

**SAN BERNARDINO CITY UNIFIED SCHOOL
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT
OF SAN BERNARDINO COUNTY
SAN BERNARDINO, CALIFORNIA
JUNE 30, 2009

GOVERNING BOARD

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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison and other postemployment information on pages 57 and 58, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

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

VAJRAK, TRUETT & CO, LLP

Rancho Cucamonga, California
December 8, 2009

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, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

District-Wide Financial Statements

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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

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

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

Governmental Activities

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

Business-Type Activities

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

- The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net assets were larger on June 30, 2009, than they were the year before - increasing 6.6 percent to \$661.2 million. Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew \$40.0 million to \$641.8 million. The net assets of the District's business-type activities increased from \$18.5 million to \$19.4 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	\$ 352.2	\$ 410.5	\$ 13.0	\$ 11.5	\$ 365.2	\$ 422.0
Capital assets	559.2	461.4	7.0	7.6	566.2	469.0
Total Assets	911.4	871.9	20.0	19.1	931.4	891.0
Liabilities						
Current liabilities	69.3	74.0	0.6	0.6	69.9	74.6
Long-term obligations	200.3	196.1	-	-	200.3	196.1
Total Liabilities	269.6	270.1	0.6	0.6	270.2	270.7
Net Assets						
Invested in capital assets, net of related debt	417.4	319.3	7.0	7.6	424.4	326.9
Restricted	165.6	244.8	-	-	165.6	244.8
Unrestricted	58.8	37.7	12.4	10.9	71.2	48.6
Total Net Assets	\$ 641.8	\$ 601.8	\$ 19.4	\$ 18.5	\$ 661.2	\$ 620.3

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Changes in Net Assets

The District's total revenues decreased to \$627.9 million. (See Table A-2) State and Federal aid for specific programs accounted for most of the District's revenue, contributing about 41 cents of every dollar raised. Another 52 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	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 2.6	\$ 3.0	\$ 2.9	\$ 2.9	\$ 5.5	\$ 5.9
Operating grants and contributions	180.9	192.6	23.7	22.9	204.6	215.5
Capital grants and contributions	50.5	193.0	-	-	50.5	193.0
General revenues:						
Federal and State unrestricted	298.0	314.6	-	-	298.0	314.6
Property taxes	30.7	27.0	-	-	30.7	27.0
Other general revenues	38.5	27.0	0.1	0.3	38.6	27.3
Total Revenues	601.2	757.2	26.7	26.1	627.9	783.3
Expenses						
Instruction-related	410.5	422.2	-	-	410.5	422.2
Student support services	51.4	50.2	-	-	51.4	50.2
Administration	27.0	23.7	-	-	27.0	23.7
Maintenance and operations	55.1	51.1	-	-	55.1	51.1
Other	17.2	16.7	25.7	27.8	42.9	44.5
Total Expenses	561.2	563.9	25.7	27.8	586.9	591.7
Change in Net Assets	\$ 40.0	\$ 193.3	\$ 1.0	\$ (1.7)	\$ 41.0	\$ 191.6

The total cost of all programs and services declined to \$586.9 million. The District's expenses are predominantly related to educating and caring for students (79 percent). The purely administrative activities of the District accounted for just 4.6 percent of total costs.

Total revenues surpassed expenses, increasing net assets \$41.0 million over last year. Both the governmental and business-type activities contributed to the District's increase in net assets.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Governmental Activities

Revenues for the District's governmental activities were \$601.2 million, whereas total expenses were \$561.2 million. The increase in net assets for governmental activities was not as strong as the previous year because of the overall decline in revenues.

- Some of the District's activities (\$2.6 million) were financed by the users of the District's programs. See Table A-2.
- The Federal and State governments subsidized certain programs with grants and contributions (\$231.4 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$26.7 million, and expenses were \$25.7 million. (Refer to Table A-2)

Net Cost of Services

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

- Most of the District's net costs (\$327 million) were financed by District taxpayers and the taxpayers of our State.
 - This portion of governmental activities was financed with \$30.7 million in property taxes, and \$298.0 million of unrestricted State and Federal aid based on the Statewide education aid formula. See Table A-2.

Table A-3

(Amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 327.9	\$ 341.0	\$ 178.2	\$ 39.7
Instruction-related activities	82.6	81.2	39.1	39.0
Home-to-school transportation	17.8	17.1	7.0	5.6
Other pupil services	33.6	33.1	21.1	20.3
General administration	27.0	23.7	21.2	15.2
Maintenance and operations	55.1	51.1	52.4	48.1
Other	17.2	16.7	8.0	7.4
Total	\$ 561.2	\$ 563.9	\$ 327.0	\$ 175.3

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The weakening 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 \$249.9 million, a drop of 19 percent from the previous year.

Three of the District's governmental funds had more revenue than expenditures in 2009. Total fund balance decreased by \$45.4 million in the County School Facilities Fund as a result of the reduction in funding for capital projects across the District.

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

The District's General Fund increased in fund balance by \$7.2 million as a result of exercising the Categorical Flexibility Program option provided by the State. 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, 2008	Revenues	Expenditures	June 30, 2009
General	\$ 73.7	\$ 533.3	\$ 526.1	\$ 80.9
County School Facilities	148.8	50.8	96.2	103.4
Adult Education	6.2	9.1	14.6	0.7
Child Development	3.4	6.3	8.4	1.3
Deferred Maintenance	14.9	2.2	6.8	10.3
Special Reserve for Other than Capital Outlay Projects	4.6	0.1	4.7	-
Building	30.0	3.1	6.5	26.6
Capital Facilities	15.8	1.4	3.9	13.3
Special Reserve for Capital Outlay Projects	0.5	0.6	0.1	1.0
Bond Interest and Redemption	11.0	10.9	9.6	12.3
Tax Override	0.1	-	-	0.1
Total	\$ 309.0	\$ 617.8	\$ 676.9	\$ 249.9

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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 \$21.4 million and the actual results for the year show expenditures exceeding revenues by \$5.0 million.

- Actual revenues were \$8.5 million lower than expected, due primarily to lower Federal Revenue sources and lower Revenue Limit sources.
- The actual expenditures were \$24.8 million under budget, due primarily to budget cuts and other cost saving measures enacted by the district.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009, the District had invested an additional \$108.9 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$11.7 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	
	2009	2008	2009	2008	2009	2008
Land and construction in process	\$ 216.1	\$ 216.1	\$ -	\$ -	\$ 216.1	\$ 216.1
Buildings and improvements	335.7	237.9	6.5	6.9	342.2	244.8
Equipment	7.4	7.4	0.5	0.7	7.9	8.1
Total	\$ 559.2	\$ 461.4	\$ 7.0	\$ 7.6	\$ 566.2	\$ 469.0

The District was apportioned and received \$27.6 million of Proposition 1D State bond funds. These funds are being used for modernization projects across the District.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Long-Term Obligations

At year-end, the District had \$174.3 million in general obligation bonds decreasing last year's balance by \$1.9 million.

Table A-6

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds (financed with property taxes)	\$ 174.3	\$ 176.2	\$ -	\$ -	\$ 174.3	\$ 176.2
Childcare Facilities						
Revolving Fund	1.0	1.4	-	-	1.0	1.4
Accumulated vacation	1.7	1.8	-	-	1.7	1.8
Claims liability	11.4	11.2	-	-	11.4	11.2
SELF assessment	3.7	3.8	-	-	3.7	3.8
Supplemental Early Retirement Plan	4.5	-	-	-	4.5	-
Other postemployment benefits	3.7	1.7	-	-	3.7	1.7
Total	\$ 200.3	\$ 196.1	\$ -	\$ -	\$ 200.3	\$ 196.1

The reduction in General Obligation Bonds is due to the principal payments for 1999 Series B, 2004 Series A, 2004 General Obligation Refunding Bonds, and 2004 Series C. New debt resulted mainly from accreted interest on General Obligation Bonds, an increase in the worker's compensation claim, the SELF assessment, the supplemental early retirement plan, and other postemployment benefits.

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

1. The State deficit and overall economic downturn in the State economy will affect future funding for school districts and other State funded agencies.
2. Any major changes in program funding such as declining enrollment, Average Daily Attendance (2.3 percent decline in 2008-2009), and decrease in instructional year will impact the financial condition of the District.
3. Collective bargaining.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
Assets			
Deposits and investments	\$ 259,002,308	\$ 9,647,609	\$ 268,649,917
Receivables	86,174,133	4,000,810	90,174,943
Internal balances	1,716,846	(1,716,846)	-
Prepaid expenses	78,803	-	78,803
Stores inventories	511,458	1,030,425	1,541,883
Deferred costs on issuance	3,073,719	-	3,073,719
Deferred charges on refunding	1,714,864	-	1,714,864
Capital assets			
Land and construction in process	216,114,731	-	216,114,731
Other capital assets	465,182,304	13,828,967	479,011,271
Less: Accumulated depreciation	(122,086,833)	(6,829,673)	(128,916,506)
Total Capital Assets	559,210,202	6,999,294	566,209,496
Total Assets	911,482,333	19,961,292	931,443,625
Liabilities			
Accounts payable	54,135,579	548,236	54,683,815
Accrued interest	2,384,941	-	2,384,941
Deferred revenue	12,791,740	-	12,791,740
Long-term obligations			
Current portion of long-term obligations	7,404,094	-	7,404,094
Noncurrent portion of long-term obligations	192,932,424	-	192,932,424
Total Long-Term Obligations	200,336,518	-	200,336,518
Total Liabilities	269,648,778	548,236	270,197,014
Net Assets			
Invested in capital assets, net of related debt	417,459,543	6,999,294	424,458,837
Restricted for:			
Debt service	9,952,209	-	9,952,209
Capital projects	101,352,171	-	101,352,171
Educational programs	42,008,895	-	42,008,895
Other activities	12,275,906	-	12,275,906
Unrestricted	58,784,831	12,413,762	71,198,593
Total Net Assets	\$ 641,833,555	\$ 19,413,056	\$ 661,246,611

