



ANNUAL FINANCIAL REPORT

JUNE 30, 2014

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2014

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	64
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	65

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	67
Local Education Agency Organization Structure	70
Schedule of Average Daily Attendance	71
Schedule of Instructional Time	72
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	73
Schedule of Financial Trends and Analysis	74
Schedule of Charter Schools	75
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	77
General Fund Selected Financial Information	78
Cafeteria Fund Selected Financial Information	79
Note to Supplementary Information	80

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	83
Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	85
Report on State Compliance	87

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	90
Financial Statement Findings	91
Federal Awards Findings and Questioned Costs	93
State Awards Findings and Questioned Costs	94
Summary Schedule of Prior Audit Findings	95
Management Letter	97

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2013-2014*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the San Bernardino City Unified School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Correction of an Error

As discussed in Note 18 to the financial statements, the District restated its beginning capital assets and the related accumulated depreciation to more accurately reflect the underlying transactions related to the District's capital assets.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 12 and budgetary comparison and other postemployment benefit information on pages 64 and 65, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2014, on our consideration of the San Bernardino City Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Bernardino City Unified School District's internal control over financial reporting and compliance.

VAJRNISK, TRANE, DAN & W. W.

Rancho Cucamonga, California
December 15, 2014

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, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

District-Wide Financial Statements

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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

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

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

Governmental Activities

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

Business-Type Activities

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was greater than they were the year before - increasing 2.9 percent or \$24.5 million. Most of this improvement in the District's financial position came from its governmental activities, the net position of which grew by \$25.6 million to \$846.7 million. The net position of the District's business-type activities decreased by \$1.1 million to \$18.7 million.

Table A-1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2014	2013, as Restated	2014	2013	2014	2013, as Restated
Assets						
Current and other assets	\$ 337.8	\$ 394.9	\$ 13.0	\$ 13.9	\$ 350.8	\$ 408.8
Capital assets	926.8	879.4	5.9	6.2	932.7	885.6
Total Assets	1,264.6	1,274.3	18.9	20.1	1,283.5	1,294.4
Deferred Outflows of Resources	8.6	-	-	-	8.6	-
Liabilities						
Current liabilities	91.8	112.6	0.2	0.3	92.0	112.9
Long-term obligations	334.7	340.6	-	-	334.7	340.6
Total Liabilities	426.5	453.2	0.2	0.3	426.7	453.5
Net Position						
Net investment in capital assets	733.9	697.3	5.9	6.2	739.8	703.5
Restricted	125.3	111.2	12.8	13.6	138.1	124.8
Unrestricted	(12.5)	12.6	-	-	(12.5)	12.6
Total Net Position	\$ 846.7	\$ 821.1	\$ 18.7	\$ 19.8	\$ 865.4	\$ 840.9

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Changes in Net Position

The District's total revenues increased by \$37.7 million (see Table A-2). State and Federal aid for specific programs contributed about 33 cents of every dollar raised. Another 64 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	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ 2.2	\$ 2.1	\$ 1.4	\$ 1.5	\$ 3.6	\$ 3.6
Operating grants and contributions	134.0	151.7	27.8	27.4	161.8	179.1
Capital grants and contributions	29.8	-	-	-	29.8	-
General revenues:						
Federal and State unrestricted	334.2	301.8	-	-	334.2	301.8
Property taxes	42.7	32.3	-	-	42.7	32.3
Other general revenues	17.8	35.4	-	-	17.8	35.4
Total Revenues	560.7	523.3	29.2	28.9	589.9	552.2
Expenses						
Instruction-related	382.1	360.6	-	-	382.1	360.6
Pupil services	47.4	45.9	-	-	47.4	45.9
Administration	20.2	19.9	-	-	20.2	19.9
Plant services	63.9	52.2	-	-	63.9	52.2
Other	21.5	22.9	30.3	31.5	51.8	54.4
Total Expenses	535.1	501.5	30.3	31.5	565.4	533.0
Change in Net Position	\$ 25.6	\$ 21.8	\$ (1.1)	\$ (2.6)	\$ 24.5	\$ 19.2

The total cost of all programs and services increased by \$32.4 million. The District's expenses are predominantly related to educating and caring for students (76.0 percent). The purely administrative activities of the District accounted for just 3.6 percent of total costs.

Total revenues surpassed expenses, increasing net position to \$24.5 million over last year. Only the governmental activities contributed to the District's increase in net position.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Governmental Activities

Revenues for the District's governmental activities were \$560.7 million, whereas total expenses were \$535.1 million. The increase in net position for governmental activities occurred due to an overall increase in revenues.

- Some of the District's activities (\$2.2) 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 (\$163.8 million). See Table A-2.

Business-Type Activities

Revenues of the District's business-type activities were \$29.2 million, and expenses were \$30.3 million. (Refer to Table A-2)

Net Cost of Services

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

- Most of the District's governmental activity net costs (\$369.2 million) were financed by District taxpayers and the taxpayers of our State.
 - This portion of governmental activities was financed with \$42.7 million in property taxes, and \$334.2 million of unrestricted State and Federal aid based on the State-wide education aid formula. See Table A-2.

