



ANNUAL FINANCIAL REPORT

JUNE 30, 2013

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2013

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Funds - Statement of Net Position	20
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Net Position	21
Proprietary Funds - Statement of Cash Flows	22
Fiduciary Funds - Statement of Net Position	23
Fiduciary Funds - Statement of Changes in Net Position	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	61
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	62

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	64
Local Education Agency Organization Structure	67
Schedule of Average Daily Attendance	68
Schedule of Instructional Time	69
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	70
Schedule of Financial Trends and Analysis	71
Schedule of Charter Schools	72
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	74
General Fund Selected Financial Information	75
Cafeteria Fund Selected Financial Information	76
Note to Supplementary Information	77

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	80
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	82
Report on State Compliance	84

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	87
Financial Statement Findings	88
Federal Awards Findings and Questioned Costs	90
State Awards Findings and Questioned Costs	91
Summary Schedule of Prior Audit Findings	92
Management Letter	93

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 12 and budgetary comparison and other postemployment benefits information on pages 61 and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Bernardino City Unified School District's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the San Bernardino City Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Bernardino City Unified School District's internal control over financial reporting and compliance.

VADZINSKY, TIRINE, Day + Co, LLP

Rancho Cucamonga, California
December 16, 2013

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, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

District-Wide Financial Statements

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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

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

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

Governmental Activities

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

Business-Type Activities

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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, 2013

- We use Internal Service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund - the Self-Insurance Fund.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was larger than they were the year before - increasing 2.4 percent or \$19.2 million. Most of this improvement in the District's financial position came from its governmental activities, the net position of which grew by \$21.8 million to \$811.1 million. The net position of the District's business-type activities decreased by \$2.6 million to \$19.8 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	\$ 399.2	\$ 394.2	\$ 13.9	\$ 16.3	\$ 413.1	\$ 410.5
Capital assets	865.1	753.8	6.2	6.4	871.3	760.2
Total Assets	1,264.3	1,148.0	20.1	22.7	1,284.4	1,170.7
Liabilities						
Current liabilities	112.6	65.2	0.3	0.3	112.9	65.5
Long-term obligations	340.6	293.5	-	-	340.6	293.5
Total Liabilities	453.2	358.7	0.3	0.3	453.5	359.0
Net Position						
Net investment in capital assets	683.0	628.0	6.2	6.5	689.2	634.5
Restricted	111.2	175.2	13.6	15.9	124.8	191.1
Unrestricted	16.9	(13.9)	-	-	16.9	(13.9)
Total Net Position	\$ 811.1	\$ 789.3	\$ 19.8	\$ 22.4	\$ 830.9	\$ 811.7

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Changes in Net Position

The District's total revenues decreased by \$59.3 million (see Table A-2). State and Federal aid for specific programs contributed about 32 cents of every dollar raised. Another 61 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	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues:						
Charges for services	\$ 2.1	\$ 2.7	\$ 1.5	\$ 1.6	\$ 3.6	\$ 4.3
Operating grants and contributions	151.7	168.3	27.4	26.9	179.1	195.2
Capital grants and contributions	-	69.6	-	-	-	69.6
General revenues:						
Federal and State unrestricted	301.8	302.1	-	-	301.8	302.1
Property taxes	32.3	29.4	-	-	32.3	29.4
Other general revenues	35.4	10.9	-	-	35.4	10.9
Total Revenues	523.3	583.0	28.9	28.5	552.2	611.5
Expenses						
Instruction-related	360.6	376.0	-	-	360.6	376.0
Student support services	45.9	48.5	-	-	45.9	48.5
Administration	19.9	36.8	-	-	19.9	36.8
Maintenance and operations	52.2	56.0	-	-	52.2	56.0
Other	22.9	21.6	31.5	28.9	54.4	50.5
Total Expenses	501.5	538.9	31.5	28.9	533.0	567.8
Change in Net Position	\$ 21.8	\$ 44.1	\$ (2.6)	\$ (0.4)	\$ 19.2	\$ 43.7

The total cost of all programs and services decreased by \$34.8 million. The District's expenses are predominantly related to educating and caring for students (76.3 percent). The purely administrative activities of the District accounted for just 3.7 percent of total costs.

Total revenues surpassed expenses, increasing net position to \$19.2 million over last year. Only the governmental activities contributed to the District's increase in net position.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

Governmental Activities

Revenues for the District's governmental activities were \$523.3 million, whereas total expenses were \$501.5 million. The increase in net position for governmental activities occurred due to an overall decline in expenditures.

- Some of the District's activities (\$2.1) 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 (\$151.7 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$28.9 million, and expenses were \$31.5 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 (\$347.7 million) were financed by District taxpayers and the taxpayers of our State.
 - This portion of governmental activities was financed with \$32.3 million in property taxes, and \$301.8 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	
	2013	2012	2013	2012
Instruction	\$ 291.3	\$ 304.1	\$ 191.8	\$ 124.5
Instruction-related activities	69.3	71.9	41.9	40.5
Home-to-school transportation	16.0	15.6	12.2	11.8
Other pupil services	29.9	32.9	20.8	22.8
General administration	19.9	36.8	14.7	32.4
Maintenance and operations	52.2	56.0	51.9	55.0
Other	22.9	21.6	14.4	11.3
Total	\$ 501.5	\$ 538.9	\$ 347.7	\$ 298.3

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 \$249.6 million, a decrease of 18.0 percent from the previous year.

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

The District's General Fund decreased in fund balance by \$0.4 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, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 62.5	\$ 471.7	\$ 472.1	\$ 62.1
Building Fund	37.3	46.4	9.4	74.3
County School Facilities Fund	125.9	25.2	96.6	54.5
Adult Education Fund	-	1.7	1.7	-
Child Development Fund	0.5	6.8	6.9	0.4
Capital Facilities Fund	15.5	3.2	0.5	18.2
Special Reserve Fund for Capital Outlay Projects	1.0	1.4	1.2	1.2
Capital Projects Fund for Blended Component Units	49.9	102.7	126.5	26.1
Bond Interest and Redemption	11.6	12.0	10.8	12.8
Total	\$ 304.2	\$ 671.1	\$ 725.7	\$ 249.6

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 \$33.0 million and the actual results for the year show revenues exceeding expenditures by \$0.3 million.

- Actual revenues were \$3.4 million lower than expected, due primarily to lower Revenue Limit sources.
- The actual expenditures were \$36.1 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, 2013**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2013, the District had invested \$871.3 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$13.6 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	
	2013	2012	2013	2012	2013	2012
Land and construction in process	\$ 504.1	\$ 380.0	\$ -	\$ -	\$ 504.1	\$ 380.0
Buildings and improvements	356.6	368.1	4.7	5.1	361.3	373.2
Equipment	4.4	5.7	1.5	1.3	5.9	7.0
Total	\$ 865.1	\$ 753.8	\$ 6.2	\$ 6.4	\$ 871.3	\$ 760.2

The District issued \$128.7 million in bond funds. These funds are being used for new construction and modernization projects across the District and to refinance some of the District's existing bonds.

Long-Term Obligations

At year-end, the District had \$239.5 million in general obligation bonds increasing last year's balance by \$51.9 million.

Table A-6

(Amounts in millions)	Governmental Activities	
	2013	2012
General obligation bonds - net (financed with property taxes)	\$ 239.5	\$ 187.6
Certificates of participation - net	52.6	52.5
Accumulated vacation	1.1	0.8
Claims liability	12.7	12.7
SELF assessment	2.5	2.6
Supplemental early retirement plan (SERP)	19.8	27.0
Other postemployment benefits (OPEB)	12.4	10.3
Total	\$ 340.6	\$ 293.5

The increase in General Obligation Bonds is due to the issues of 2013 Series A, B, and Refunding General Obligation Bonds. New debt resulted mainly from accumulated vacation and other postemployment benefits.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