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, 2009

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 327,875,259	\$ 1,919,619	\$ 97,248,273	\$ 50,535,342
Instruction-related activities:				
Supervision of instruction	31,150,293	107,438	24,701,462	-
Instructional library, media, and technology	3,434,539	-	1,593,068	-
School site administration	47,980,587	48,186	17,000,949	-
Pupil services:				
Home-to-school transportation	17,798,258	-	10,793,018	-
Food services	768,416	-	-	-
All other pupil services	32,856,232	7,358	12,512,625	-
General administration:				
Data processing	6,536,905	-	-	-
All other general administration	20,452,061	260,722	5,511,883	-
Plant services	55,092,959	19,088	2,695,501	-
Ancillary services	131,064	-	-	-
Community services	8,612,736	277,237	8,076,609	-
Enterprise services	(8,334)	-	-	-
Interest on long-term obligations	8,197,761	-	-	-
Other outgo	285,703	2,035	812,791	-
Total Governmental Activities	561,164,439	2,641,683	180,946,179	50,535,342
Business-Type Activities:				
Food services	25,740,005	2,939,923	23,681,364	-
Total Business-Type Activities	25,740,005	2,939,923	23,681,364	-
Total School District	\$ 586,904,444	\$ 5,581,606	\$ 204,627,543	\$ 50,535,342

General revenues and subventions:

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

Subtotal, General Revenues

Change in Net Assets

Net Assets - Beginning
 Net Assets - Ending

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

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business- Type Activities	Total
\$ (178,172,025)	\$ -	\$ (178,172,025)
(6,341,393)	-	(6,341,393)
(1,841,471)	-	(1,841,471)
(30,931,452)	-	(30,931,452)
(7,005,240)	-	(7,005,240)
(768,416)	-	(768,416)
(20,336,249)	-	(20,336,249)
(6,536,905)	-	(6,536,905)
(14,679,456)	-	(14,679,456)
(52,378,370)	-	(52,378,370)
(131,064)	-	(131,064)
(258,890)	-	(258,890)
8,334	-	8,334
(8,197,761)	-	(8,197,761)
529,123	-	529,123
(327,041,235)	-	(327,041,235)
-	881,282	881,282
-	881,282	881,282
(327,041,235)	881,282	(326,159,953)
20,039,410	-	20,039,410
10,327,757	-	10,327,757
291,140	-	291,140
297,967,569	-	297,967,569
3,797,088	101,858	3,898,946
698,225	-	698,225
33,976,428	(11,480)	33,964,948
367,097,617	90,378	367,187,995
40,056,382	971,660	41,028,042
601,777,173	18,441,396	620,218,569
\$ 641,833,555	\$ 19,413,056	\$ 661,246,611

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 55,450,837	\$ 105,523,403	\$ 70,010,658	\$ 230,984,898
Receivables	83,530,064	465,660	2,050,099	86,045,823
Due from other funds	4,037,587	278,790	2,998,259	7,314,636
Prepaid expenditures	78,803	-	-	78,803
Stores inventories	511,458	-	-	511,458
Total Assets	\$ 143,608,749	\$ 106,267,853	\$ 75,059,016	\$ 324,935,618
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 45,200,740	\$ 2,800,038	\$ 6,002,319	\$ 54,003,097
Due to other funds	4,926,607	24,467	3,333,185	8,284,259
Deferred revenue	12,622,239	-	169,501	12,791,740
Total Liabilities	62,749,586	2,824,505	9,505,005	75,079,096
FUND BALANCES				
Reserved:				
Revolving cash	210,000	-	1,000	211,000
Stores inventories	511,458	-	-	511,458
Prepaid expenditures	78,803	-	-	78,803
Restricted programs	42,008,895	-	-	42,008,895
Unreserved:				
Designated	38,050,007	-	13,273,924	51,323,931
Undesignated, reported in:				
Special revenue funds	-	-	12,274,906	12,274,906
Debt service funds	-	-	12,337,150	12,337,150
Capital projects funds	-	103,443,348	27,667,031	131,110,379
Total Fund Balance	80,859,163	103,443,348	65,554,011	249,856,522
Total Liabilities and Fund Balances	\$ 143,608,749	\$ 106,267,853	\$ 75,059,016	\$ 324,935,618

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2009

Total Fund Balance - Governmental Funds		\$ 249,856,522
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.		
The cost of capital assets is the following	\$ 681,297,035	
Accumulated depreciation is the following	<u>(122,086,833)</u>	
Total Capital Assets		559,210,202
The District has refunded various debt obligations. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining balance as of June 30, 2009.		1,714,864
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but are amortized over the life of the debt on the accrual basis as deferred costs on issuance.		3,073,719
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(2,384,941)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. Internal service fund net assets are as follows:		15,480,569
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of the following:		
General obligation bonds	(157,097,224)	
Unamortized premium on issuance	(8,676,559)	
Child care facilities revolving fund	(971,750)	
Accumulated vacation - net	(1,670,994)	
Other postemployment benefits	(3,672,752)	
Supplemental early retirement	(4,506,090)	
In addition, the District issues "capital appreciation" general obligation bonds. The accretion of interest on unmatured general obligation bond to date is:	(8,522,011)	
Total Long-Term Obligations		<u>(185,117,380)</u>
Total Net Assets - Governmental Activities		<u>\$ 641,833,555</u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 290,546,746	\$ -	\$ 7,525,309	\$ 298,072,055
Federal sources	81,201,016	-	471,138	81,672,154
Other State sources	134,676,710	47,025,669	7,812,823	189,515,202
Other local sources	14,280,713	3,564,859	14,831,186	32,676,758
Total Revenues	520,705,185	50,590,528	30,640,456	601,936,169
EXPENDITURES				
Current				
Instruction	314,228,917	-	6,198,228	320,427,145
Instruction-related activities:				
Supervision of instruction	31,267,915	-	83,791	31,351,706
Instructional library, media, and technology	3,477,581	-	-	3,477,581
School site administration	46,452,067	-	1,986,817	48,438,884
Pupil services:				
Home-to-school transportation	17,807,109	-	-	17,807,109
Food services	877,280	-	-	877,280
All other pupil services	32,639,335	-	326,472	32,965,807
General administration:				
Data processing	6,531,411	-	-	6,531,411
All other general administration	15,287,485	-	702,070	15,989,555
Plant services	49,964,742	-	4,034,699	53,999,441
Facility acquisition and construction	5,316,027	94,180,117	10,467,414	109,963,558
Ancillary services	131,064	-	-	131,064
Community services	1,577,332	-	7,113,564	8,690,896
Other outgo	133,381	-	-	133,381
Enterprise services	(40)	-	-	(40)
Debt service				
Principal	44,269	-	3,588,250	3,632,519
Interest and other	1,748	-	6,584,855	6,586,603
Total Expenditures	525,737,623	94,180,117	41,086,160	661,003,900
Excess (Deficiency) of Revenues Over Expenditures	(5,032,438)	(43,589,589)	(10,445,704)	(59,067,731)
Other Financing Sources (Uses)				
Transfers in	12,547,210	220,045	3,206,410	15,973,665
Transfers out	(371,809)	(2,017,343)	(13,584,513)	(15,973,665)
Net Financing Sources (Uses)	12,175,401	(1,797,298)	(10,378,103)	-
NET CHANGE IN FUND BALANCES	7,142,963	(45,386,887)	(20,823,807)	(59,067,731)
Fund Balance - Beginning	73,716,200	148,830,235	86,377,818	308,924,253
Fund Balance - Ending	\$ 80,859,163	\$ 103,443,348	\$ 65,554,011	\$ 249,856,522

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 DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds	\$ (59,067,731)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities	
This is the amount by which capital outlays exceeds depreciation expense in the period:	
Capital outlays	\$ 109,354,409
depreciation expense	<u>(11,517,085)</u>
Net Depreciation Adjustment	97,837,324
Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Assets, but is not recorded in the governmental funds	(29,813)
In the statement of activities, certain operating expenses - supplementary early retirement payments are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). During the year, the District adopted a supplemental early retirement program with annuities of \$4,506,090 to be paid.	(4,506,090)
In the statement of activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$158,275.	158,275
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 statements as an expense. The actual amount of the contribution was less than the annual required contribution.	(2,010,169)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the Statement of Activities:	
General obligation bonds	3,195,000
Capital lease obligations	44,269
Child care facilities revolving fund	393,250

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES - CONTINUED FOR THE YEAR ENDED JUNE 30, 2009

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

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

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$16,820, and second, \$1,721,409 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(1,704,589)

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

5,805,547

Change in Net Assets of Governmental Activities

\$ 40,056,382

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Service	
ASSETS		
Current Assets		
Deposits and investments	\$ 9,647,609	\$ 28,017,410
Receivables	4,000,810	128,310
Due from other funds	-	2,693,979
Stores inventories	1,030,425	-
Total Current Assets	14,678,844	30,839,699
Noncurrent Assets		
Capital assets	13,828,967	-
Less: accumulated depreciation	(6,829,673)	-
Total Noncurrent Assets	6,999,294	-
Total Assets	21,678,138	30,839,699
LIABILITIES		
Current Liabilities		
Accounts payable	548,236	132,482
Due to other funds	1,716,846	7,510
Current portion of claims liability	-	2,587,263
Current portion of SELF assessment	-	199,651
Total Current Liabilities	2,265,082	2,926,906
Noncurrent Liabilities		
Noncurrent portion of claims liability and assessment	-	12,432,224
NET ASSETS		
Invested in capital assets, net of related debt	6,999,294	-
Unrestricted	12,413,762	15,480,569
Total Net Assets	\$ 19,413,056	\$ 15,480,569

