments being processed.

Recommendation

All ASB disbursements should be accompanied by supporting invoices or receipts which document the reasons and the amount being paid. Disbursements should not be made if supporting invoices or receipts are not present during the approval process.

IMPROPER USE OF PURCHASE ORDERS

Arrowview Middle School, Curtis 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 order 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.

Arroyo Valley High School

Observation

The ASB purchase order forms standardized and required by the District were not being fully utilized. Specifically, the ASB bookkeeper is currently not completing the field pertaining to the trust account number and balance as of the purchase order date.

Recommendation

The ASB purchase order form standardized by the District contains all essential information related to disbursement activities. The field on the form identifying the account balance of the trust account or ASB account proposing the ASB activity serves as an important tool in making sure that sufficient funds are available prior to approvals taking place. The District should consider conducting a District-wide training on how to properly document and use these purchase order forms.

REVENUE POTENTIAL

Pacific High School, Arroyo Valley High School

Observation

Revenue potential forms are not consistently being completed for fundraising events and/or fundraising events are not being approved prior to the event taking place. Through testing, it was noted that some revenue potential forms used for fundraising events were not completed with respect to anticipated and/or actual income and expense. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.

Recommendation

The District should ensure that all completed revenue potential forms are forwarded to the District office to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

MASTER TICKET LOG AND TICKET SALES RECONCILIATION

Pacific High School, Arroyo Valley High School

Observation

Master ticket logs are not being used by the sites to account for all tickets on hand. In addition, ticket sales reports are not being reconciled back to the master ticket log and/or ticket sales reports are not being used to reconcile the revenue generated from ticket sales transactions.

Recommendation

Master ticket logs should be maintained which indicate the type of tickets, color of the tickets, and current beginning ticket numbers on the ticket rolls. When ticket rolls are issued, they should be logged out noting the beginning ticket number on the roll and to whom the roll was issued. When ticket sales reports are returned, the form should be reconciled back to the ticket log or the number of tickets reported as being sold on ticket sales report should be reconciled back to actual cash collected. Physical tickets themselves should be safeguarded as if they were cash because stolen tickets would potentially lead to loss in revenue.

FOOD SALES/MISCELLANEOUS SALES RECONILIATION

Pacific High School

Observation

There appears to be a lack of accountability for revenue generated from the sale of food items by the Avid Club. The Avid Club appears to lack the necessary procedures to track daily food sales. As a result, the ASB does not have the ability to determine if deposits made in connection with Avid Club's food sales activities are intact.

Recommendation

As part of good cash control procedures, receipts or other supporting documents should be used to validate cash collected from any ASB sponsored fundraising activities. Depending on the type of food products sold by the Avid Club, beginning and ending inventories can be taken to account for the anticipated sales. The difference in beginning inventory and ending inventory multiplied by the sales price should result in the expected amount of cash collections. This calculation can be used to reconcile the actual cash collected.

POTENTIAL CONFLICT OF INTEREST

Pacific High School

Observation

It appears that the Avid Club advisor has purchased T-shirts from a close relative that were being sold to students involved with the Avid Club. The transaction has been identified as the following:

Check #: 6166

Vendor: ETZ Graphics

Amount: \$719.40

There is potentially a conflict of interest associated with the identified transaction.

Recommendation

In order to maximize the benefits of revenues generated as a result of fundraisers and also in the best interest of students involved with the Avid Club, the ASB should encourage obtaining multiple quotes from vendors selling similar products. Market competition generally leads to better pricing and would result in maximum benefit of ASB funds. Related party transactions are generally more susceptible to fraud and should be discouraged. Furthermore, related party transactions may not be in the best interest of students since, market competition is eliminated.

QUESTIONABLE EXPENSES

Arroyo Valley High School

Observation

Per review of sample ASB disbursements, the auditor noted that ASB funds were used for the following questionable purchase/expense:

- Check #9893 was disbursed to purchase senior portfolios which are required for a grade. Overall, it appears that ASB funds were used to purchase instructional supplies.

Under normal circumstances, the activity identified above is typically purchased using District's resources or are not allowed using public funds since it would be equivalent to the ASB gifting public funds.