More detailed information about the District's long-term obligations is presented in Note 9 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. Local Control Funding Formula will uniquely impact the District as it eliminates revenue limits and the majority of State Categorical programs. It will establish base grants for four grade spans as well as supplemental/concentration grants to provide supplemental services to low income and English learner students.
2. Any major changes in program funding such as declining enrollment or Average Daily Attendance (1.6 percent decline in 2012-2013) 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 POSITION JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 277,956,418	\$ 8,632,922	\$ 286,589,340
Receivables	105,323,800	5,867,488	111,191,288
Internal balances	1,743,828	(1,743,828)	-
Prepaid expenses	36,315	-	36,315
Stores inventories	351,292	1,126,767	1,478,059
Deferred costs on issuance	4,239,115	-	4,239,115
Deferred charges on refunding	9,526,562	-	9,526,562
Capital assets			
Land and construction in process	504,077,944	-	504,077,944
Other capital assets	532,169,036	15,714,108	547,883,144
Less: Accumulated depreciation	(171,145,435)	(9,510,218)	(180,655,653)
Total Capital Assets	<u>865,101,545</u>	<u>6,203,890</u>	<u>871,305,435</u>
Total Assets	<u>1,264,278,875</u>	<u>20,087,239</u>	<u>1,284,366,114</u>
LIABILITIES			
Accounts payable	67,079,242	274,784	67,354,026
Interest payable	3,978,764	-	3,978,764
Deferred revenue	1,903,067	21,391	1,924,458
Current loans	39,650,000	-	39,650,000
Long-term obligations			
Current portion of long-term obligations	17,586,071	-	17,586,071
Noncurrent portion of long-term obligations	322,997,720	-	322,997,720
Total Long-Term Obligations	<u>340,583,791</u>	<u>-</u>	<u>340,583,791</u>
Total Liabilities	<u>453,194,864</u>	<u>296,175</u>	<u>453,491,039</u>
NET POSITION			
Net investment in capital assets	682,948,182	6,203,890	689,152,072
Restricted for:			
Debt service	8,855,290	-	8,855,290
Capital projects	72,605,602	-	72,605,602
Educational programs	17,368,584	-	17,368,584
Other activities	12,356,932	13,587,174	25,944,106
Unrestricted	16,949,421	-	16,949,421
Total Net Position	<u>\$ 811,084,011</u>	<u>\$ 19,791,064</u>	<u>\$ 830,875,075</u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 291,341,099	\$ 203,293	\$ 99,352,431
Instruction-related activities:			
Supervision of instruction	23,695,455	82,118	14,644,425
Instructional library, media, and technology	3,034,723	-	226,903
School site administration	42,508,816	16,873	12,371,984
Pupil services:			
Home-to-school transportation	15,966,024	-	3,728,171
All other pupil services	29,942,303	2,076	9,136,165
Administration:			
Data processing	5,156,035	-	-
All other administration	14,729,434	21,073	5,159,400
Plant services	52,240,671	22,622	305,222
Community services	7,176,349	253,196	5,994,718
Interest on long-term obligations	15,635,177	-	-
Other outgo	59,203	1,526,790	760,212
Total Governmental Activities	501,485,289	2,128,041	151,679,631
Business-Type Activities			
Food services	31,479,826	1,497,909	27,416,999
Total School District	\$ 532,965,115	\$ 3,625,950	\$ 179,096,630

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
- Miscellaneous

Subtotal, General Revenues

Change in Net Position

- Net Position - Beginning
- Net Position - Ending

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

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

Governmental Activities	Business- Type Activities	Total
\$ (191,785,375)	\$ -	\$ (191,785,375)
(8,968,912)	-	(8,968,912)
(2,807,820)	-	(2,807,820)
(30,119,959)	-	(30,119,959)
(12,237,853)	-	(12,237,853)
(20,804,062)	-	(20,804,062)
(5,156,035)	-	(5,156,035)
(9,548,961)	-	(9,548,961)
(51,912,827)	-	(51,912,827)
(928,435)	-	(928,435)
(15,635,177)	-	(15,635,177)
2,227,799	-	2,227,799
<u>(347,677,617)</u>	<u>-</u>	<u>(347,677,617)</u>
-	(2,564,918)	(2,564,918)
<u>(347,677,617)</u>	<u>(2,564,918)</u>	<u>(350,242,535)</u>
18,267,639	-	18,267,639
10,981,305	-	10,981,305
3,067,241	-	3,067,241
301,838,541	-	301,838,541
1,879,103	3,588	1,882,691
33,433,819	-	33,433,819
<u>369,467,648</u>	<u>3,588</u>	<u>369,471,236</u>
21,790,031	(2,561,330)	19,228,701
789,293,980	22,352,394	811,646,374
<u>\$ 811,084,011</u>	<u>\$ 19,791,064</u>	<u>\$ 830,875,075</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General Fund	Building Fund	County Schools Facilities Fund
ASSETS			
Deposits and investments	\$ 66,574,902	\$ 74,308,447	\$ 61,442,701
Receivables	104,306,856	32,497	199,107
Due from other funds	2,339,607	2,230,356	10,501,174
Prepaid expenditures	36,315	-	-
Stores inventories	351,292	-	-
Total Assets	\$ 173,608,972	\$ 76,571,300	\$ 72,142,982
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 47,432,303	\$ 2,236,188	\$ 13,437,576
Due to other funds	22,953,598	4,167	4,233,921
Current loans	39,650,000	-	-
Deferred revenue	1,424,316	-	-
Total Liabilities	111,460,217	2,240,355	17,671,497
Fund Balances:			
Nonspendable	598,607	-	-
Restricted	17,368,584	74,330,945	54,471,485
Assigned	34,941,564	-	-
Unassigned	9,240,000	-	-
Total Fund Balances	62,148,755	74,330,945	54,471,485
Total Liabilities and Fund Balances	\$ 173,608,972	\$ 76,571,300	\$ 72,142,982

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 51,347,752	\$ 253,673,802
744,096	105,282,556
11,222,971	26,294,108
-	36,315
-	351,292
<u>\$ 63,314,819</u>	<u>\$ 385,638,073</u>

\$ 3,794,144	\$ 66,900,211
394,035	27,585,721
-	39,650,000
478,751	1,903,067
<u>4,666,930</u>	<u>136,038,999</u>

-	598,607
57,424,631	203,595,645
1,223,258	36,164,822
-	9,240,000
<u>58,647,889</u>	<u>249,599,074</u>

<u>\$ 63,314,819</u>	<u>\$ 385,638,073</u>
----------------------	-----------------------

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

Total Fund Balance - Governmental Funds	\$ 249,599,074
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is:	\$ 1,036,246,980
Accumulated depreciation is:	<u>(171,145,435)</u>
Net Capital Assets	865,101,545
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, 2013.	
	9,526,562
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.	
	4,239,115
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.	
	(3,978,764)
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.	
	12,015,156
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	201,654,705
Unamortized premium on issuance	22,289,175
Certificates of participation	53,080,000
Unamortized discount on issuance	(505,951)
Compensated absences (vacations)	1,063,247
Other postemployment benefits (OPEB)	12,401,740
Supplemental early retirement (SERP)	19,828,136
In addition, the District issues "capital appreciation" general obligation bonds. The accretion of interest on unmatured general obligation bond to date is:	
	<u>15,607,625</u>
Total Long-Term Obligations	<u>(325,418,677)</u>
Total Net Position - Governmental Activities	<u><u>\$ 811,084,011</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, 2013**

	General Fund	Building Fund	County Schools Facilities Fund
REVENUES			
Revenue limit sources	\$ 254,620,074	\$ -	\$ -
Federal sources	64,856,638	-	-
Other State sources	143,529,155	-	24,305,376
Other local sources	8,654,994	153,892	449,081
Total Revenues	471,660,861	153,892	24,754,457
EXPENDITURES			
Current			
Instruction	280,871,781	-	-
Instruction-related activities:			
Supervision of instruction	23,650,613	-	-
Instructional library, media, and technology	3,046,008	-	-
School site administration	42,388,000	-	-
Pupil services:			
Home-to-school transportation	15,966,290	-	-
All other pupil services	29,780,457	-	-
Administration:			
Data processing	5,157,269	-	-
All other administration	20,261,093	-	-
Plant services	46,539,133	-	-
Facility acquisition and construction	2,889,009	8,309,978	93,153,144
Community services	1,158,420	-	-
Other outgo	57,878	-	-
Debt service			
Principal	-	-	-
Interest and other	189,650	1,113,564	-
Total Expenditures	471,955,601	9,423,542	93,153,144
Deficiency of Revenues Over Expenditures	(294,740)	(9,269,650)	(68,398,687)
Other Financing Sources (Uses)			
Transfers in	73,619	2,726,998	486,138
Other sources - general obligation bonds	-	42,665,000	-
Other sources - premium on issuance of general obligation bonds	-	897,269	-
Transfers out	(133,630)	(5,270)	(3,509,868)
Other uses - payment to refunded general obligation bonds escrow agent	-	-	-
Net Financing Sources (Uses)	(60,011)	46,283,997	(3,023,730)
NET CHANGE IN FUND BALANCES	(354,751)	37,014,347	(71,422,417)
Fund Balances - Beginning	62,503,506	37,316,598	125,893,902
Fund Balances - Ending	\$ 62,148,755	\$ 74,330,945	\$ 54,471,485

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 254,620,074
4,482,009	69,338,647
6,608,161	174,442,692
16,153,979	25,411,946
<u>27,244,149</u>	<u>523,813,359</u>
1,724,018	282,595,799
161,569	23,812,182
-	3,046,008
232,943	42,620,943
-	15,966,290
505	29,780,962
-	5,157,269
313,690	20,574,783
196,343	46,735,476
23,823,236	128,175,367
6,037,456	7,195,876
1,325	59,203
4,715,000	4,715,000
10,978,324	12,281,538
<u>48,184,409</u>	<u>622,716,696</u>
<u>(20,940,260)</u>	<u>(98,903,337)</u>
709,251	3,996,006
86,000,000	128,665,000
13,864,035	14,761,304
(347,238)	(3,996,006)
<u>(99,134,891)</u>	<u>(99,134,891)</u>
<u>1,091,157</u>	<u>44,291,413</u>
<u>(19,849,103)</u>	<u>(54,611,924)</u>
<u>78,496,992</u>	<u>304,210,998</u>
<u>\$ 58,647,889</u>	<u>\$ 249,599,074</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Total Net Change in Fund Balances - Governmental Funds **\$ (54,611,924)**

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

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

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

Capital outlays	\$ 124,056,091	
Depreciation expense	(12,782,459)	
Net Expense Adjustment		111,273,632

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds. (5,950)

In the Statement of Activities, certain operating expenses - compensated absences (vacation) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$300,576. Additionally, payments for supplemental early incentive program amounted to \$7,126,459. 6,825,883

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. However, the difference between the annual required contribution and the actual contribution made, if less, is recorded in the government-wide financial statements as an expense. The actual amount of the contribution was less than the annual required contribution. (2,148,943)

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:

2012 General obligation bonds, Series A		(30,150,000)
2012 General obligation bonds, Series B		(12,515,000)
2013 Refunding general obligation bonds		(86,000,000)

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		(14,761,304)
Deferred charges on refunding		9,234,891

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds		94,615,000
--------------------------	--	------------

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, 2013

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	\$ 541,530	
Amortization of debt discount	(39,944)	
Amortization of deferred cost on issuance	(237,408)	
Amortization of deferred charges on refunding	(394,277)	
Combined Adjustment		\$ (130,099)

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 \$314,479, and second, \$3,538,019 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(3,223,540)

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.