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds Food Service	Governmental Activities - Internal Service Fund
OPERATING REVENUES		
Charges for services	\$ 2,939,923	\$ -
Charges to other funds and miscellaneous revenues	(11,480)	9,037,492
Total Operating Revenues	2,928,443	9,037,492
OPERATING EXPENSES		
Payroll costs	11,361,282	524,700
Professional and contract services	(70,202)	3,352,559
Supplies and materials	12,810,781	38,575
Facility rental	82,940	1,646
Other operating cost	946,603	-
Depreciation	608,601	-
Total Operating Expenses	25,740,005	3,917,480
Operating Profit (Loss)	(22,811,562)	5,120,012
NONOPERATING REVENUES		
Interest income	101,858	685,535
Grants	23,681,364	-
Total Nonoperating Revenues	23,783,222	685,535
Change in Net Assets	971,660	5,805,547
Total Net Assets - Beginning	18,441,396	9,675,022
Total Net Assets - Ending	\$ 19,413,056	\$ 15,480,569

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, 2009

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Services	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 5,928,685	\$ -
Cash receipts from interfund services provided	-	6,976,208
Cash payments to other suppliers of goods or services	(12,857,721)	(34,518)
Cash payments to employees for services	(11,361,282)	(524,700)
Cash payments for insurance claims	-	(3,138,734)
Other operating cash payments	(946,603)	-
Net Cash Provided (Used) by Operating Activities	(19,236,921)	3,278,256
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	22,474,583	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(25,279)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	101,858	685,535
Net Increase in Cash and Cash Equivalents	3,314,241	3,963,791
Cash and Cash Equivalents - Beginning	6,333,368	24,053,619
Cash and Cash Equivalents - Ending	\$ 9,647,609	\$ 28,017,410

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS - CONTINUED FOR THE YEAR ENDED JUNE 30, 2009

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	Food Services	
RECONCILIATION OF OPERATING PROFIT (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating profit (loss)	\$ (22,811,562)	\$ 5,120,012
Adjustments to reconcile operating profit (loss) to net cash provided (used) by operating activities:		
Depreciation	608,601	-
Commodities used	1,206,781	-
Changes in assets and liabilities:		
Receivables	1,793,461	107,041
Due from other fund	-	(2,168,325)
Inventories	118,904	-
Accrued liabilities	(84,457)	(10,886)
Due to other fund	(68,649)	4,057
Claims liability and assessment	-	226,357
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (19,236,921)	\$ 3,278,256

NONCASH, NONCAPITAL FINANCING ACTIVITIES

During the year, the District received \$1,206,781 of food commodities from the U.S. Department of Agriculture.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	Private- Purpose Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 463,867	\$ 1,251,211
Receivables	2,193	132,213
Stores inventories	-	22,920
Total Assets	<u>\$ 466,060</u>	<u>\$ 1,406,344</u>
LIABILITIES		
Accounts payable	\$ -	\$ 56,698
Due to student groups	-	1,349,646
Total Liabilities	<u>-</u>	<u>\$ 1,406,344</u>
NET ASSETS		
Held in reserve for scholarships	466,060	
Total Net Assets	<u>\$ 466,060</u>	

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET ASSETS JUNE 30, 2009

	Private- Purpose Trust
ADDITIONS	
Private donations	\$ 500
Interest	13,499
Total Additions	<u>13,999</u>
DEDUCTIONS	
Scholarships awarded	<u>14,250</u>
Change in Net Assets	(251)
Net Assets - Beginning	<u>466,311</u>
Net Assets - Ending	<u><u>\$ 466,060</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, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Other Related Entities

Charter School The District has approved Charters for PAL Academy, Public Safety Academy, ASA Charter, Casa Ramona, and SOAR Academy Schools pursuant to *Education Code* Section 47605.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

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

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

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

Basis of Accounting - Measurement Focus

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

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

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However to achieve comparability of reporting among California school district's and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for school district's as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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JUNE 30, 2009

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Prepaid Expenditures (Expenses)

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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JUNE 30, 2009

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Reserves and Designations

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$165,589,181 of restricted net assets.

Operating Revenues and Expenses

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

Interfund Activity

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

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

Estimates

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

Budgetary Data

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

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

Property Tax

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

New Accounting Pronouncements

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

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 259,002,308
Business-type activities	9,647,609
Fiduciary funds	1,715,078
Total Deposits and Investments	<u>\$ 270,364,995</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 1,305,587
Cash in revolving	519,470
Investments	268,539,938
Total Deposits and Investments	<u>\$ 270,364,995</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, 2009

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the San Bernardino County Investment Pool to provide the cash flow and liquidity needed for operations, and by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow necessary for debt service requirements.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Specific Identification

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

Investment Type	Amortized Cost	Fair Value	Average Maturity in Days
San Bernardino County Investment Pool	\$ 258,955,175	\$ 260,942,449	371
Wells Fargo Advantage Money Market Mutual Funds	4,532,015	4,532,015	39
Wells Fargo Advantage Repurchase Agreement Overland Express Sweep Account	5,052,748	5,328,620	1
Total	<u>\$ 268,539,938</u>	<u>\$ 270,803,084</u>	

Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, the District's bank balance was all insured.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Federal Government					
Categorical aid	\$ 28,832,331	\$ -	\$ 231,431	\$ -	\$ 29,063,762
State Government					
Apportionment	40,761,830	-	-	-	40,761,830
Categorical aid	3,788,915	-	1,392,837	-	5,181,752
Lottery	3,465,316	-	-	-	3,465,316
Special Education	3,542,867	-	-	-	3,542,867
ROP	1,415,574	-	-	-	1,415,574
Local Government					
Interest	308,917	465,660	305,851	120,964	1,201,392
Other Local Sources					
Other	1,414,314	-	119,980	7,346	1,541,640
Total	<u>\$ 83,530,064</u>	<u>\$ 465,660</u>	<u>\$ 2,050,099</u>	<u>\$ 128,310</u>	<u>\$ 86,174,133</u>
				Food Service Enterprise Fund	Fiduciary Funds
Federal Government					
Categorical aid				\$ 3,833,187	\$ -
State Government					
Categorical aid				110,255	-
Other Local Sources					
Other				57,368	134,406
Total				<u>\$ 4,000,810</u>	<u>\$ 134,406</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 30,209,260	\$ 1,847,734	\$ -	\$ 32,056,994
Construction in process	185,867,689	107,302,345	109,112,297	184,057,737
Total Capital Assets Not Being Depreciated	216,076,949	109,150,079	109,112,297	216,114,731
Capital Assets Being Depreciated				
Land improvements	40,886,493	1,567,148	-	42,453,641
Buildings and improvements	293,342,816	105,697,415	-	399,040,231
Furniture and equipment	22,061,090	2,052,064	424,722	23,688,432
Total Capital Assets Being Depreciated	356,290,399	109,316,627	424,722	465,182,304
Less Accumulated Depreciation				
Land improvements	27,999,670	1,355,768	-	29,355,438
Buildings and improvements	68,300,669	8,098,454	-	76,399,123
Furniture and equipment	14,664,318	2,062,863	394,909	16,332,272
Total Accumulated Depreciation	110,964,657	11,517,085	394,909	122,086,833
Governmental Activities Capital Assets, Net	<u>\$ 461,402,691</u>	<u>\$ 206,949,621</u>	<u>\$ 109,142,110</u>	<u>\$ 559,210,202</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,828,028	\$ -	\$ -	\$ 8,828,028
Furniture and equipment	4,248,469	25,279	-	4,273,748
Vehicles	738,073	-	10,882	727,191
Total Capital Assets Being Depreciated	13,814,570	25,279	10,882	13,828,967
Less Accumulated Depreciation				
Buildings and improvements	1,931,959	441,401	-	2,373,360
Furniture and equipment	3,636,276	143,072	-	3,779,348
Vehicles	663,719	24,128	10,882	676,965
Total Accumulated Depreciation	6,231,954	608,601	10,882	6,829,673
Business-Type Activities Capital Assets, Net	<u>\$ 7,582,616</u>	<u>\$ 583,322</u>	<u>\$ -</u>	<u>\$ 6,999,294</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Governmental Activities

Instruction	\$ 10,365,376
All other pupil services	230,342
All other general administration	115,171
Plant services	806,196
Total Depreciation Expenses Governmental Activities	<u>11,517,085</u>

Business-Type Activities

Food services	608,601
Total Depreciation Expenses All Activities	<u><u>\$ 12,125,686</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2009, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From					Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise Fund	
General Fund	\$ -	\$ 24,215	\$ 2,289,016	\$ 7,510	\$ 1,716,846	\$ 4,037,587
County School Facilities Fund	-	-	278,790	-	-	278,790
Non-Major Governmental Funds	2,268,128	-	730,131	-	-	2,998,259
Internal Service Fund	2,658,479	252	35,248	-	-	2,693,979
Total	<u>\$ 4,926,607</u>	<u>\$ 24,467</u>	<u>\$ 3,333,185</u>	<u>\$ 7,510</u>	<u>\$ 1,716,846</u>	<u>\$ 10,008,615</u>

A balance of \$1,893,211 due to the Deferred Maintenance non-major governmental fund from the General Fund resulted from a transfer of funds to meet the required State match.

A balance of \$372,383 due to the Adult Education non-major governmental fund from the General Fund resulted from lottery funds received in the General Fund.

A balance of \$1,001,987 due to the Internal Service Fund from the General Fund resulted from the District contribution to the worker's compensation program.