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 should 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.

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

VAO Done, TIME. DATE CO. UP

Rancho Cucamonga, California
December 15, 2011



December 15, 2011

To the Governing Board
San Bernardino City Unified School District

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting on August 16, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by San Bernardino City Unified School District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the San Bernardino City Unified School District changed accounting policies related to fund balance reporting and the classifications of fund balance by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the fiscal year 2010-2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the government-wide financial statements was:

Management's estimate of the OPEB liability and the Workers' Compensation claims liability are based on the work performed by an actuary. We evaluated the key factors and assumptions used by the specialist to develop the OPEB liability and Workers' Compensation claims liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected misstatements of the financial statements. The audit did identify uncorrected misstatements that were below both quantitative and qualitative thresholds that have been noted as follows:

County School Facilities Fund

School Facilities Apportionment	\$734,876
Accounts payable	\$737,876
(To accrue for amounts owed back to OPSC)	

Settlement	\$675,000
Accounts payable	\$675,000
(To accrue for a settlement agreement)	

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 15, 2011.

Management Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The attached schedule summarizes audit findings communicated to management during the course of the audit.

(Other Information in Documents Containing Audited Financial Statements)

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Board and management of San Bernardino City Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

V. Alvarez, TRS, Dist. 4, 44D

Rancho Cucamonga, California
December 15, 2011

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

San Bernardino City Unified School District

ASSOCIATED STUDENT BODY (ASB)

RECEIPTING/DEPOSITING - TIMELY DEPOSITS

Arrowview Middle School, Serrano Middle School, Rodriguez Prep Academy, Cypress Elementary School

Observation

Deposits are not being made in accordance with the District's depositing policy. Delay in deposits ranged from approximately ten to 66 days from the date of receipt. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

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 sites. 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.

IMPROPER USE OF RECEIPTS

Serrano Middle School

Observation

Copies of the receipts issued are not maintained intact and in the original state upon issuance. On sub-receipts #253825-253828 and #250186, the auditor noted the amounts on the carbon copies were crossed out and new amounts were written in ink instead of the carbon imprint made when the original receipt was completed. When reconciling the cash on the master-receipt the new amount written in ink was used to reconcile the cash. As a result, the auditor was unable to verify the cash collected for these receipts 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.

Observation

Sub-receipts are being used out of sequence by the yearbook/instrumental music advisor. The advisor skipped from sub-receipt #250006 to 2500184. Sub-receipts related to the yearbook/instrumental music are being used on more than one master-receipt reconciliations and also the amounts listed on the sub-receipts do not reconcile to the master-receipts.

Recommendation

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Rodriguez Prep Academy

Observation

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DISBURSEMENTS – PRE-APPROVAL OF TRANSACTIONS

Pacific High School, Serrano Middle School, Arroyo Valley High School, Shandin Hills Middle School

Observation

ASB disbursements are not consistently being approved prior to transactions taking place. 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 (if applicable). 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.

DISBURSEMENTS - RECEIVING DOCUMENTATION

Pacific High School, Del Vallejo Middle School, Shandin Hills Elementary

Observation

ASB disbursements were being made without explicit receiving documentation for goods being ordered. As a result, vendor invoices were being paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.

Recommendation

All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.

DISBURSEMENTS – SUPPORTING DOCUMENTATION

Arroyo Valley High School, Del Vallejo Middle School

Observation

The ASB disbursements were being made without supporting documentation such as invoices or receipts to substantiate the payments being processed.

Recommendation

All ASB disbursements should be accompanied by supporting invoices or receipts which document the reasons and the amount being paid. Disbursements should not be made if supporting invoices or receipts are not present during the approval process.

IMPROPER USE OF PURCHASE ORDERS

Arrowview Middle School, Curtis 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 order 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.

Arroyo Valley High School

Observation

The ASB purchase order forms standardized and required by the District were not being fully utilized. Specifically, the ASB bookkeeper is currently not completing the field pertaining to the trust account number and balance as of the purchase order date.