3,387,385

Change in Net Position of Governmental Activities

\$ 21,790,031

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 8,632,922	\$ 24,282,616
Receivables	5,867,488	41,244
Due from other funds	31,229	3,233,294
Stores inventories	1,126,767	-
Total Current Assets	15,658,406	27,557,154
Noncurrent Assets		
Capital assets	15,714,108	-
Less: accumulated depreciation	(9,510,218)	-
Total Noncurrent Assets	6,203,890	-
Total Assets	21,862,296	27,557,154
LIABILITIES		
Current Liabilities		
Accounts payable	274,784	179,031
Due to other funds	1,775,057	197,853
Deferred revenue	21,391	-
Current portion of claims liability	-	3,295,471
Current portion of SELF assessment	-	259,141
Total Current Liabilities	2,071,232	3,931,496
Noncurrent Liabilities		
Noncurrent portion of claims liability and assessment	-	11,610,502
NET POSITION		
Net investment in capital assets	6,203,890	-
Restricted	13,587,174	12,015,156
Total Net Position	\$ 19,791,064	\$ 12,015,156

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013**

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 1,494,783	\$ -
Charges to other funds and miscellaneous revenues	3,126	7,820,663
Total Operating Revenues	1,497,909	7,820,663
OPERATING EXPENSES		
Payroll costs	10,648,568	662,464
Professional and contract services	1,385,421	-
Supplies and materials	17,197,171	12,938
Facility rental	219,588	2,129
Other operating cost	1,236,670	3,853,019
Depreciation	792,408	-
Total Operating Expenses	31,479,826	4,530,550
Operating Income (Loss)	(29,981,917)	3,290,113
NONOPERATING REVENUES		
Interest income	3,588	97,272
Federal grants	25,455,253	-
State grants	1,961,746	-
Total Nonoperating Revenues	27,420,587	97,272
Change in Net Position	(2,561,330)	3,387,385
Total Net Position - Beginning	22,352,394	8,627,771
Total Net Position - Ending	\$ 19,791,064	\$ 12,015,156

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, 2013**

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ (1,270,025)	\$ -
Cash receipts from interfund services provided	-	6,114,218
Cash payments to other suppliers of goods or services	(18,635,686)	(192,668)
Cash payments to employees for services	(10,648,568)	(662,464)
Cash payments for insurance claims	-	(3,982,210)
Other operating cash payments	(1,456,258)	-
Net Cash Provided (Used) by Operating Activities	(32,010,537)	1,276,876
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	27,416,999	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(561,318)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	3,588	97,272
Net Increase (Decrease) in Cash and Cash Equivalents	(5,151,268)	1,374,148
Cash and Cash Equivalents - Beginning	13,784,190	22,908,468
Cash and Cash Equivalents - Ending	\$ 8,632,922	\$ 24,282,616
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (29,981,917)	\$ 3,290,113
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:		
Depreciation	792,408	-
Changes in assets and liabilities:		
Receivables	(2,953,578)	177
Due from other fund	(1,507)	(1,900,217)
Inventories	(58,241)	-
Accounts payables	5,147	(177,778)
Due to other fund	184,418	193,772
Deferred revenue	2,733	
Claims liability and assessment	-	(129,191)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (32,010,537)	\$ 1,276,876

NONCASH, NONCAPITAL FINANCING ACTIVITIES

During the year, the District received \$1,722,718 of food commodities from the U.S. Department of Agriculture.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2013

	<u>Scholarship Trust</u>	<u>Agency Funds</u>
ASSETS		
Deposits and investments	\$ 400,010	\$ 1,281,279
Receivables	355	904
Stores inventories	-	138,042
Total Assets	<u>400,365</u>	<u>\$ 1,420,225</u>
LIABILITIES		
Accounts payable	-	\$ 92,611
Due to student groups	-	1,327,614
Total Liabilities	<u>-</u>	<u>\$ 1,420,225</u>
NET POSITION		
Held in reserve for scholarships	<u>400,365</u>	
Total Net Position	<u>\$ 400,365</u>	

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2013**

	<u>Scholarship Trust</u>
ADDITIONS	
Interest	<u>\$ 1,930</u>
DEDUCTIONS	
Scholarships awarded	<u> 19,773</u>
Change in Net Position	(17,843)
Net Position - Beginning	<u> 418,208</u>
Net Position - Ending	<u><u>\$ 400,365</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, 2013

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, Academy of the Inland Empire, Crown Ridge Academy, Hardy Brown College Prep, Excel Prep Charter, SOAR Academy Schools, Taft T. Newman Leadership Academy, and Woodward Leadership Academy pursuant to *Education Code* Section 47605.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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.

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

Non-Major Governmental Funds

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Basis of Accounting - Measurement Focus

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

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

Net position 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 position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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 balance sheet and revenue is recognized.

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Interfund Balances

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

Compensated Absences

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

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.

Current Loans

Current loans consist of amounts outstanding at June 30, 2013, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Fund Balances - Governmental Funds

As of June 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$124,773,582 of restricted net position, which is restricted by enabling legislation.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Operating Revenues and Expenses

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

Interfund Activity

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

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

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

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

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.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans - pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans - pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans - pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 277,956,418
Business-type activities	8,632,922
Fiduciary funds	1,681,289
Total Deposits and Investments	<u>\$ 288,270,629</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 260,205
Cash in revolving	520,275
Investments	287,490,149
Total Deposits and Investments	<u>\$ 288,270,629</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, 2013

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District 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, 2013

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:

<u>Investment Type</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Average Maturity in Days</u>
San Bernardino County Investment Pool	\$ 251,062,409	\$ 253,693,059	381
US Bank Money Market Mutual Fund	26,632,853	26,632,853	N/A
Wells Fargo Advantage Money Market Mutual Funds	3,051,411	3,051,411	33
Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account	6,743,476	6,743,476	1
Total	<u>\$ 287,490,149</u>	<u>\$ 290,120,799</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 and US Bank Money Market Fund are 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, 2013, the District's bank balance of \$1,328,823 was exposed to custodial credit risk because it was uninsured and uncollateralized.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 16,722,316	\$ -	\$ -	\$ 505,717
State Government				
Apportionment	63,505,194	-	-	-
Categorical aid	9,118,111	-	-	42,217
Lottery	4,067,079	-	-	-
Special Education	8,804,403	-	-	-
Local Government				
Interest	28,845	31,484	57,405	16,710
Other Local Sources				
Other	2,060,908	1,013	141,702	179,452
Total	<u>\$ 104,306,856</u>	<u>\$ 32,497</u>	<u>\$ 199,107</u>	<u>\$ 744,096</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical aid	\$ -	\$ 17,228,033	\$ 5,393,704	\$ -
State Government				
Apportionment	-	63,505,194	-	-
Categorical aid	-	9,160,328	445,244	-
Lottery	-	4,067,079	-	-
Special Education	-	8,804,403	-	-
Local Government				
Interest	17,691	152,135	-	355
Other Local Sources				
Other	23,553	2,406,628	28,540	904
Total	<u>\$ 41,244</u>	<u>\$ 105,323,800</u>	<u>\$ 5,867,488</u>	<u>\$ 1,259</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 32,151,833	\$ -	\$ -	\$ 32,151,833
Construction in process	347,870,020	124,056,091	-	471,926,111
Total Capital Assets Not Being Depreciated	380,021,853	124,056,091	-	504,077,944
Capital Assets Being Depreciated				
Land improvements	43,149,684	-	-	43,149,684
Buildings and improvements	462,949,327	-	-	462,949,327
Furniture and equipment	26,180,550	-	110,525	26,070,025
Total Capital Assets Being Depreciated	532,279,561	-	110,525	532,169,036
Less Accumulated Depreciation				
Land improvements	32,140,872	839,601	-	32,980,473
Buildings and improvements	105,809,394	10,672,389	-	116,481,783
Furniture and equipment	20,517,285	1,270,469	104,575	21,683,179
Total Accumulated Depreciation Governmental Activities Capital Assets, Net	\$ 753,833,863	\$ 111,273,632	\$ 5,950	\$ 865,101,545
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,828,028	\$ 13,909	\$ -	\$ 8,841,937
Furniture and equipment	5,580,336	339,934	23,443	5,896,827
Vehicles	829,853	207,475	61,984	975,344
Total Capital Assets Being Depreciated	15,238,217	561,318	85,427	15,714,108
Less Accumulated Depreciation				
Buildings and improvements	3,697,564	441,899	-	4,139,463
Furniture and equipment	4,370,391	282,367	23,443	4,629,315
Vehicles	735,282	68,142	61,984	741,440
Total Accumulated Depreciation Business-Type Activities Capital Assets, Net	\$ 6,434,980	\$ (231,090)	\$ -	\$ 6,203,890