A balance of \$1,656,492 due to the Internal Service Fund from the General Fund resulted from the District contribution for OPEB benefits.

A balance of \$364,399 due to the General Fund from the Child Development non-major governmental fund was for indirect costs, benefits, and other operating costs.

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A balance of \$1,206,744 due to the General Fund from the Adult Education non-major governmental fund resulted from flexibility transfers.

A balance of \$330,594 due to the General Fund from the Adult Education non-major governmental fund was for indirect costs, benefits, and other operating costs.

A balance of \$1,716,846 due to the General Fund from the Cafeteria major enterprise fund resulted from payroll, indirect costs, and other operating costs.

A balance of \$301,267 due to the General Fund from the Deferred Maintenance non-major governmental fund resulted from flexibility transfers.

A balance of \$730,131 due to the Building non-major governmental fund from the Deferred Maintenance non-major governmental fund resulted from transfer of hazardous materials abatement costs.

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, 2009, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 12,547,210	\$ 12,547,210
County School Facilities Fund	-	-	220,045	220,045
Non-Major Governmental Funds	371,809	2,017,343	817,258	3,206,410
Total	<u>\$ 371,809</u>	<u>\$ 2,017,343</u>	<u>\$ 13,584,513</u>	<u>\$ 15,973,665</u>

The General Fund transferred lottery funds allocated to the adult education activities to the Adult Education non-major governmental fund. \$ 371,809

The County School Facilities Fund transferred residual balances remaining in the project account after OPSC audit to the Special Reserve for Capital Outlay non-major governmental fund. 58,995

The County School Facilities Fund transferred qualified expenditures to the Building non-major governmental fund. 1,957,011

The County School Facilities Fund transferred qualified expenditures to the Capital Facilities non-major governmental fund. 1,337

The Adult Education non-major governmental fund transferred monies in accordance to the Flexibility transfer provision allowed by SBX3 4 to the General Fund. 5,136,300

The Deferred Maintenance non-major governmental fund transferred monies in accordance to the flexibility transfer provision allowed by SBX3 4 to the General Fund. 2,640,729

The Deferred Maintenance non-major governmental fund transferred qualified expenditures to the County School Facilities Fund. 217,917

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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The Deferred Maintenance non-major governmental fund transferred qualified expenditures to the Building non-major governmental fund.	\$ 370,542
The Special Reserve for Other than Capital Outlay non-major governmental fund transferred monies to compensate for budget reduction to the General Fund.	4,770,028
The Capital Facilities non-major governmental fund transferred qualified expenditures to the General Fund.	153
The Building non-major governmental fund transferred qualified expenditures to the County School Facilities Fund.	2,128
The Building non-major governmental fund transferred qualified expenditures to the Special Reserve for Capital Outlay non-major governmental fund.	446,716
Total	<u><u>\$ 15,973,665</u></u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Accrued salaries and benefits	\$27,591,632	\$ 119,650	\$ 935,192	\$ 4,365	\$ 28,650,839
State apportionment	708,574	-	-	-	708,574
State categorical aid	798,222	-	-	-	798,222
Books and supplies	2,151,512	-	132,371	7,052	2,290,935
Services and other operating	12,829,532	131,955	1,607,307	120,599	14,689,393
Construction	1,121,268	2,548,433	3,160,551	-	6,830,252
Other vendor payables	-	-	166,898	466	167,364
Total	<u><u>\$45,200,740</u></u>	<u><u>\$ 2,800,038</u></u>	<u><u>\$ 6,002,319</u></u>	<u><u>\$ 132,482</u></u>	<u><u>\$ 54,135,579</u></u>
				Food Service Enterprise Fund	Fiduciary Funds
Books and supplies				\$ 504,029	\$ -
Services and other operating				44,207	-
Other vendor payables				-	56,698
Total				<u><u>\$ 548,236</u></u>	<u><u>\$ 56,698</u></u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 11,689,297	\$ -	\$ 11,689,297
State categorical aid	650,223	169,501	819,724
Other local	282,719	-	282,719
Total	<u>\$ 12,622,239</u>	<u>\$ 169,501</u>	<u>\$ 12,791,740</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
General obligation bonds	\$ 167,092,826	\$ 1,721,409	\$ 3,195,000	\$ 165,619,235	\$ 3,715,962
Premium on issuance	9,112,962	-	436,403	8,676,559	-
Capital leases	44,269	-	44,269	-	-
Child care facilities revolving fund	1,365,000	-	393,250	971,750	-
Accumulated vacation - net	1,829,269	-	158,275	1,670,994	-
Claims liability	11,222,744	2,587,263	2,341,483	11,468,524	2,587,263
SELF assessment	3,770,037	180,228	199,651	3,750,614	199,651
Supplemental early retirement plan	-	4,506,090	-	4,506,090	901,218
Other postemployment benefits	1,662,583	3,063,754	1,053,585	3,672,752	-
	<u>\$ 196,099,690</u>	<u>\$ 12,058,744</u>	<u>\$ 7,821,916</u>	<u>\$ 200,336,518</u>	<u>\$ 7,404,094</u>

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding		Bonds Outstanding	
				July 1, 2008	Accreted	Redeemed	June 30, 2009
9/1/99	8/1/14	4.20-5.60%	\$ 7,300,000	\$ 4,705,804	\$ 229,339	\$ 940,000	\$ 3,995,143
5/1/03	8/1/27	1.10-5.46%	15,000,000	9,990,929	544,503	-	10,535,432
9/16/04	8/1/29	1.25-5.46%	44,999,498	37,782,970	-	595,000	37,187,970
9/16/04	8/1/24	1.25-4.59%	37,055,000	34,950,000	-	665,000	34,285,000
5/18/06	8/1/30	4.50-5.15%	67,999,967	69,520,240	757,515	305,000	69,972,755
3/14/07	8/1/30	3.77-4.74%	9,997,217	10,142,883	190,052	690,000	9,642,935
				<u>\$ 167,092,826</u>	<u>\$ 1,721,409</u>	<u>\$ 3,195,000</u>	<u>\$ 165,619,235</u>

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, 2009, 1999 General Obligation Bonds, Series B, totaling \$3,995,143 (including accretion) were still outstanding.

1999 General Obligation Bonds, Series C

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

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Refunding Bonds in the amount of \$37,055,000. Bond proceeds from this issuance were used to refund \$7,160,000 of the outstanding San Bernardino City Unified School District 1999 General Obligation Bonds, Series C, with final prepayment to occur August 1, 2013 (\$7,030,000 of the refunded balance awaits prepayment). As a result of this prepayment, which meets the condition required of an advanced defeasance of debt, that portion of the 1999 General Obligation Bonds, Series C has been removed as a long-term obligation from the government-wide statement of net assets.

At June 30, 2009, 1999 General Obligation Bonds, Series C totaling \$10,535,432 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$351,638.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2004 General Obligation Bonds, Series A

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

At June 30, 2009, 2004 General Obligation Bonds, Series A, totaling \$37,187,970 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$1,557,043.

2004 General Obligation Refunding Bonds

On September 16, 2004, the San Bernardino City Unified School District issued the 2004 General Obligation Refunding Bonds in the amount of \$37,055,000. The bonds were issued at an aggregate price of \$38,620,716, (representing the principal amount of \$37,055,000 plus an original issue premium of \$2,072,429 less cost of issuance of \$506,713). The bonds have a final maturity which occurs August 1, 2024, and yield interest rates of 1.25 to 4.59 percent. The bonds were issued to refund the outstanding San Bernardino City Unified School District 1999 General Obligation Bonds, Series A (with final prepayment to occur August 1, 2009) and Series C (with final prepayment to occur August 1, 2013), and to pay certain costs associated with the Refunding Bonds.

At June 30, 2009, 2004 General Obligation Refunding Bonds totaling \$34,285,000 were still outstanding. Unamortized premium received on issuance amounted to \$1,554,324.

2004 General Obligation Bonds, Series B

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

The bonds have a final maturity which occurs on August 1, 2030, with interest yields of 4.50 to 5.15 percent. Proceeds from the sale of the bonds will be used finance the construction, renovation and repair of certain school facilities. At June 30, 2009, the principal balance outstanding was \$69,972,755. Unamortized premium received on issuance amounted to \$4,931,718.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2004 General Obligation Bonds, Series C

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

The bonds have a final maturity which occurs on August 1, 2030, and yield interest rates of 3.77 to 4.74 percent. Proceeds from the sale of the bonds will be used finance the construction, renovation and repair of certain school facilities. At June 30, 2009, the principal balance outstanding was \$9,642,935. Unamortized premium received on issuance amounted to \$281,836.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2010	\$ 3,715,962	\$ 29,038	\$ 6,345,006	\$ 10,090,006
2011	3,851,154	198,846	6,272,750	10,322,750
2012	4,038,811	306,189	6,186,675	10,531,675
2013	4,188,339	526,661	6,094,013	10,809,013
2014	4,554,758	705,242	6,005,447	11,265,447
2015-2019	30,522,244	1,787,756	27,243,500	59,553,500
2020-2024	46,918,689	3,646,311	18,109,903	68,674,903
2025-2029	56,603,978	10,576,022	6,704,925	73,884,925
2030-2031	11,225,300	25,874,700	39,375	37,139,375
Total	<u>\$ 165,619,235</u>	<u>\$ 43,650,765</u>	<u>\$ 83,001,594</u>	<u>\$ 292,271,594</u>

Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2008	\$ 46,017
Additions	-
Payments	<u>46,017</u>
Balance, June 30, 2009	<u>\$ -</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Child Care Facilities Revolving Fund

The District has entered into 29 lease-purchase agreements with the California Department of Education by participation in the Child Care Facilities Revolving Fund program. This program provides up to \$150,000 per site for the purchase of new relocatable child care facilities to be leased to the District. The repayments are to be amortized over a 10-year period with no interest fee. Upon full repayment, title to the relocatables shall transfer to the District. As of June 30, 2009, the outstanding balance was \$971,750.