Table A-3

(Amounts in millions)	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction	\$ 315.9	\$ 291.3	\$ 194.3	\$ 191.8
Instruction-related activities	66.2	69.3	47.5	41.9
Home-to-school transportation	15.6	16.0	15.6	12.2
Other pupil services	31.8	29.9	23.8	20.8
Administration	20.2	19.9	14.5	14.7
Plant services	63.9	52.2	63.6	51.9
Other	21.5	22.9	9.9	14.4
Total	\$ 535.1	\$ 501.5	\$ 369.2	\$ 347.7

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported *combined* fund balances of \$218.9 million, a decrease of 12.3 percent from the previous year.

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

The District's General Fund decreased in fund balance by \$6.0 million. The District continues to meet the State required two percent fund balance reserve for Economic Uncertainties.

Table A-4

(Amounts in millions)

	Balances and Activity			
	July 1, 2013	Revenues	Expenditures	June 30, 2014
General Fund	\$ 62.1	\$ 493.7	\$ 499.7	\$ 56.1
Building Fund	74.3	1.0	7.9	67.4
County School Facilities Fund	54.5	33.6	31.1	57.0
Adult Education Fund	-	1.2	1.2	-
Child Development Fund	0.4	7.5	7.4	0.5
Capital Facilities Fund	18.2	3.5	2.8	18.9
Special Reserve Fund for Capital Outlay Projects	1.2	10.5	9.6	2.1
Capital Projects Fund for Blended Component Units	26.1		25.5	0.6
Bond Interest and Redemption	12.8	15.7	12.2	16.3
Total	\$ 249.6	\$ 566.7	\$ 597.4	\$ 218.9

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 \$16.5 million and the actual results for the year show expenditures exceeding revenues by \$5.5 million.

- Actual revenues were \$21.5 million higher than expected, due primarily to higher State sources.
- The actual expenditures were \$10.6 million over budget, due primarily to on behalf payments.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2014, the District had invested \$932.7 million in a broad range of capital assets, including school facilities and equipment. Total depreciation expense for the year was \$13.6 million. (More detailed information about capital assets can be found in Note 4 to the financial statements.)

Table A-5

(Amounts in millions)	Governmental Activities		Business-Type Activities		Total	
	2014	2013, as Restated	2014	2013	2014	2013, as Restated
Land and construction in process	\$ 557.8	\$ 515.4	\$ -	\$ -	\$ 557.8	\$ 515.4
Buildings and improvements	361.6	356.5	4.3	4.7	365.9	361.2
Equipment	7.4	7.5	1.6	1.5	9.0	9.0
Total	\$ 926.8	\$ 879.4	\$ 5.9	\$ 6.2	\$ 932.7	\$ 885.6

Long-Term Obligations

At year-end, the District had \$234.8 million in general obligation bonds decreasing last year's balance by \$4.7 million.

Table A-6

(Amounts in millions)	Governmental Activities	
	2014	2013
General obligation bonds - net (financed with property taxes)	\$ 234.8	\$ 239.5
Certificates of participation - net	52.6	52.6
Accumulated vacation	0.9	1.1
Claims liability	14.8	12.7
SELF assessment	2.7	2.5
Supplemental early retirement plan (SERP)	12.7	19.8
Other postemployment benefits (OPEB)	16.2	12.4
Total	\$ 334.70	\$ 340.6

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

1. Since the Local Control Funding Formula is based on an improved or lack of growth in the economy of the State of California, any volatility in revenues will impact the District's financial condition.
2. The decline in enrollment or Average Daily Attendance (0.2 percent decrease in 2013-2014) appears to be leveling off with the rate of decline being almost gone. For fiscal year 2013-2014, the District continued to receive an increase in funded ADA.
3. Collective bargaining.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	\$ 243,466,436	\$ 11,334,838	\$ 254,801,274
Receivables	92,026,217	2,536,415	94,562,632
Internal balances	1,821,997	(1,821,997)	-
Prepaid expenses	54,928	-	54,928
Stores inventories	437,080	899,980	1,337,060
Capital assets			
Land and construction in process	557,817,967	-	557,817,967
Other capital assets	553,669,356	16,292,737	569,962,093
Less: Accumulated depreciation	(184,657,555)	(10,376,015)	(195,033,570)
Total Capital Assets	926,829,768	5,916,722	932,746,490
Total Assets	1,264,636,426	18,865,958	1,283,502,384
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	8,567,927	-	8,567,927
LIABILITIES			
Accounts payable	61,440,180	160,942	61,601,122
Accrued interest payable	5,121,849	-	5,121,849
Unearned revenue	1,309,846	28,488	1,338,334
Current loans	23,915,000	-	23,915,000
Long-term obligations			
Current portion of long-term obligations	17,109,362	-	17,109,362
Noncurrent portion of long-term obligations	317,592,691	-	317,592,691
Total Long-Term Obligations	334,702,053	-	334,702,053
Total Liabilities	426,488,928	189,430	426,678,358
NET POSITION			
Net investment in capital assets	733,921,151	5,916,722	739,837,873
Restricted for:			
Debt service	11,138,721	-	11,138,721
Capital projects	75,837,060	-	75,837,060
Educational programs	23,005,893	-	23,005,893
Other activities	15,266,217	12,759,806	28,026,023
Unrestricted	(12,453,617)	-	(12,453,617)
Total Net Position	\$ 846,715,425	\$ 18,676,528	\$ 865,391,953