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

Governmental Activities

Instruction	\$ 11,504,213
All other pupil services	255,649
All other general administration	127,825
Plant services	894,772
Total Depreciation Expenses Governmental Activities	<u>12,782,459</u>

Business-Type Activities

Food services	792,408
Total Depreciation Expenses All Activities	<u><u>\$ 13,574,867</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From						Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise	
General Fund	\$ -	\$ 1,967	\$ 57,962	\$ 306,768	\$ 197,853	\$ 1,775,057	\$ 2,339,607
Building Fund	233,137	-	1,997,219	-	-	-	2,230,356
County Schools							
Facilities Fund	10,500,000	612	-	562	-	-	10,501,174
Non-Major							
Governmental Funds	9,048,120	-	2,174,851	-	-	-	11,222,971
Internal Service Fund	3,141,112	1,588	3,889	86,705	-	-	3,233,294
Food Service							
Enterprise Fund	31,229	-	-	-	-	-	31,229
Total	<u>\$ 22,953,598</u>	<u>\$ 4,167</u>	<u>\$ 4,233,921</u>	<u>\$ 394,035</u>	<u>\$ 197,853</u>	<u>\$ 1,775,057</u>	<u>\$ 29,558,631</u>

The balance of \$1,775,057 due to the General Fund from the Food Service Major Enterprise Fund resulted from payroll, indirect costs, benefits, and other operating costs.

The balance of \$10,500,000 due to the County School Facilities Fund from the General Fund was due to an interfund borrowing for cash flow needs.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

A balance of \$9,000,000 due to the Capital Facilities Non-Major Governmental Fund from the General Fund was due to an interfund borrowing for cash flow needs.

The balance of \$3,141,112 due to the Internal Service Fund from the General Fund resulted from the transfer of designated funds reserved for retiree health and welfare benefits.

The balance of \$1,997,219 due to the Building Fund from the County School Facilities Fund resulted from the reimbursement of various qualifying capital outlay expenditures.

A balance of \$2,144,251 due to the Capital Projects Non-Major Governmental Fund for Blended Component Units from the County School Facilities Fund resulted from the reimbursement of various qualifying capital outlay expenditures.

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

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 73,619	\$ -	\$ 73,619
Building Fund	-	-	2,726,998	-	2,726,998
County Schools Facilities Fund	133,630	5,270	-	347,238	486,138
Non-Major Governmental Funds	-	-	709,251	-	709,251
Total	\$ 133,630	\$ 5,270	\$ 3,509,868	\$ 347,238	\$ 3,996,006

The General Fund transferred qualified capital outlay expenditures to the County Schools Facilities Fund. \$ 133,630

The Building Fund transferred qualified capital outlay expenditures to the County Schools Facilities Fund. 5,270

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

General Fund	73,619
Building Fund	2,726,998
Capital Facilities Non-Major Governmental Fund	384
Special Reserve Non-Major Governmental Fund for Capital Outlay Projects	708,867

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred qualified capital outlay expenditures to the County Schools Facilities Fund. 347,238

Total **\$ 3,996,006**

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Accrued salaries and benefits	\$ 26,465,254	\$ -	\$ 7,347	\$ 455,328
State apportionment	3,582,404	-	-	-
Books and supplies	2,226,304	-	-	17,348
Services and other operating	13,113,219	921,637	645,026	67,028
Construction	806,853	1,314,326	12,573,326	3,250,680
Due to charter schools	258,245	-	-	-
Other vendor payables	980,024	225	211,877	3,760
Total	<u>\$ 47,432,303</u>	<u>\$ 2,236,188</u>	<u>\$ 13,437,576</u>	<u>\$ 3,794,144</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Accrued salaries and benefits	\$ 45,897	\$ 26,973,826	\$ -	\$ -
State apportionment	-	3,582,404	-	-
Books and supplies	829	2,244,481	139,240	-
Services and other operating	131,350	14,878,260	135,544	-
Construction	-	17,945,185	-	-
Due to charter schools	-	258,245	-	-
Other vendor payables	955	1,196,841	-	92,611
Total	<u>\$ 179,031</u>	<u>\$ 67,079,242</u>	<u>\$ 274,784</u>	<u>\$ 92,611</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Food Service Enterprise Fund
Federal financial assistance	\$ 1,299,846	\$ -	\$ 1,299,846	\$ -
State categorical aid	-	9,784	9,784	-
Other local	124,470	468,967	593,437	21,391
Total	<u>\$ 1,424,316</u>	<u>\$ 478,751</u>	<u>\$ 1,903,067</u>	<u>\$ 21,391</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$80,000,000 of Tax Revenue Anticipation Notes dated July 1, 2012, through the California School Cash Reserve Program Authority. The notes matured on March 1, 2013, and yielded 0.38 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account in March 2013.

The District issued \$39,650,000 of Tax Revenue Anticipation Notes dated February 20, 2013, through the California School Cash Reserve Program Authority. The notes mature on October 1, 2013, with an interest rate of 0.40 percent. The notes were sold to supplement cash flow. Repayment required that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due was on account in October 2013.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2012	Additions	Payments	Outstanding June 30, 2013
7/1/2012	0.38%	3/1/2013	\$ -	\$ 80,000,000	\$ 80,000,000	\$ -
2/20/2013	0.40%	10/1/2013	-	39,650,000	-	39,650,000
			<u>\$ -</u>	<u>\$ 119,650,000</u>	<u>\$ 80,000,000</u>	<u>\$ 39,650,000</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance			Balance June 30, 2013	Due in One Year
	July 1, 2012	Additions	Deductions		
General obligation bonds	\$ 179,674,311	\$ 132,203,019	\$ 94,615,000	\$ 217,262,330	\$ 6,905,000
Premium on issuance	8,069,401	14,761,304	541,530	22,289,175	-
2011 Certificates of Participation	53,080,000	-	-	53,080,000	-
Discount on issuance	(545,895)	-	(39,944)	(505,951)	-
Accumulated vacation - net	762,671	300,576	-	1,063,247	-
Claims liability	12,680,582	3,295,471	3,295,471	12,680,582	3,295,471
SELF assessment	2,613,723	-	129,191	2,484,532	259,141
Supplemental early retirement plan (SERP)	26,954,595	-	7,126,459	19,828,136	7,126,459
Other postemployment benefits (OPEB)	10,252,797	4,794,349	2,645,406	12,401,740	-
Total	\$ 293,542,185	\$ 155,354,719	\$ 108,313,113	\$ 340,583,791	\$ 17,586,071

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds	
				Outstanding July 1, 2012	Issued	Accreted	Redeemed	Outstanding June 30, 2013
9/1/99	8/1/14	4.20 - 5.60%	\$ 7,300,000	\$ 2,260,906	\$ -	\$ 105,142	\$ 795,000	\$ 1,571,048
5/1/03	8/1/27	1.10 - 5.46%	15,000,000	12,353,538	-	673,271	-	13,026,809
9/16/04	8/1/29	1.25 - 5.46%	44,999,498	34,439,296	-	79,060	16,990,000	17,528,356
9/16/04	8/1/24	1.25 - 4.59%	37,055,000	30,745,000	-	-	15,040,000	15,705,000
5/18/06	8/1/30	4.50 - 5.15%	67,999,967	69,838,166	-	669,558	61,720,000	8,787,724
3/14/07	8/1/30	3.77 - 4.74%	9,997,217	10,302,544	-	414,669	70,000	10,647,213
3/3/11	8/1/42	7.41 - 7.50%	11,525,419	13,305,905	-	1,013,064	-	14,318,969
3/3/11	8/1/35	7.41 - 7.50%	5,477,434	6,428,956	-	583,255	-	7,012,211
5/22/13	8/1/28	2.00 - 5.00%	86,000,000	-	86,000,000	-	-	86,000,000
6/12/13	8/1/37	2.00 - 4.00%	30,150,000	-	30,150,000	-	-	30,150,000
6/12/13	8/1/27	0.99 - 4.66%	12,515,000	-	12,515,000	-	-	12,515,000
				\$179,674,311	\$128,665,000	\$ 3,538,019	\$ 94,615,000	\$ 217,262,330

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, 1999 General Obligation Bonds, Series B, totaling \$1,571,048 (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 Position.

At June 30, 2013, 1999 General Obligation Bonds, Series C totaling \$13,026,809 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$277,609.

2004 General Obligation Bonds, Series A

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

At June 30, 2013, 2004 General Obligation Bonds, Series A, totaling \$17,528,356 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$1,245,635.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 and Series C (with final prepayment to occur August 1, 2013), and to pay certain costs associated with the Refunding Bonds.

At June 30, 2013, 2004 General Obligation Refunding Bonds totaling \$15,705,000 were still outstanding. Unamortized premium received on issuance amounted to \$1,139,840.

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 were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2013, the principal balance outstanding (including accretion) was \$8,787,724. Unamortized premium received on issuance amounted to \$4,035,042.

2004 General Obligation Bonds, Series C

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

The bonds have a final maturity which occurs on August 1, 2030, and yield interest rates of 3.77 to 4.74 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2013, the principal balance outstanding (including accretion) was \$10,647,213. Unamortized premium received on issuance amounted to \$232,820.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2013, the principal balance outstanding (including accretion) was \$14,318,969. Unamortized premium received on issuance amounted to \$468,981.