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$1,670,994.

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, 2009, amounted to \$11,468,524.

Workers' Compensation Assessment

The District is a member of School Excess Liability Fund (SELF), a cost sharing Joint Powers Authority (JPA) for the purpose of providing the District workers' compensation insurance. The SELF board of directors declared an equity assessment to the member districts. At June 30, 2009 the District's outstanding obligation on their pro-rata share of equity assessed was \$3,750,614.

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 115 employees who retired during the 2008-2009 school year, were purchased from United of Omaha Life Insurance Company. As of June 30, 2009, the balance was \$4,506,090.

Year Ending June 30,	Annual Payment
2010	\$ 901,218
2011	901,218
2012	901,218
2013	901,218
2014	901,218
	<u>\$ 4,506,090</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2008. The District's annual required contribution for the year ended June 30, 2009, was \$3,038,309, and contributions made by the District during the year were \$1,053,585. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$128,850 and \$(103,405), respectively, which resulted in a net OPEB obligation of \$3,672,752. See note 10 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 9 - FUND BALANCES

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

	General Fund	Non-Major Governmental Funds
Reserved		
Revolving cash	\$ 210,000	\$ 1,000
Stores inventory	511,458	-
Prepaid expenditures	78,803	-
Restricted programs	42,008,895	-
Total Reserved	<u>42,809,156</u>	<u>1,000</u>
Unreserved		
Designated		
Economic uncertainties	10,285,724	-
Operating deficit	25,224,537	-
Salary reserve (GASB 34)	1,596,949	-
Class size reduction - Grade 9	12,246	-
Williams case instructional materials	930,551	-
Other	-	13,273,924
Total Designated	<u>38,050,007</u>	<u>13,273,924</u>
Undesignated	-	52,279,087
Total Unreserved	<u>38,050,007</u>	<u>65,553,011</u>
Total	<u>\$ 80,859,163</u>	<u>\$ 65,554,011</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Plan Description

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Bernardino City Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 265 retirees and beneficiaries currently receiving benefits, 93 terminated plan members entitled to but not yet receiving benefits, and 5,094 active 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 2008-09, the District contributed \$1,053,585 to the plan, all of which was used for current premiums (approximately 81 percent of total premiums). Plan members receiving benefits contributed \$247,587, or approximately 19 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 3,038,309
Interest on net OPEB obligation	128,850
Adjustment to annual required contribution	<u>(103,405)</u>
Annual OPEB cost (expense)	3,063,754
Contributions made	<u>(1,053,585)</u>
Increase in net OPEB obligation	2,010,169
Net OPEB obligation, beginning of year	<u>1,662,583</u>
Net OPEB obligation, end of year	<u><u>\$ 3,672,752</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 and 2008 were as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2008	\$ 3,038,309	45.28%	\$ 1,662,583
2009	3,038,309	34.68%	3,672,752

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funded Status and Funding Progress

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 April 30, 2008, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 7.75 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2009, was 28 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, 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 2009, the District was self-funded for workers compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Employee Medical Benefits

The District has contracted with Kaiser and Pacific Care 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, 2007 to June 30, 2009:

	Workers' Compensation
Liability Balance, July 1, 2007	\$ 9,955,561
Claims and changes in estimates	4,173,237
Claims payments	(2,906,054)
Liability Balance, June 30, 2008	11,222,744
Claims and changes in estimates	2,587,263
Claims payments	(2,341,483)
Liability Balance, June 30, 2009	\$ 11,468,524
Assets available to pay claims at June 30, 2009	\$ 30,839,699

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-09 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, 2009, 2008, and 2007 were \$20,903,267, \$20,687,348, and \$19,834,059, 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.

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 2008-09 was 9.428 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, 2009, 2008, and 2007, were \$7,778,407, \$7,557,951, and \$7,063,383, respectively, and equal 100 percent of the required contributions for each year.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 \$11,451,425 (4.517 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

Public Agency Retirement System

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

During the year, the District's required and actual contributions amounted to \$60,822, which was one percent of its current-year covered payroll. Employee contributions amounted to \$395,342.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

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, 2009.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Operating Leases

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

The following is a schedule, by years, for future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year as of June 30, 2009.

Year Ending June 30,	Lease Payment
2010	\$ 227,114
2011	189,267
2012	107,037
2013	107,037
2014	107,037
	<u>\$ 737,492</u>

Total expenditures charged for leases during 2009 were \$155,124.

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Modernization at various sites	\$ 9,683,632	12/31/10
New school construction - various sites	15,241,520	03/31/11
	<u>\$ 24,925,152</u>	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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, 2009, the District made payments of \$2,069,318, \$5,318,131, and \$724,474 to SCSRM, SCSEBA and SELF, respectively, for the coverage noted above.

NOTE 15 – FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 16 - SUBSEQUENT EVENTS

On July 28, 2009, the governor of California signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-2009 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, the District has not recorded the revenue and related receivable associated with the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package.

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts (GAAP Basis)		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Revenue limit sources	\$ 299,531,367	\$ 292,048,554	\$ 290,546,746	\$ (1,501,808)
Federal sources	50,404,554	91,390,716	81,201,016	(10,189,700)
Other State sources	89,728,289	134,160,305	134,676,710	516,405
Other local sources	6,285,942	11,587,253	14,280,713	2,693,460
Total Revenues ¹	445,950,152	529,186,828	520,705,185	(8,481,643)
EXPENDITURES				
Current				
Instruction	270,523,862	323,436,176	314,228,917	9,207,259
Instruction-related activities:				
Supervision of instruction	28,989,109	31,871,632	31,267,915	603,717
Instructional library, media, and technology	2,806,102	6,698,767	3,477,581	3,221,186
School site administration	40,164,259	48,340,032	46,452,067	1,887,965
Pupil services:				
Home-to-school transportation	8,815,688	15,058,791	17,807,109	(2,748,318)
Food services	1	1	877,280	(877,279)
All other pupil services	30,867,240	34,597,922	32,639,335	1,958,587
General administration:				
Data processing	6,596,025	7,764,932	6,531,411	1,233,521
All other general administration	13,778,075	17,098,097	15,287,485	1,810,612
Plant services	43,445,248	51,407,188	49,964,742	1,442,446
Facility acquisition and construction	1,701,357	12,264,817	5,316,027	6,948,790
Ancillary services	-	-	131,064	(131,064)
Community services	569,829	1,765,180	1,577,332	187,848
Other outgo	200,000	200,000	133,381	66,619
Enterprise services	-	-	(40)	40
Debt service				
Principal	46,018	46,018	44,269	1,749
Interest	-	-	1,748	(1,748)
Total Expenditures ¹	448,502,813	550,549,553	525,737,623	24,811,930
Excess (Deficiency) of Revenues Over Expenditures	(2,552,661)	(21,362,725)	(5,032,438)	16,330,287
OTHER FINANCING USES				
Transfers in	-	11,966,865	12,547,210	580,345
Other sources	-	125,000	-	(125,000)
Transfers out	(356,244)	(143,756)	(371,809)	(228,053)
Net Financing Uses	(356,244)	11,948,109	12,175,401	227,292
NET CHANGE IN FUND BALANCES	(2,908,905)	(9,414,616)	7,142,963	16,557,579
Fund Balance - Beginning	73,716,200	73,716,200	73,716,200	-
Fund Balance - Ending	\$ 70,807,295	\$ 64,301,584	\$ 80,859,163	\$ 16,557,579

¹ On behalf payments of \$11,451,425 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, 2009**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
April 30, 2008	\$ -	\$ 24,424,565	\$ 24,424,565	0.00%	\$ 335,800,369	7.27%

SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060A	[1]	\$ 106,551
Funds for the Improvement of Education	84.215	[1]	305,341
Passed through California Department of Education (CDE)			
Adult Basic Education			
Adult Education - Basic Grants to States Cluster			
Adult Basic Education & ESL	84.002A	14508	279,205
Adult Secondary Education	84.002	13978	39,592
Adult English Literacy & Civics Education	84.002A	14109	111,512
Subtotal Adult Education - Basic Grants to States Cluster			<u>430,309</u>
No Child Left Behind Act (NCLB)			
Title I Grants to Local Educational Agencies Cluster			
Title I, Part A - Low Income & Neglected	84.010	14329	29,742,959
Title I, Part A - Program Improvement LEA Corrective Action	84.010	14956	2,855,273
Title I, Part A - School Improvement SAIT Corrective Action Plans	84.010A	14579	83,838
Subtotal Title I Grants to Local Educational Agencies Cluster			<u>32,682,070</u>
Title I, Part B - Reading First	84.357	14328	2,925,000
Improving Teacher Quality State Grants Cluster			
Title II, Part A - Improving Teacher Quality	84.367	14341	5,177,880
Title II, Part A - Administrator Training Program	84.367	14344	187,860
Subtotal Improving Teacher Quality State Grants Cluster			<u>5,365,740</u>
Title II, Part D - Enhancing Education Through Technology Formula Grant	84.318	14334	215,761
English Language Acquisition Grants Cluster			
Title III - Immigrant Education Program	84.365	14346	2,567
Title III - Limited English Proficient Student Program	84.365	10084	2,044,105
Subtotal English Language Acquisition Grants Cluster			<u>2,046,672</u>