Recommendation

The ASB purchase order form standardized by the District contains all essential information related to disbursement activities. The field on the form identifying the account balance of the trust account or ASB account proposing the ASB activity serves as an important tool in making sure that sufficient funds are available prior to approvals taking place. The District should consider conducting a District-wide training on how to properly document and use these purchase order forms.

REVENUE POTENTIAL

Pacific High School, Arroyo Valley High School

Observation

Revenue potential forms are not consistently being completed for fundraising events and/or fundraising events are not being approved prior to the event taking place. Through testing, it was noted that some revenue potential forms used for fundraising events were not completed with respect to anticipated and/or actual income and expense. As a result, expected versus actual results cannot be measured to determine whether or not the fundraiser was successful or any losses have occurred.

Recommendation

The District should ensure that all completed revenue potential forms are forwarded to the District office to be reviewed. A third party review of completed revenue potential forms would ensure that the ASBs are adequately monitoring the profitability and accountability of their fundraising events. Moreover, by documenting the revenues from each fundraising event and reconciling the amount of actual cash collected provides a method to verify that all revenues are deposited intact. Review and approving the fundraising events is an important control activity to prevent any potential unacceptable ASB activity. All fundraising events should be approved by either the ASB student council or site administrator(s) prior to the event taking place to ensure that the activities related to fundraisers are appropriate in a school setting.

MASTER TICKET LOG AND TICKET SALES RECONCILIATION

Pacific High School, Arroyo Valley High School

Observation

Master ticket logs are not being used by the sites to account for all tickets on hand. In addition, ticket sales reports are not being reconciled back to the master ticket log and/or ticket sales reports are not being used to reconcile the revenue generated from ticket sales transactions.

Recommendation

Master ticket logs should be maintained which indicate the type of tickets, color of the tickets, and current beginning ticket numbers on the ticket rolls. When ticket rolls are issued, they should be logged out noting the beginning ticket number on the roll and to whom the roll was issued. When ticket sales reports are returned, the form should be reconciled back to the ticket log or the number of tickets reported as being sold on ticket sales report should be reconciled back to actual cash collected. Physical tickets themselves should be safeguarded as if they were cash because stolen tickets would potentially lead to loss in revenue.

FOOD SALES/MISCELLANEOUS SALES RECONILIATION

Pacific High School

Observation

There appears to be a lack of accountability for revenue generated from the sale of food items by the Avid Club. The Avid Club appears to lack the necessary procedures to track daily food sales. As a result, the ASB does not have the ability to determine if deposits made in connection with Avid Club's food sales activities are intact.

Recommendation

As part of good cash control procedures, receipts or other supporting documents should be used to validate cash collected from any ASB sponsored fundraising activities. Depending on the type of food products sold by the Avid Club, beginning and ending inventories can be taken to account for the anticipated sales. The difference in beginning inventory and ending inventory multiplied by the sales price should result in the expected amount of cash collections. This calculation can be used to reconcile the actual cash collected.

POTENTIAL CONFLICT OF INTEREST

Pacific High School

Observation

It appears that the Avid Club advisor has purchased T-shirts from a close relative that were being sold to students involved with the Avid Club. The transaction has been identified as the following:

Check #: 6166
Vendor: ETZ Graphics
Amount: \$719.40

There is potentially a conflict of interest associated with the identified transaction.

Recommendation

In order to maximize the benefits of revenues generated as a result of fundraisers and also in the best interest of students involved with the Avid Club, the ASB should encourage obtaining multiple quotes from vendors selling similar products. Market competition generally leads to better pricing and would result in maximum benefit of ASB funds. Related party transactions are generally more susceptible to fraud and should be discouraged. Furthermore, related party transactions may not be in the best interest of students since, market competition is eliminated.

QUESTIONABLE EXPENSES

Arroyo Valley High School

Observation

Per review of sample ASB disbursements, the auditor noted that ASB funds were used for the following questionable purchase/expense:

- Check #9893 was disbursed to purchase senior portfolios which are required for a grade. Overall, it appears that ASB funds were used to purchase instructional supplies.

Under normal circumstances, the activity identified above is typically purchased using District's resources or are not allowed using public funds since it would be equivalent to the ASB gifting public funds.

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 should 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.