2004 General Obligation Bonds, Series E

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

The bonds have a final maturity which occurs on August 1, 2035, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to fund capitalized interest and to pay the premiums of bond insurance and a reserve surety bond for the 2011 Certificates of Participation Series A. At June 30, 2013, the principal balance outstanding (including accretion) was \$7,012,211. Unamortized premium on issuance amounted to \$208,082.

2013 Refunding General Obligation Bonds

On May 22, 2013, the San Bernardino City Unified School District issued 2013 Refunding General Obligation Bonds in the amount of \$86,000,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$99,134,891 (representing the principal amount of \$86,000,000 and premium of \$13,864,035, less cost of issuance of \$729,144). The bonds have a final maturity which occurs on August 1, 2028, with interest rate ranging from 2.0 to 5.0 percent. Proceeds from the sale of bonds were used to provide current refunding of \$13,730,000, \$16,175,000, and \$59,995,000 for 2004 Refunding General Obligation Bonds, 2004 General Obligation Bonds, Series A, and 2004 General Obligation Bonds, Series B, respectively. The refunding resulted in a cumulative cash flow saves of \$7,894,614 over the life of the new debt and an economic gain of \$6,343,785 based on the difference between the present value of the existing debt service requirements and new debt service requirements discounted at 1.50 percent. As of June 30, 2013, the principal balance outstanding was \$86,000,000. Unamortized premium and deferred amount on refunding were \$13,787,013 and \$9,183,586, respectively.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

2012 General Obligation Bonds, Series A

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series A. The Series A represents the first series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$30,769,060, representing the principal amount of \$30,150,000 plus an original issue premium of \$897,269 less cost of issuance of \$278,209. The bonds have a final maturity which occurs on August 1, 2037, and yield interest rates of 2.00 to 4.00 percent. The bonds will be used to fund the construction, renovation, and repair of certain District facilities. At June 30, 2013, 2013 General Obligation Bonds, Series A, totaling \$30,150,000 were still outstanding. Unamortized premium received on issuance amounted to \$894,153.

2012 General Obligation Bonds, Series B

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

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
2014	\$ 6,882,562	\$ 22,438	\$ 9,716,710	\$ 16,621,710
2015	7,484,001	225,999	11,720,555	19,430,555
2016	7,303,054	331,946	11,531,986	19,166,986
2017	6,248,301	6,699	11,171,439	17,426,439
2018	6,946,580	8,420	10,643,524	17,598,524
2019-2023	45,693,046	1,921,954	43,165,984	90,780,984
2024-2028	62,566,616	9,761,384	22,979,845	95,307,845
2029-2033	37,454,523	32,277,477	5,614,500	75,346,500
2034-2038	28,407,018	51,157,982	1,872,500	81,437,500
2039-2043	8,276,629	50,148,371	-	58,425,000
Total	<u>\$ 217,262,330</u>	<u>\$ 145,862,670</u>	<u>\$ 128,417,043</u>	<u>\$ 491,542,043</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013, the principal balance outstanding was \$53,080,000. Unamortized discount on issuance amounted to \$505,951.

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2014	\$ -	\$ 4,220,372	\$ 4,220,372
2015	-	4,220,372	4,220,372
2016	-	4,220,372	4,220,372
2017	-	4,220,373	4,220,373
2018	-	4,220,373	4,220,373
2019-2023	33,985,000	14,729,380	48,714,380
2024-2026	19,095,000	3,175,759	22,270,759
Total	<u>\$ 53,080,000</u>	<u>\$ 39,007,001</u>	<u>\$ 92,087,001</u>

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$1,063,247.

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, 2013, amounted to \$12,680,582, using a discount factor of three percent.

SELF Assessment

The District is a member of School Excess Liability Fund (SELF), a cost sharing Joint Powers Authority (JPA) for the purpose of providing the District workers' compensation insurance. The SELF board of directors declared an equity assessment to the member districts. At June 30, 2013 the District's outstanding obligation on their pro-rata share of equity assessed was \$2,484,532.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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.

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

As of June 30, 2013, the outstanding obligation for the aforementioned Supplemental Early Retirement Plan was \$19,828,136.

Future payments are as follows:

Year Ending June 30,	Annual Payment
2014	\$ 7,126,459
2015	6,225,241
2016	3,464,201
2017	3,012,235
Total	<u>\$ 19,828,136</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$4,675,326, and contributions made by the District during the year were \$2,645,406. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$780,238 and \$(661,215), respectively, which resulted in an increase to the net OPEB obligation of \$2,148,943. As of June 30, 2013, the net OPEB obligation was \$12,401,740. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 211,000	\$ -	\$ -	\$ -	\$ 211,000
Stores inventories	351,292	-	-	-	351,292
Prepaid expenditures	36,315	-	-	-	36,315
Total Nonspendable	598,607	-	-	-	598,607
Restricted					
Legally restricted programs	17,368,584	-	-	341,776	17,710,360
Capital projects	-	74,330,945	54,471,485	44,248,801	173,051,231
Debt services	-	-	-	12,834,054	12,834,054
Total Restricted	17,368,584	74,330,945	54,471,485	57,424,631	203,595,645
Assigned					
Reserve for operating deficit	33,812,588	-	-	-	33,812,588
Salary reserve	1,063,247	-	-	-	1,063,247
CAHSEE intensive instruction	65,729	-	-	-	65,729
Adult education	-	-	-	30,884	30,884
Child development	-	-	-	1,615	1,615
Future capital projects	-	-	-	1,190,759	1,190,759
Total Assigned	34,941,564	-	-	1,223,258	36,164,822
Unassigned					
Reserve for economic uncertainties	9,240,000	-	-	-	9,240,000
Total	\$ 62,148,755	\$ 74,330,945	\$ 54,471,485	\$ 58,647,889	\$ 249,599,074

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - 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 425 retirees and beneficiaries currently receiving benefits, four terminated Plan members entitled to but not yet receiving benefits, and 4,104 Plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2012-2013, the District contributed \$2,645,406 to the Plan, all of which was used for current premiums (approximately 82.9 percent of total premiums). Plan members receiving benefits contributed \$544,258, or approximately 17.1 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	\$ 4,675,326
Interest on net OPEB obligation	780,238
Adjustment to annual required contribution	<u>(661,215)</u>
Annual OPEB cost (expense)	4,794,349
Contributions made	<u>(2,645,406)</u>
Increase in net OPEB obligation	2,148,943
Net OPEB obligation, beginning of year	<u>10,252,797</u>
Net OPEB obligation, end of year	<u>\$ 12,401,740</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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
2011	\$ 3,651,941	\$ 1,621,324	44.40%	\$ 7,746,202
2012	4,765,250	2,258,655	47.40%	10,252,797
2013	4,794,349	2,645,406	55.18%	12,401,740

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 Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
June 30, 2011	\$ 553,767	\$ 40,228,979	\$ 39,675,212	1.38%	\$ 302,224,966	13.13%

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 June 30, 2011, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 7.61 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, 2013, was 24 years.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 12 - 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, 2013, 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 2013, 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, 2011 to June 30, 2013:

	Workers' Compensation
Liability Balance, July 1, 2011	\$ 10,150,707
Claims and changes in estimates	5,940,778
Claims payments	(3,410,903)
Liability Balance, June 30, 2012	12,680,582
Claims and changes in estimates	3,295,471
Claims payments	(3,295,471)
Liability Balance, June 30, 2013	\$ 12,680,582
Assets available to pay claims at June 30, 2013	\$ 22,258,010

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 13 - 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, 100 Waterfront Place, West Sacramento, California 95605.

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 2012-2013 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, 2013, 2012, and 2011 were \$17,454,712, \$18,099,964, and \$19,222,459, 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, 2013

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 2012-2013 was 11.417 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, 2013, 2012, and 2011, were \$7,710,455, \$8,034,146, and \$8,028,509, 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 \$12,056,604 (5.176 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. 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 \$46,295, which was one percent of its current-year covered payroll. Employee contributions amounted to \$300,918.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 14 - 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, 2013.

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, 2013.

Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitments</u>	<u>Expected Date of Completion</u>
Modernization at various sites	\$ 29,183,134	04/01/15
New school construction - various sites	7,851,713	01/01/14
SDC additions projects - various sites	27,036,959	06/15/15
Miscellaneous/other projects	12,566,403	12/01/14
	<u>\$ 76,638,209</u>	

NOTE 15 - 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, 2013, the District made payments of \$1,766,693, \$5,227,989, and \$259,141 to SCSRM, SCSEBA, and SELF, respectively, for the coverage noted above.