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

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION, Continued			
Title IV, Part A - Drug-Free Schools	84.186	14347	\$ 372,677
Twenty-First Century Community Learning Centers Cluster			
Title IV, Part B - 21st Century Community Learning Centers: High School ASSET Program	84.287	14535	1,505,247
Title IV, Part B - 21st Century Community Learning Centers: CORE	84.287	14349	1,045,335
Title IV, Part B - 21st Century Community Learning Centers: Direct Access LEA	84.287	14765	254,060
Title IV, Part B - 21st Century Community Learning Centers: Family Literacy	84.287	14788	59,384
Subtotal Twenty-First Century Community Learning Centers Cluster			<u>2,864,026</u>
Title V, Part A - Innovative Education Strategies	84.298A	14354	86,158
Title X - McKinney-Vento Homeless Assistance Grants	84.196	14332	120,000
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Part B, Sec 611, Basic Local Assistance	84.027	13379	9,638,928
Part B, Sec 619, Preschool Grants	84.173	13430	184,006
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	262,552
Part B, Sec 619, Preschool Staff Development	84.173A	13431	1,039
Subtotal Special Education (IDEA) Cluster			<u>10,086,525</u>
Part C, Early Intervention Grants	84.181	23761	59,697
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Basic Grants to States Cluster			
Secondary Education	84.048	13924	713,991
Subtotal Career and Technical Education - Basic Grants to States Cluster			<u>713,991</u>
Passed through California Department of Rehabilitation			
Rehabilitation Services: Vocational Rehabilitation Grant	84.126A	24500	280,368
U.S. Department of Education Total			<u>58,660,886</u>

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

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Education to Prevent AIDS	93.938	[1]	\$ 22,137
Passed through California Department of Health Services			
Medical Assistance Program Cluster			
Medical Billing Options	93.778	10013	128,474
Medical Administrative Activities	93.778	10060	220,152
Subtotal Medical Assistance Program Cluster			<u>348,626</u>
Passed through CDE			
Child Care and Development Fund Cluster			
Quality Improvement Activities	93.575	14130	38,829
School-Age Child Care Resource Contracts	93.575	13941	2,000
Subtotal Child Care and Development Fund Cluster			<u>40,829</u>
U.S. Department of Health and Human Services Total			<u>411,592</u>
U.S. DEPARTMENT OF JUSTICE			
Operation Close the Achievement Gap	16.548	[1]	<u>12,063</u>
U.S. Department of Justice Total			<u>12,063</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13396	15,985,202
Basic School Breakfast Program	10.553	13390	110,453
Especially Needy Breakfast Program	10.553	13526	3,841,168
Meal Supplements	10.556	13392	635,263
Seamless Summer Food Program	10.559	13004	138,259
Commodities	10.555	[1]	1,206,781
Subtotal Child Nutrition Cluster			<u>21,917,126</u>
Fresh Fruit and Vegetables Program	10.582	14968	96,384
U.S. Department of Agriculture Total			<u>22,013,510</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	<u>264,806</u>
U.S. Department of Defense Total			<u>264,806</u>
Total Expenditure of Federal Awards			<u>\$ 81,362,857</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, 2009

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Teresa Parra Craig	President	2011
Danny Tillman	Vice President	2013
Louise A. Ayala	Member	2011
Dr. Barbara Flores	Member	2013
Judi Penman	Member	2013
Lynda K. Savage	Member	2011
Dr. Elsa O. Valdez	Member	2011

ADMINISTRATION

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

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2009

	Amended Annual Report	Second Period ADA		Increase (Decrease)
		Amended 2008-2009	2007-2008	
ELEMENTARY				
Kindergarten	3,791	3,773	3,983	(210)
First through third	12,039	12,056	12,511	(455)
Fourth through sixth	11,491	11,546	12,042	(496)
Seventh and eighth	7,248	7,307	7,603	(296)
Opportunity schools	129	114	108	6
Home and hospital	7	6	6	-
Community Day School	29	26	23	3
Special education	887	872	956	(84)
Total Elementary	35,621	35,700	37,232	(1,532)
SECONDARY				
Regular classes	11,473	11,675	11,684	(9)
Continuation education	962	1,004	941	63
Opportunity schools	177	176	175	1
Home and hospital	17	16	11	5
Community Day School	-	-	64	(64)
Special education	756	762	774	(12)
Total Secondary	13,385	13,633	13,649	(16)
Total K-12	49,006	49,333	50,881	(1,548)
CLASSES FOR ADULTS				
Concurrently enrolled	63	67	83	(16)
Not concurrently enrolled	3,074	3,085	2,789	296
Total Classes for Adults	3,137	3,152	2,872	280
Grand Total	52,143	52,485	53,753	(1,268)
SUMMER SCHOOL				
		Annual Hours of Attendance		Increase (Decrease)
		2008-2009	2007-2008	
Elementary		208,034	197,463	10,571
Secondary		516,773	517,984	(1,211)
Total Hours		724,807	715,447	9,360

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2009

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,680	36,000	36,000	180	180	Complied
Grades 1 - 3	46,320	50,400				
Grade 1			50,435	180	180	Complied
Grade 2			50,435	180	180	Complied
Grade 3			50,435	180	180	Complied
Grades 4 - 6	46,320	54,000				
Grade 4			54,050	180	180	Complied
Grade 5			54,050	180	180	Complied
Grade 6			54,050	180	180	Complied
Grades 7 - 8	60,720	54,000				
Grade 7			60,840	180	180	Complied
Grade 8			60,840	180	180	Complied
Grades 9 - 12	57,510	64,800				
Grade 9			64,963	180	-	Complied
Grade 10			64,963	180	-	Complied
Grade 11			64,963	180	-	Complied
Grade 12			64,963	180	-	Complied

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

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

	General Fund
	<hr/>
FUND BALANCE	
Balance, June 30, 2009, Unaudited Actuals	\$ 90,872,569
Decrease in:	
Accounts receivable	(10,013,406)
Balance, June 30, 2009, Audited Financial Statement	<hr/> <hr/>
	Child Development Non-Major Governmental Fund
	<hr/>
FUND BALANCE	\$ 2,883,854
Balance, June 30, 2009, Unaudited Actuals	
Decrease in:	
Accounts receivable	(1,597,508)
Balance, June 30, 2009, Audited Financial Statement	<hr/> <hr/>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget) ¹ 2010	2009	2008	2007
GENERAL FUND				
Revenues and other sources	\$ 469,017,328	\$ 533,252,395	\$ 527,941,143	\$ 525,621,808
Total Revenues and Other Sources	469,017,328	533,252,395	527,941,143	525,621,808
Expenditures	(525,346,554)	(525,737,623)	(531,068,645)	(493,907,169)
Other uses and transfers out	-	(371,809)	(2,952,018)	(3,088,604)
Total Expenditures and Other Uses	(525,346,554)	(526,109,432)	(534,020,663)	(496,995,773)
INCREASE (DECREASE) IN FUND BALANCE	\$ (56,329,226)	\$ 7,142,963	\$ (6,079,520)	\$ 28,626,035
ENDING FUND BALANCE	\$ 24,529,937	\$ 80,859,163	\$ 73,716,200	\$ 79,795,720
AVAILABLE RESERVES ²	\$ 10,300,000	\$ 10,285,724	\$ 18,569,004	\$ 25,587,605
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.0%	2.0%	3.6%	5.3%
LONG-TERM OBLIGATIONS	N/A	\$ 200,336,518	\$ 196,099,690	\$ 195,695,817
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	47,334	49,333	50,881	51,950

The General Fund balance has increased by \$1,063,443 over the past two years. The fiscal year 2009-10 budget projects a further decrease of \$56,329,226 (69.7 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2009-10 fiscal year. Total long-term obligations have increased by \$4,640,701 over the past two years.

Average daily attendance has decreased by 2,617 over the past two years. An additional decline of 1,999 ADA is anticipated during fiscal year 2009-10.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$11,451,446, \$11,325,360, and \$10,857,912 have been excluded from the calculation of available reserves for fiscal years ending June 30, 2009, 2008, and 2007, respectively.

⁴ Excludes Adult Education ADA.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2009

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
PAL Academy	No
ASA Charter	No
Public Safety Academy	No
Casa Ramona Academy	No
SOAR Academy	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2009

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Special Reserve for Other than Capital Outlay Projects Fund
ASSETS				
Deposits and investments	\$ 877,685	\$ 2,789,703	\$ 10,319,577	\$ 35,288
Receivables	1,659,577	66,025	57,117	12,753
Due from other funds	373,743	1,174	1,893,211	-
Total Assets	\$ 2,911,005	\$ 2,856,902	\$ 12,269,905	\$ 48,041
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 650,399	\$ 1,019,624	\$ 675,778	\$ -
Due to other funds	1,554,985	381,431	1,310,188	48,041
Deferred revenue	-	169,501	-	-
Total Liabilities	2,205,384	1,570,556	1,985,966	48,041
FUND BALANCES				
Reserved	1,000	-	-	-
Unreserved:				
Designated	-	-	-	-
Undesignated, reported in:				
Special revenue funds	704,621	1,286,346	10,283,939	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total Fund Balances	705,621	1,286,346	10,283,939	-
Total Liabilities and Fund Balances	\$ 2,911,005	\$ 2,856,902	\$ 12,269,905	\$ 48,041