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
	REVENUES			
Revenue limit sources	\$ 253,707,204	\$ 255,081,240	\$ 254,620,074	\$ (461,166)
Federal sources	67,236,979	80,136,305	64,856,638	(15,279,667)
Other State sources	128,421,599	131,464,617	143,529,155	12,064,538
Other local sources	4,683,640	8,400,198	8,654,994	254,796
Total Revenues ¹	454,049,422	475,082,360	471,660,861	(3,421,499)
EXPENDITURES				
Current				
Certificated salaries	213,943,665	221,814,681	214,088,938	7,725,743
Classified salaries	68,684,045	67,997,811	60,725,044	7,272,767
Employee benefits	96,865,414	100,416,440	104,619,683	(4,203,243)
Books and supplies	24,206,026	28,908,431	19,090,251	9,818,180
Services and operating expenditures	70,242,526	83,310,889	72,067,331	11,243,558
Other outgo	(1,035,240)	(1,420,896)	(1,492,482)	71,586
Capital outlay	4,614,845	7,032,738	2,856,836	4,175,902
Total Expenditures ¹	477,521,281	508,060,094	471,955,601	36,104,493
Excess (Deficiency) of Revenues Over Expenditures	(23,471,859)	(32,977,734)	(294,740)	32,682,994
Other Financing Sources (Uses)				
Transfers in	-	73,621	73,619	(2)
Transfers out	(190,950)	(62,085)	(133,630)	(71,545)
Net Financing Sources (Uses)	(190,950)	11,536	(60,011)	(71,547)
NET CHANGE IN FUND BALANCE	(23,662,809)	(32,966,198)	(354,751)	32,611,447
Fund Balance - Beginning	62,503,506	62,503,506	62,503,506	-
Fund Balance - Ending	\$ 38,840,697	\$ 29,537,308	\$ 62,148,755	\$ 32,611,447

¹ On behalf payments of \$12,056,604 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, 2013**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
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%
June 30, 2011	553,767	40,228,979	39,675,212	1.38%	302,224,966	13.13%

SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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]	\$ 126,573
Funds for the Improvement of Education - Every Student Connected	84.215L	[1]	253,383
Passed through California Department of Education (CDE)			
Adult Basic Education:			
Adult Education - Basic Grants to States:			
Adult Basic Education and ESL	84.002A	14508	316,141
Adult Secondary Education	84.002	13978	106,568
Adult English Literacy and Civics Education	84.002A	14109	135,743
Subtotal Adult Education - Basic Grants to States			558,452
No Child Left Behind Act (NCLB):			
Title I, Part A - Low Income and Neglected ARRA Title I School Improvement Grants	84.010	14329	26,009,971
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.388	15020	17,815,858
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.196	14332	67,441
Improving Teacher Quality State Grants:			
Title II, Part A - Improving Teacher Quality	84.367	14341	4,249,217
Title II, Part A - Administrator Training Program	84.367	14344	33,775
Subtotal Improving Teacher Quality State Grants			4,282,992
Title II, Part D - Enhancing Education Through Technology Formula Grant	84.318	14334	4,097
English Language Acquisition Grants:			
Title III - Immigrant Education Program	84.365	15146	57,646
Title III - Limited English Proficient Student Program	84.365	10084	2,083,459
Subtotal English Language Acquisition Grants Cluster			2,141,105
Twenty-First Century Community Learning Centers:			
Title IV, Part B - 21st Century Community Learning Centers: High School ASSET Program	84.287	14535	324,644
Title IV, Part B - 21st Century Community Learning Centers: CORE	84.287	14349	1,253,269
Title IV, Part B - 21st Century Community Learning Centers: Family Literacy	84.287	14788	100,741
Subtotal Twenty-First Century Community Learning Centers			1,678,654

[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, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION, Continued			
Passed through CDE			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Part B, Sec 611, Basic Local Assistance	84.027	13379	\$ 9,854,873
Part B, Sec 619, Preschool Grants	84.173	13430	169,023
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	268,434
Part B, Sec 611, Mental Health Services	84.027A	14468	234,002
Part B, Sec 619, Preschool Staff Development	84.173A	13431	1,138
Subtotal Special Education (IDEA) Cluster			10,527,470
Part C, Early Intervention Grants	84.181	23761	59,697
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Basic Grants to States			
Secondary Education	84.048	13924	557,328
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.126A	10006	320,797
Total U.S. Department of Education			64,403,818
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Education to Prevent AIDS	93.938	[1]	21,074
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	382,865
Passed through CDE			
Federal Child Care, Center Based	93.593	13609	1,120,948
Total U.S. Department of Health and Human Services			1,524,887
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	18,174,184
Basic School Breakfast Program	10.553	13390	27,813
Especially Needy Breakfast Program	10.553	13526	4,798,271
Meal Supplements	10.556	13392	616,549
Seamless Summer Food Program	10.559	13004	115,718
Commodities	10.555	13396	1,722,718
Subtotal Child Nutrition Cluster			25,455,253
Total U.S. Department of Agriculture			25,455,253

[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, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	\$ 160,155
U.S. Department of Defense Total			<u>160,155</u>
Total Expenditure of Federal Awards			<u><u>\$ 91,544,113</u></u>

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

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

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, six comprehensive high schools, one alternative education school, two continuation high schools, one community day school, an adult education school, and three special schools. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Barbara Flores	President	2013
Michael J. Gallo	Vice President	2015
Margaret Hill	Member	2015
Judi Penman	Member	2013
Bobbie Perong	Member	2015
Lynda K. Savage	Member	2015
Danny Tillman	Member	2013

ADMINISTRATION

Dr. Dale Marsden	Superintendent
Dr. Harold Vollkommer	Assistant Superintendent, Human Resources
John Peukert	Assistant Superintendent, Facilities/Operations
Dr. Eliseo Davalos	Chief Academic Officer, Education Services
Dr. Kennon Mitchell	Assistant Superintendent, Student Services
Janet King	Director, Fiscal Services

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Final Report	
	40025EC7 Second Period Report	0D2C190A Annual Report
ELEMENTARY		
Kindergarten	3,974	3,992
First through third	11,891	11,897
Fourth through sixth	10,859	10,852
Seventh and eighth	6,526	6,524
Home and hospital	13	13
Community day school	30	30
Special education	995	1,016
Total Elementary	<u>34,288</u>	<u>34,324</u>
SECONDARY		
Regular classes	11,275	11,167
Continuation education	948	892
Home and hospital	15	17
Community day school	9	8
Special education	620	628
Total Secondary	<u>12,867</u>	<u>12,712</u>
Total K-12	<u><u>47,155</u></u>	<u><u>47,036</u></u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2013**

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	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	35,000	175	175	Complied
Grades 1 - 3								
Grade 1	46,320	45,033	50,400	49,000	52,875	175	175	Complied
Grade 2	46,320	45,033	50,400	49,000	52,875	175	175	Complied
Grade 3	46,320	45,033	50,400	49,000	52,875	175	175	Complied
Grades 4 - 6								
Grade 4	46,320	45,033	54,000	52,500	52,875	175	175	Complied
Grade 5	46,320	45,033	54,000	52,500	52,875	175	175	Complied
Grade 6	46,320	45,033	54,000	52,500	59,742	175	175	Complied
Grades 7 - 8								
Grade 7	60,720	59,033	54,000	52,500	59,742	175	175	Complied
Grade 8	60,720	59,033	54,000	52,500	59,742	175	175	Complied
Grades 9 - 12								
Grade 9	57,510	55,913	64,800	63,000	63,666	175	-	Complied
Grade 10	57,510	55,913	64,800	63,000	63,666	175	-	Complied
Grade 11	57,510	55,913	64,800	63,000	63,666	175	-	Complied
Grade 12	57,510	55,913	64,800	63,000	63,666	175	-	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, 2013

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

	<u>Capital Projects Fund for Blended Component Units</u>
FUND BALANCE	
Balance, June 30, 2013, Unaudited Actuals	\$ 122,688,564
Increase in:	
Due from other funds	2,144,251
Decrease in:	
Investments	<u>(98,718,131)</u>
Balance, June 30, 2013, Audited Financial Statement	<u>\$ 26,114,684</u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget) ¹			
	2014	2013	2012	2011
GENERAL FUND				
Revenues and other sources	\$ 435,365,184	\$ 471,734,480	\$ 488,643,750	\$ 477,485,854
Expenditures	(460,297,100)	(471,955,601)	(479,598,203)	(489,054,660)
Other uses and transfers out	(754,246)	(133,630)	(626,113)	(446,150)
Total Expenditures and Other Uses	(461,051,346)	(472,089,231)	(480,224,316)	(489,500,810)
INCREASE (DECREASE) IN FUND BALANCE	\$ (25,686,162)	\$ (354,751)	\$ 8,419,434	\$ (12,014,956)
ENDING FUND BALANCE	\$ 36,462,593	\$ 62,148,755	\$ 62,503,506	\$ 54,084,072
AVAILABLE RESERVES ²	\$ 9,250,000	\$ 9,240,000	\$ 9,400,000	\$ 9,600,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.0%	2.0%	2.0%	2.0%
LONG-TERM OBLIGATIONS	N/A	\$ 340,583,791	\$ 293,542,185	\$ 280,817,621
K-12 AVERAGE DAILY ATTENDANCE AT P-2	46,329	47,155	47,932	48,143

The General Fund balance has increased by \$8,064,683 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$25,686,162 (41.3 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 2013-2014 fiscal year. Total long-term obligations have increased by \$59,766,170 over the past two years.

Average daily attendance has decreased by 988 over the past two years. An additional decline of 826 ADA is anticipated during fiscal year 2013-2014.

¹ Budget 2014 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 \$12,056,604, \$11,849,812, and \$9,940,181 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011, respectively.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2013

<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
The Academy of the Inland Empire (1222)	No
Taft T. Newman Leadership Academy (1437)	No
Woodward Leadership Academy (1438)	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 86,543	\$ 1,061,697	\$ 9,174,384
Receivables	559,334	36,222	143,686
Due from other funds	710	7,610	9,000,000
Total Assets	\$ 646,587	\$ 1,105,529	\$ 18,318,070
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 64,525	\$ 444,271	\$ 181,067
Due to other funds	82,211	308,083	2,886
Deferred revenue	468,967	9,784	-
Total Liabilities	615,703	762,138	183,953
Fund Balances:			
Restricted	-	341,776	18,134,117
Assigned	30,884	1,615	-
Total Fund Balances	30,884	343,391	18,134,117
Total Liabilities and Fund Balances	\$ 646,587	\$ 1,105,529	\$ 18,318,070

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 1,501,760	\$ 26,689,314	\$ 12,834,054	\$ 51,347,752
1,854	3,000	-	744,096
70,400	2,144,251	-	11,222,971
<u>\$ 1,574,014</u>	<u>\$ 28,836,565</u>	<u>\$ 12,834,054</u>	<u>\$ 63,314,819</u>
\$ 382,400	\$ 2,721,881	\$ -	\$ 3,794,144
855	-	-	394,035
-	-	-	478,751
<u>383,255</u>	<u>2,721,881</u>	<u>-</u>	<u>4,666,930</u>
-	26,114,684	12,834,054	57,424,631
1,190,759	-	-	1,223,258
<u>1,190,759</u>	<u>26,114,684</u>	<u>12,834,054</u>	<u>58,647,889</u>
<u>\$ 1,574,014</u>	<u>\$ 28,836,565</u>	<u>\$ 12,834,054</u>	<u>\$ 63,314,819</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, 2013**

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 558,452	\$ 1,120,933	\$ -
Other State sources	1,005,256	5,438,131	-
Other local sources	172,233	261,685	3,171,822
Total Revenues	1,735,941	6,820,749	3,171,822
EXPENDITURES			
Current			
Instruction	1,724,018	-	-
Instruction-related activities:			
Supervision of instruction	-	161,569	-
School site administration	13,107	219,836	-
Pupil services:			
All other pupil services	-	505	-
Administration:			
All other administration	4,240	309,450	-
Plant services	-	196,343	-
Facility acquisition and construction	-	7,791	521,312
Community services	-	6,037,456	-
Other outgo	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	1,741,365	6,932,950	521,312
Excess (Deficiency) of Revenues Over Expenditures	(5,424)	(112,201)	2,650,510
Other Financing Sources (Uses)			
Transfers in	-	-	384
Other sources - general obligation bonds	-	-	-
Other sources - premium on issuance of general obligation bonds	-	-	-
Transfers out	-	-	-
Other uses - payments to refunded general obligation bonds escrow agent	-	-	-
Net Financing Sources (Uses)	-	-	384
NET CHANGE IN FUND BALANCES	(5,424)	(112,201)	2,650,894
Fund Balances - Beginning	36,308	455,592	15,483,223
Fund Balances - Ending	\$ 30,884	\$ 343,391	\$ 18,134,117

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ 2,802,624	\$ -	\$ 4,482,009
-	-	164,774	6,608,161
679,471	9,389	11,859,379	16,153,979
<u>679,471</u>	<u>2,812,013</u>	<u>12,024,153</u>	<u>27,244,149</u>
-	-	-	1,724,018
-	-	-	161,569
-	-	-	232,943
-	-	-	505
-	-	-	313,690
-	-	-	196,343
892,016	22,402,117	-	23,823,236
-	-	-	6,037,456
-	-	1,325	1,325
-	-	4,715,000	4,715,000
-	4,884,311	6,094,013	10,978,324
<u>892,016</u>	<u>27,286,428</u>	<u>10,810,338</u>	<u>48,184,409</u>
<u>(212,545)</u>	<u>(24,474,415)</u>	<u>1,213,815</u>	<u>(20,940,260)</u>
708,867	-	-	709,251
-	86,000,000	-	86,000,000
-	13,864,035	-	13,864,035
(347,238)	-	-	(347,238)
-	(99,134,891)	-	(99,134,891)
<u>361,629</u>	<u>729,144</u>	<u>-</u>	<u>1,091,157</u>
149,084	(23,745,271)	1,213,815	(19,849,103)
1,041,675	49,859,955	11,620,239	78,496,992
<u>\$ 1,190,759</u>	<u>\$ 26,114,684</u>	<u>\$ 12,834,054</u>	<u>\$ 58,647,889</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2013**

(Amounts in thousands)

	Actual Results for the Years					
	2012-2013		2011-2012		2010-2011	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 64,857	13.8	\$ 77,123	15.8	\$ 71,954	15.1
State and local revenue included in revenue limit	254,620	54.0	256,502	52.5	255,184	53.5
Other State revenue	143,529	30.4	144,808	29.6	141,375	29.6
Other local revenue	8,655	1.8	9,983	2.1	8,257	1.8
Total Revenues	<u>471,661</u>	<u>100.0</u>	<u>488,416</u>	<u>100.0</u>	<u>476,770</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	214,089	45.4	222,234	45.5	235,799	49.5
Classified salaries	60,725	12.9	66,277	13.6	67,046	14.0
Employee benefits	104,620	22.2	99,874	20.4	96,229	20.2
Total Salaries and Benefits	379,434	80.5	388,385	79.5	399,074	83.7
Books and supplies	19,090	4.0	22,929	4.7	22,558	4.7
Contracts and operating expenses	72,067	15.3	65,502	13.4	63,444	13.3
Capital outlay	2,857	0.6	3,928	0.8	5,200	1.1
Other outgo	(1,492)	(0.3)	(1,146)	(0.2)	(1,222)	(0.3)
Total Expenditures	<u>471,956</u>	<u>100.1</u>	<u>479,598</u>	<u>98.2</u>	<u>489,054</u>	<u>102.5</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(295)</u>	<u>(0.1)</u>	<u>8,818</u>	<u>1.8</u>	<u>(12,284)</u>	<u>(2.5)</u>
OTHER FINANCING USES						
Operating transfers in	74	0.0	228	0.0	715	0.1
Operating transfers out	(134)	(0.0)	(626)	(0.1)	(446)	(0.1)
Total Other Financing Uses	<u>(60)</u>	<u>(0.0)</u>	<u>(398)</u>	<u>(0.1)</u>	<u>269</u>	<u>-</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>(355)</u>	<u>(0.1)</u>	<u>8,420</u>	<u>1.7</u>	<u>(12,015)</u>	<u>(2.5)</u>
FUND BALANCE, BEGINNING	<u>62,504</u>		<u>54,084</u>		<u>66,099</u>	
FUND BALANCE, ENDING	<u>\$ 62,149</u>		<u>\$ 62,504</u>		<u>\$ 54,084</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>13.2</u>		<u>12.8</u>		<u>11.3</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, 2013**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2012-2013		2011-2012		2010-2011	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 25,455	88.0	\$ 24,912	87.5	\$ 24,690	85.8
State meal program	1,962	6.8	1,990	7.0	1,970	6.8
Food sales	1,495	5.2	1,577	5.5	2,114	7.4
Other	6	0.0	13	0.0	2	0.0
Total Revenues	28,918	100.0	28,492	100.0	28,776	100.0
EXPENDITURES						
Salaries and employee benefits	10,649	36.8	10,485	36.8	10,893	37.9
Food	16,354	56.6	14,581	51.2	13,890	48.3
Supplies	843	2.9	776	2.7	1,160	4.0
Other	3,634	12.5	3,063	10.7	2,432	8.4
Total Expenditures	31,480	108.8	28,905	101.4	28,375	98.6
INCREASE (DECREASE) IN NET ASSETS	(2,562)	(8.8)	(413)	(1.4)	401	1.4
NETS ASSETS, BEGINNING	22,353		22,766		22,365	
NET ASSETS, ENDING	\$ 19,791		\$ 22,353		\$ 22,766	
ENDING NET ASSETS TO TOTAL REVENUES		68.4		78.5		79.1
* * * * *						

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2012-2013		2011-2012		2010-2011	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	302,357	4.6	337,328	5.0	409,009	6.0
Reduced price	621,955	9.5	611,292	9.2	630,728	9.2
Free	5,638,004	85.9	5,718,704	85.8	5,807,190	84.8
Total Lunches	6,562,316	100.0	6,667,324	100.0	6,846,927	100.0
BREAKFAST						
Paid	84,878	3.1	87,932	3.2	106,550	4.0
Reduced price	230,830	8.5	231,875	8.3	230,649	8.5
Free	2,405,856	88.4	2,460,896	88.5	2,355,835	87.5
Total Breakfast	2,721,564	100.0	2,780,703	100.0	2,693,034	100.0

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

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 the Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that have been recorded as revenues that have not been expended by June 30, 2013. The unspent balances are reported as legally restricted ending balances within the General Fund. Additionally, the District received Qualified School Construction Bonds - Interest Subsidy funds which are not required to be reported on the Schedule of Expenditure Awards. Lastly, Operation Close the Achievement Gap and ARRA Facilities Renovation and Repair funds have been recorded as deficit revenues since the District was not able to obligate the funds in the period that the funds were available.