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Projects Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 28,728,302	\$ 13,944,156	\$ 979,053	\$ 12,282,458	\$ 54,436	\$ 70,010,658
126,331	72,457	55,583	-	256	2,050,099
730,131	-	-	-	-	2,998,259
<u>\$ 29,584,764</u>	<u>\$ 14,016,613</u>	<u>\$ 1,034,636</u>	<u>\$ 12,282,458</u>	<u>\$ 54,692</u>	<u>\$ 75,059,016</u>
\$ 2,945,589	\$ 706,199	\$ 4,730	\$ -	\$ -	\$ 6,002,319
2,052	36,488	-	-	-	3,333,185
-	-	-	-	-	169,501
<u>2,947,641</u>	<u>742,687</u>	<u>4,730</u>	<u>-</u>	<u>-</u>	<u>9,505,005</u>
-	-	-	-	-	1,000
-	13,273,924	-	-	-	13,273,924
-	-	-	-	-	12,274,906
-	-	-	12,282,458	54,692	12,337,150
26,637,123	2	1,029,906	-	-	27,667,031
<u>26,637,123</u>	<u>13,273,926</u>	<u>1,029,906</u>	<u>12,282,458</u>	<u>54,692</u>	<u>65,554,011</u>
<u>\$ 29,584,764</u>	<u>\$ 14,016,613</u>	<u>\$ 1,034,636</u>	<u>\$ 12,282,458</u>	<u>\$ 54,692</u>	<u>\$ 75,059,016</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	Adult Education Fund	Child Development Fund	Deferred Maintenance Fund	Special Reserve for Other than Capital Outlay Projects Fund
REVENUES				
Revenue limit sources	\$ 7,525,309	\$ -	\$ -	\$ -
Federal sources	430,309	40,829	-	-
Other State sources	-	5,919,612	1,893,211	-
Other local sources	765,339	295,798	364,438	124,315
Total Revenues	8,720,957	6,256,239	2,257,649	124,315
EXPENDITURES				
Current				
Instruction	6,197,737	491	-	-
Instruction-related activities:				
Supervision of instruction	-	83,791	-	-
School site administration	1,753,962	232,855	-	-
Pupil services:				
All other pupil services	299,183	27,289	-	-
General administration:				
All other general administration	386,580	315,490	-	-
Plant services	697,061	184,718	3,152,920	-
Facility acquisition and construction	66,645	10,556	459,958	-
Community services	-	7,113,564	-	-
Debt service				
Principal	-	393,250	-	-
Interest and other	-	-	-	-
Total Expenditures	9,401,168	8,362,004	3,612,878	-
Excess (Deficiency) of Revenues				
Over Expenditures	(680,211)	(2,105,765)	(1,355,229)	124,315
Other Financing Sources (Uses)				
Transfers in	371,809	-	-	-
Transfers out	(5,136,300)	-	(3,229,188)	(4,770,028)
Net Financing Sources (Uses)	(4,764,491)	-	(3,229,188)	(4,770,028)
NET CHANGE IN FUND BALANCES	(5,444,702)	(2,105,765)	(4,584,417)	(4,645,713)
Fund Balance - Beginning	6,150,323	3,392,111	14,868,356	4,645,713
Fund Balance - Ending	\$ 705,621	\$ 1,286,346	\$10,283,939	\$ -

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Special Reserve for		Tax Override Fund	Total Non-Major Governmental Funds
		Capital Outlay Projects Fund	Bond Interest and Redemption Fund		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,525,309
-	-	-	-	-	471,138
-	-	-	-	-	7,812,823
809,153	1,406,349	133,296	10,930,899	1,599	14,831,186
809,153	1,406,349	133,296	10,930,899	1,599	30,640,456
-	-	-	-	-	6,198,228
-	-	-	-	-	83,791
-	-	-	-	-	1,986,817
-	-	-	-	-	326,472
-	-	-	-	-	702,070
-	-	-	-	-	4,034,699
5,907,479	3,949,038	73,738	-	-	10,467,414
-	-	-	-	-	7,113,564
-	-	-	3,195,000	-	3,588,250
170,417	-	-	6,414,438	-	6,584,855
6,077,896	3,949,038	73,738	9,609,438	-	41,086,160
(5,268,743)	(2,542,689)	59,558	1,321,461	1,599	(10,445,704)
2,327,553	1,337	505,711	-	-	3,206,410
(448,844)	(153)	-	-	-	(13,584,513)
1,878,709	1,184	505,711	-	-	(10,378,103)
(3,390,034)	(2,541,505)	565,269	1,321,461	1,599	(20,823,807)
30,027,157	15,815,431	464,637	10,960,997	53,093	86,377,818
\$ 26,637,123	\$ 13,273,926	\$ 1,029,906	\$ 12,282,458	\$ 54,692	\$ 65,554,011

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, 2009

(Amounts in thousands, excluding
Revenue Limit Per ADA)

	Actual Results for the Years					
	2008-2009		2007-2008		2006-2007	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 81,201	15.6	\$ 53,708	10.2	\$ 58,978	11.2
State and local revenue included in revenue limit	290,547	55.8	302,422	59.5	305,464	58.1
Other State revenue	134,677	25.9	160,960	28.3	150,625	28.7
Other local revenue	14,281	2.7	10,851	2.0	10,555	2.0
Total Revenues	<u>520,706</u>	<u>100.0</u>	<u>527,941</u>	<u>100.0</u>	<u>525,622</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	251,856	48.4	249,654	47.3	250,574	47.7
Classified salaries	73,387	14.1	73,053	13.8	69,914	13.3
Employee benefits	98,242	18.9	96,437	18.3	81,510	15.5
Total Salaries and Benefits	423,485	81.4	419,144	79.4	401,998	76.5
Books and supplies	28,469	5.5	46,856	7.9	33,090	6.3
Contracts and operating expenses	69,960	13.4	61,908	11.7	56,431	10.6
Capital outlay	5,652	1.1	4,630	0.9	3,523	0.7
Other outgo	(1,828)	(0.4)	(1,469)	(0.3)	(1,135)	(0.2)
Total Expenditures	<u>525,738</u>	<u>101.0</u>	<u>531,069</u>	<u>99.6</u>	<u>493,907</u>	<u>93.9</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,032)</u>	<u>(1)</u>	<u>(3,128)</u>	<u>0.4</u>	<u>31,715</u>	<u>6.1</u>
OTHER FINANCING USES						
Operating transfers in	12,547	2.4	-	-	-	-
Operating transfers out	(372)	(0.1)	(2,952)	(0.6)	(3,089)	(0.6)
Total Other Financing Uses	12,175	2.3	(2,952)	(0.6)	(3,089)	(0.6)
INCREASE (DECREASE) IN FUND BALANCE	<u>7,143</u>	<u>1.3</u>	<u>(6,080)</u>	<u>(0.2)</u>	<u>28,626</u>	<u>5.5</u>
FUND BALANCE, BEGINNING	<u>73,716</u>		<u>79,796</u>		<u>51,170</u>	
FUND BALANCE, ENDING	<u>\$ 80,859</u>		<u>\$ 73,716</u>		<u>\$ 79,796</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>15.5</u>		<u>14.0</u>		<u>15.2</u>
* * * * *						
BASE REVENUE LIMIT PER ADA						
Regular	<u>\$ 6,126</u>		<u>\$ 5,797</u>		<u>\$ 5,545</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, 2009

(Amounts in thousands)

	Actual Results for the Years					
	2008-2009		2007-2008		2006-2007	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 20,807	77.9	\$ 21,156	81.0	\$ 21,046	79.8
State meal program	1,668	6.2	1,757	6.7	1,377	5.2
Food sales	2,940	11.0	2,922	11.1	3,549	13.4
Other	1,297	4.9	293	1.2	408	1.6
Total Revenues	<u>26,712</u>	<u>100.0</u>	<u>26,128</u>	<u>100.0</u>	<u>26,380</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	11,361	42.5	11,179	42.8	10,797	40.9
Food	11,291	42.3	14,109	54.0	12,775	48.5
Supplies	261	1.0	456	1.7	412	1.6
Other	2,827	10.6	2,105	8.1	2,411	9.1
Total Expenditures	<u>25,740</u>	<u>96.4</u>	<u>27,849</u>	<u>106.6</u>	<u>26,395</u>	<u>100.1</u>
INCREASE (DECREASE) IN FUND BALANCE	972	<u>3.6</u>	(1,721)	<u>(6.6)</u>	(15)	<u>(0.1)</u>
FUND BALANCE, BEGINNING	<u>18,441</u>		<u>20,162</u>		<u>20,177</u>	
FUND BALANCE, ENDING	<u>\$ 19,413</u>		<u>\$ 18,441</u>		<u>\$ 20,162</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>72.7</u>		<u>70.6</u>		<u>76.4</u>

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2008-2009		2007-2008		2006-2007	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	531,660	7.8	611,456	9.2	684,127	10.0
Reduced price	1,066,728	15.7	1,164,477	17.4	1,207,250	17.7
Free	5,208,920	76.5	4,902,866	73.4	4,939,255	72.3
Total Lunches	<u>6,807,308</u>	<u>100.0</u>	<u>6,678,799</u>	<u>100.0</u>	<u>6,830,632</u>	<u>100.0</u>
BREAKFAST						
Paid	118,142	4.9	118,221	4.9	158,197	6.2
Reduced price	373,763	16.4	396,510	16.4	438,342	17.2
Free	2,040,951	78.7	1,895,784	78.7	1,955,761	76.6
Total Breakfast	<u>2,532,856</u>	<u>100.0</u>	<u>2,410,515</u>	<u>100.0</u>	<u>2,552,300</u>	<u>100.0</u>

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance, Proprietary Funds - Statement of Revenues, Expenses and Changes in Net Assets, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	Federal CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance and Statement of Revenues, Expenses and Changes in Net Assets:		\$ 103,685,664
Medi-Cal Billing Option	93.778	(79,638)
ARRA: State Fiscal Stabilization Funds	84.394	(22,243,169)
Total Schedule of Expenditures of Federal Awards		<u>\$ 81,362,857</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Amount Provided to Subrecipients
Title I, Part A - Basic Grant Low-Income and Neglected	84.010	\$ 94,711
Title II, Part A - Improving Teacher Quality	84.367	71,330
Title V, Part A - Innovative Education Strategies	84.298A	2,784
		<u>\$ 168,825</u>

Local Education Agency Organization Structure

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2009

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 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 Balance

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITORS' REPORTS



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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District as of and for the year ended June 30, 2009, which collectively comprise San Bernardino City Unified School District's basic financial statements and have issued our report thereon dated December 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino City Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was no objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 8, 2009.