Description	Federal CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Revenues, Expenses and Changes in Net Assets:		\$ 94,793,900
Medi-Cal Billing Option	93.778	(450,629)
ARRA Facilities Renovation and Repair	93.713	15
Operation Close the Achievement Gap	16.548	3,451
Qualified School Construction Bonds - Interest Subsidy	[1]	(2,802,624)
Total Schedule of Expenditures of Federal Awards		<u>\$ 91,544,113</u>

[1] CFDA number not available

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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 requirements, whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise San Bernardino City Unified School District's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Bernardino City Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Bernardino City Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino City Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of San Bernardino City Unified School District in a separate letter dated December 16, 2013.

San Bernardino City Unified School District's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VADZANSK, TIZINS, Day + Co. LLP

Rancho Cucamonga, California
December 16, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Bernardino City Unified School District's (the District) major Federal programs for the year ended June 30, 2013. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Bernardino City Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of San Bernardino City Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Bernardino City Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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 San Bernardino City Unified School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

VADINSK, TIRAS, Day + Co. LLP

Rancho Cucamonga, California
December 16, 2013



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the San Bernardino City Unified School District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the San Bernardino City Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2013.

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	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts 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	5	Yes
Before School	6	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	4	Not Applicable

We did not perform testing for independent study because ADA was below the materiality threshold required for testing.

VAJRAK TRINS, Day + Co. LLP

Rancho Cucamonga, California
December 16, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.365</u>	<u>English Language Acquisition Grants</u>
<u>84.388 (ARRA)</u>	<u>ARRA Title I School Improvement Grants</u>
<u>84.027, 84.027A, 84.173, 84.173A</u>	<u>Special Education (IDEA) Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,746,323</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
---	-------------------

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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

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

2013-1 30000

Criteria or Specific Requirements

Financial Statements prepared in accordance with GASB Statements 34 must include activities related to the District's capital assets. Reporting of capital assets on financial statements require the District to track and monitor capital assets activities annually, including acquisitions, dispositions, and construction activities that are generally considered as "construction in progress."

Conditions

Although the current year's capital asset additions have been captured for financial reporting purposes, the District did not properly classify capital assets additions in the correct categories. Additionally, the following conditions were noted:

- 1) The District does have a designated employee and an alternate employee responsible for tracking, monitoring, and updating the District capital assets activities.
- 2) District has been unable to fill positions with permanent employees which has led to a loss of experience and continuity for this financial area.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through inquiry with District personnel and also through review of available District records related to the capital assets activities.

Effect

Due to the condition identified, the District's capital assets reported on the government-wide statements are potentially subject to misclassification.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

Cause

The cause of the condition identified appears to have been triggered by the recent departure of the employee responsible for the District's capital assets. The situation was further exacerbated by the District's lack of alternate employee that can manage the District's capital assets responsibilities.

Recommendations

The District should consider the following actions:

- 1) Delegate a primary and an alternate employee to handle the District's capital assets activities.
- 2) Consider drafting a formal procedure/policy to ensure that the District's capital assets responsibilities are in place. Written procedure/policy would allow the District's capital assets activities to continue in case of employee terminations/departures.
- 3) The District should provide appropriate and necessary training to designated employee(s) to ensure that the capital assets module in the Financial 2000 system can be utilized.

Corrective Action Plan

District concurs with the finding.

- The District has an employee "working out of class" at the Warehouse that has been trained to handle the capital assets activities.
- The District will take steps to have another employee trained on the Financial 2000 fixed asset program.
- The District will review current procedure/policy and determine appropriate revisions that are needed to ensure responsibilities are in place.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

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



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

In planning and performing our audit of the financial statements of San Bernardino City Unified School District for the year ended June 30, 2013, 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 16, 2013, on the financial statements of San Bernardino City Unified School District.

ASSOCIATED STUDENT BODY (ASB)

All Sites - Tracks System Weakness

Observation

The TRACKS system which is used with the Blue Bear software does not allow the bookkeepers to alter the amount of receipts generated and issued. However, the TRACKS system does allow the bookkeepers to go into a previously generated receipt and reverse the receipt, effectively eliminating the transaction. This system capability is susceptible to abuse and can easily be used to take advantage of collected cash. Currently, there are no compensating controls at the sites using this software to prevent potential abuse from taking place.

Recommendation

Given the potential risk identified with the TRACKS system, the District should consider implementing control procedures to mitigate the identified risks. Specifically, the auditor recommends the following control procedures:

- 1) ASB bookkeepers should make additional notation as to why receipts were voided.
- 2) Site administrators should review the detail of voided receipts and provide additional assurance that voided receipts were executed for valid reasons (i.e. data entry error).
- 3) Whenever possible, the site administrator should make efforts to confirm with the intended parties of voided receipts to verify if the amount noted on the receipts that were voided were, in fact, actual receipts issued.

Anderson Elementary

Observation

Deposits are not being made in accordance with the District's depositing policy. In 28 percent of the deposits reviewed, the delay in deposit ranged from nine days to approximately 34 days from the date of receipt to deposit. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

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

Observation

Approximately 6 percent of the receipts reviewed were not accompanied by supporting documents. As a result, the auditor was unable to determine if the deposits made by the ASB were accurate and complete.

Recommendation

Receipts or other supporting documentation should be used to document all transactions that involve the exchange of cash custody. There should be a reconciliation process where an individual, other than those involved with initially receiving cash/checks, compares the receipts generated with the actual cash collected to ensure completeness of the deposit. These documents should be maintained in such a manner that allows the auditors to easily determine the receipt batches associated with given deposits.

Observation

The ASB is currently not utilizing purchase request forms which provide documentation of disbursements being authorized by the responsible administrator.

Recommendation

All ASB expenses, prior to the items being purchased, should be approved/authorized by a designated site administrator to ensure that the proper funding is available. This will ensure that sufficient funding is available and that items being purchased are suitable within the scope of ASB operations.

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.

Observation

Monthly bank reconciliations are being prepared using beginning bank statement balance as the beginning reconciliation point. Furthermore, it appears that there is a general lack of knowledge over the preparation monthly bank reconciliations.

Recommendation

Monthly bank reconciliations must be prepared in a timely manner using ending bank statements as the beginning reconciliation point. From there, the ASB should identify any deposits in transits and outstanding checks to identify the true monthly ending cash balances. If the ASB does not have sufficient knowledge to prepare monthly bank reconciliations, the District should intervene and provide training or direct oversight.

Cole Elementary

Observation

Deposits are not being made in accordance with the District's depositing policy. In 22 percent of the deposits reviewed, the delay in deposit ranged up to 14 days from the date of receipt to deposit. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

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

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.

Palm Elementary

Observation

Deposits are not being made in accordance with the District's depositing policy. In 57 percent of the deposits reviewed, the delay in deposit ranged from 30 days to approximately 136 days from the date of receipt to deposit. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

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

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.

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

Revenue potential forms must be completely filled out at the end of each fundraiser. The revenue potential form is important because it shows whether or not all the monies that should have been raised and actually turned in were based on the price of the item and number sold. The form is also used to document overages and shortages. An explanation of any overages/shortages must be documented on the form.

Riley Elementary

Observation

Deposits are not being made in accordance with the District's depositing policy. In 25 percent of the deposits reviewed, the delay in deposit ranged approximately 70 days from the date of receipt to deposit. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

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

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.

Cesar Chavez Middle

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

Revenue potential forms must be completely filled out at the end of each fundraiser. The revenue potential form is important because it shows whether or not all the monies that should have been raised and actually turned in were based on the price of the item and number sold. The form is also used to document overages and shortages. An explanation of any overages/shortages must be documented on the form.

Observation

The fundraiser to go watch a movie was denied by the District. However, it appears that the ASB still engaged in the activity.

Recommendation

The District implemented its oversight over fundraising activities to ensure that there are no legal concerns and also to minimize risks assumed by the District. The ASB should strictly adhere to the District's decisions pertaining to fundraising activities.

San Bernardino High

Observation

Approximately 48 percent of the receipts reviewed lacked proper documentation. The receipts were either not completed or the receipts were written without dates, amounts, and/or whom/what the receipts were for. For the sample periods selected for revenue testing, we were unable to substantiate 48 percent of the receipt population for sample period selected due to the stated condition.

Recommendation

Receipts or other supporting documentation should be used to document all transactions that involve the exchange of cash custody. There should be a reconciliation process where an individual, other than those involved with initially receiving cash/ checks, compares the receipts generated with the actual cash collected to ensure completeness of the deposit. These documents should be maintained in such a manner that allows the auditors to easily determine the receipt batches associated with given deposits.

Observation

For the sample period reviewed, we noted a variance of \$14.32 between the amount stated by the bank as being deposited and actual receipts generated. Specifically, \$14.32 was not accounted for on the bank statement reviewed.

Recommendation

Receipts must be used for all transactions that involve exchange in the custody of cash. Furthermore, the ASB should confirm the physical cash received prior to the issuance of an ASB receipt and this process must take place with both parties present to rule out future problems. Lastly, the ASB should reconcile actual cash collected with receipts generated to properly identify discrepancies prior to making deposits.

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

Revenue potential forms must be completely filled out at the end of each fundraiser. The revenue potential form is important because it shows whether or not all the monies that should have been raised and actually turned in were based on the price of the item and number sold. The form is also used to document overages and shortages. An explanation of any overages/shortages must be documented on the form.

Indian Springs High

Observation

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

Recommendation

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

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

VADINSKY TRING, Day + Co. CP
Rancho Cucamonga, California
December 16, 2013