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

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

W. Riney Truce, Dec 8, 2009, LLP

Rancho Cucamonga, California
December 8, 2009



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of San Bernardino City Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Bernardino City Unified School District's management. Our responsibility is to express an opinion on San Bernardino City Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered San Bernardino City Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Bernardino City Unified School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

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

VAJRAK, TRINE, RAY W, LD

Rancho Cucamonga, California
December 8, 2009



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 8, 2009. 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 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of San Bernardino City Unified School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the San Bernardino City Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	3	Not Applicable
Instructional Materials general requirements	8	Yes, See Below
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

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

We only performed testing of procedure (a) for Instructional Materials general requirements, as additional procedures were determined not to be required.

Based on our audit, we found that for the items tested, the San Bernardino City Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the San Bernardino City Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on San Bernardino City Unified School District's compliance with the State laws and regulations referred to above.

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

VAUZNER, TRUS. Pay 4 10, 11

Rancho Cucamonga, California
December 8, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010 & 84.010A</u>	<u>Title I Grants to Local Educational Agencies</u>
	<u>Cluster</u>
<u>10.555, 10.553, 10.556, &</u>	<u>Child Nutrition Cluster</u>
<u>10.559</u>	

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,440,886</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

The following finding represents significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

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

2009-1 30000

INDIRECT COST ACCOUNTING

Criteria or Specific Requirement

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

Condition

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

Questioned Cost

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

Context

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

Effect

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

Cause

The District used the incorrect indirect cost rate.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Recommendation

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

District Response

The District concurs with the audit finding. This was an oversight and staff has been notified and the error has been corrected. The process was also reviewed with staff to prevent occurrence in the future. A cash journal voucher (CJV) entry will be processed promptly to reimburse the Adult Education program for the question cost and a copy will be submitted to County Business Advisory Services.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

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

State Awards Findings

AFTER SCHOOL EDUCATION AND SAFETY PROGRAM

2008-1 40000

Criteria or Specific Requirement

Requirement: In-Kind Contribution

Local Education Agencies are required to contribute cash or in-kind funds, equal to not less than one-third of the total State grant, which may have originated from the school district, other governmental agencies, community organizations, or the private sector. Facilities or space usage may fulfill not more than 25 percent of the required local contribution.

Condition

Per conversation with District personnel, we noted that there is a general lack of understanding over the compliance requirement related to matching funds. It was determined that the District has procedures in place that budget for each site's requirement to match funds. However, there are no procedures in place to verify if budgeted benchmarks are actually met to meet compliance requirements.

Question Cost

There were no questioned costs associated with the condition found.

Context

The condition identified was determined based on the testing of in-kind contributions pledged to the program and the identification of the types of in-kind contributions.

Effect

Provisions of the program did not identify specific financial consequences that the District would face as a result of the condition identified. However, it appears that the result of the unsubstantiated in-kind contribution would cause the observer to determine that the District is out of compliance with the general program requirements.

Cause

It appears that the condition identified has materialized due to the District's lack of fiscal oversight over the compliance requirement

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Recommendation

We recommend responsible personnel at the District to become familiar with the matching funds requirement as outlined in the State Audit Guide and California Education Code(s) that mandate the requirements. We believe that the most feasible control activity that can be implemented over this compliance requirement is to perform periodic budgetary review. Specifically, the District should consider using year-to-date actual information obtained from monthly or quarterly activities to determine the District's year-to-date budgeted matching performance. While the majority of funds are matched with facilities usage and personnel payroll, in kind contributions are also acceptable. In kind contributions can be documented through time certifications and volunteer sign in-sheets, as well as donations from outside sources.

Current Status

Implemented.

2008-2 40000

Criteria or Specific Requirement

Requirement: Attendance Records and Reporting

Compliance requirements mandate that schools maintain adequate source documents supporting the number of students served by the program as reported semiannually to the California Department of Education. Additionally, adequate documentation must be maintained which support attendance participation consistent with early release and late start policies.

Condition

The following conditions were identified in relation to the program's attendance records

- 1) It appears that there is inadequate documentation indicating actual student participation. Source documents used for recording attendance do not consistently track actual times when students are signing in or out from the program. We noted numerous instances where students have signed in, but are not signed out, or vice versa.
- 2) There appears to be no verifiable records that can support instances where students leaving early are in accordance with the program's early release and late start policies adopted by the District. Permission slips issued in accordance with the program's early release and late start policies were not kept as supporting evidence.
- 3) Attendance records used by the District were found to be generally difficult to understand. Per conversation with program administrators, there are five staff members responsible for compiling and reporting attendance information. It appears that each of the staff members uses different compilation methods, making the attendance recording and reporting process more difficult.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

Questioned Cost

There were no questioned costs associated with the condition found.

Context

The condition identified was determined through review of attendance records from three sites for the before school program and three sites for the after school program.

Effect

Conditions identified make the program's attendance recording and reporting procedure difficult. Ultimately, these deficiencies affect the District's ability to report accurate number of students served to the State in the required semi-annual attendance reports. Additionally, failure to document the implementation of the program's early release and late start policies will lead to the likelihood of the District not meeting the "full day" requirement as identified in the State Audit Guide.

Cause

It appears that the condition identified has materialized as a result of the District's lack of standardized attendance recording and reporting procedures.

Consequences

Provisions of the program did not identify specific financial consequences that the District would face as a result of the condition identified. However, failure to report accurate attendance information to the State can potentially lead to reduction in the program's funding.

Recommendation

The District may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the After School Education and Safety program that are accurate and consistent. Additionally, the District needs to place a strong emphasis in retaining auditable records related to the program. Records pertaining to the program's attendance are considered Class 3 (Disposable Records) since they are records that are basic to the audit. In accordance to Title 5, Division 1, Chapter 16, Subchapter 2, Article 2, Section 16026, Class 3 records must be kept for at least a minimum of four years.

Current Status

Implemented.



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

In planning and performing our audit of the financial statements of San Bernardino City Unified School District for the year ended June 30, 2009, 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 8, 2009, on the financial statements of San Bernardino City Unified School District.

ASSOCIATED STUDENT BODY (ASB)

USE OF RECEIPTS

Warm Springs Elementary School

Observation

Receipts or other supporting documentations are not generated for all monies collected and deposited into the ASB account. The auditor was unable to determine whether cash collections taking place at the site's student store was intact and timely.

Recommendation

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

DISBURSEMENTS – PRE-APPROVAL OF TRANSACTIONS

San Andreas Continuation School

Observation

ASB disbursements are not consistently being approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of questionable nature could arise if disbursements are not pre-approved.

Recommendation

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

DISBURSEMENTS – SUPPORTING DOCUMENTATION

Bradley Elementary School, Monterey Elementary School

Observation

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

Recommendation

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

DISBURSEMENTS – PROPER AUTHORIZATION

Monterey Elementary School, San Andreas Continuation School, Rodriguez Prep Academy Middle School

Observation

ASB disbursements were being made without proper authorization from the appropriate administrator and/or the student council authorization being present on the purchase order and/or check request forms.

Recommendation

Checks should only be drafted upon reviewing the documents indicating that the transactions have been authorized for disbursements. Such documentation includes purchase orders and check request forms. ASB bookkeepers should only issue checks if signatures from authorized personnel are present on such forms, as required and outlined in California *Education Code* Section 48933(5)(b).

DISBURSEMENTS – RECEIVING DOCUMENTATION

Rodriguez Prep Academy Middle School, San Andreas Continuation School

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.

VENDING MACHING/STUDENT STORE SALES REPORT

San Andreas Continuation School

Observation

The ASB was not keeping track of their daily sales from the student store/vending machines. As a result, the ASB currently cannot determine if the cash collected through student store/vending machine activities agrees to the actual activity, resulting in a potential loss of revenue.

Recommendation

For every day the student store operates, the ASB should prepare daily sales reports that list the items sold and at what price the item was sold. This will allow the ASB to agree the cash collected to what should have been collected. For vending machines, every time the machine is restocked by the ASB, the ASB should prepare a sales report.

MASTER TICKET LOG AND TICKET SALES RECONCILIATION

Warm Springs Elementary School, Rodriguez Prep Academy Middle School

Observation

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

Recommendation

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

REVENUE POTENTIAL

Warm Springs Elementary School

Observation

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

Recommendation

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

UNALLOWABLE ATTENDANCE INCENTIVE AWARDS

Bradley Elementary School

Observation

The ASB funds were being used to purchase attendance incentive awards for students with either perfect or good attendance. The auditor was unable to determine the extent of what type of attendance incentive awards were allowed since awards varied from gift cards to various small gifts.

Recommendation

The ASB funds should not be used to provide incentive awards for State's compulsory attendance requirements.

IMPROPER USE OF PURCHASE ORDERS

Golden Valley Middle School

Observation

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

Recommendation

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

STALE DATED CHECKS

Shandin Hills Middle School

Observation

State dated checks that have been outstanding for more than six months have been identified per our review of monthly bank reconciliations.

Recommendation

The ASB should review the list of outstanding checks on a monthly basis as part of the reconciliation process and void all checks that have been outstanding for more than six months to get an accurate picture of what the actual cash balance per general ledger should be.

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

VAUGHN TRING, DAVID W. WILSON

Rancho Cucamonga, California
December 8, 2009