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, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 315,908,448	\$ 183,039	\$ 91,602,121	\$ 29,841,669
Instruction-related activities:				
Supervision of instruction	19,897,419	30,914	9,620,449	-
Instructional library, media, and technology	2,915,487	-	180,032	-
School site administration	43,392,764	14,675	8,840,358	-
Pupil services:				
Home-to-school transportation	15,643,776	-	58,439	-
All other pupil services	31,743,804	1,393	7,951,634	-
Administration:				
Data processing	5,680,115	44,303	96,395	-
All other administration	14,485,980	24,573	5,481,002	-
Plant services	63,890,329	5,733	256,658	-
Ancillary services	9,072	-	-	-
Community services	7,704,374	217,204	6,234,022	-
Interest on long-term obligations	13,853,749	-	-	-
Other outgo	10,601	1,662,310	3,623,050	-
Total Governmental Activities	535,135,918	2,184,144	133,944,160	29,841,669
Business-Type Activities				
Food services	30,287,754	1,375,552	27,796,634	-
Total School District	\$ 565,423,672	\$ 3,559,696	\$ 161,740,794	\$ 29,841,669

General revenues and subventions:

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

Subtotal, General Revenues

Change in Net Position

Net Position - Beginning as Restated
Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$ (194,281,619)	\$ -	\$ (194,281,619)
(10,246,056)	-	(10,246,056)
(2,735,455)	-	(2,735,455)
(34,537,731)	-	(34,537,731)
(15,585,337)	-	(15,585,337)
(23,790,777)	-	(23,790,777)
(5,539,417)	-	(5,539,417)
(8,980,405)	-	(8,980,405)
(63,627,938)	-	(63,627,938)
(9,072)	-	(9,072)
(1,253,148)	-	(1,253,148)
(13,853,749)	-	(13,853,749)
5,274,759	-	5,274,759
(369,165,945)	-	(369,165,945)
-	(1,115,568)	(1,115,568)
(369,165,945)	(1,115,568)	(370,281,513)
23,668,632	-	23,668,632
15,375,462	-	15,375,462
3,702,707	-	3,702,707
334,150,088	-	334,150,088
672,481	1,032	673,513
17,165,134	-	17,165,134
394,734,504	1,032	394,735,536
25,568,559	(1,114,536)	24,454,023
821,146,866	19,791,064	840,937,930
\$ 846,715,425	\$ 18,676,528	\$ 865,391,953

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2014

	General Fund	Building Fund	County Schools Facilities Fund
ASSETS			
Deposits and investments	\$ 40,543,998	\$ 71,661,984	\$ 61,234,005
Receivables	90,634,699	66,000	224,668
Due from other funds	4,815,490	39,103	803,552
Prepaid expenditures	54,928	-	-
Stores inventories	437,080	-	-
Total Assets	\$ 136,486,195	\$ 71,767,087	\$ 62,262,225
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 49,052,233	\$ 4,315,667	\$ 4,593,980
Due to other funds	6,967,974	59,511	697,633
Current loans	23,915,000	-	-
Unearned revenue	482,923	-	-
Total Liabilities	80,418,130	4,375,178	5,291,613
Fund Balances:			
Nonspendable	703,008	-	-
Restricted	23,005,893	67,391,909	56,970,612
Assigned	843,686	-	-
Unassigned	31,515,478	-	-
Total Fund Balances	56,068,065	67,391,909	56,970,612
Total Liabilities and Fund Balances	\$ 136,486,195	\$ 71,767,087	\$ 62,262,225

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 41,554,773	\$ 214,994,760
939,300	91,864,667
3,145,561	8,803,706
-	54,928
-	437,080
<u>\$ 45,639,634</u>	<u>\$ 316,155,141</u>

\$ 3,168,839	\$ 61,130,719
3,184,614	10,909,732
-	23,915,000
826,923	1,309,846
<u>7,180,376</u>	<u>97,265,297</u>

-	703,008
36,283,322	183,651,736
2,175,936	3,019,622
-	31,515,478
<u>38,459,258</u>	<u>218,889,844</u>

<u>\$ 45,639,634</u>	<u>\$ 316,155,141</u>
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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2014

Total Fund Balance - Governmental Funds **\$ 218,889,844**

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

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported as assets in governmental funds.

The cost of capital assets is:	\$ 1,111,487,323	
Accumulated depreciation is:	<u>(184,657,555)</u>	
Net Capital Assets		926,829,768

The District has refunded various debt obligations. The difference between the
amounts that were sent to escrow agents for the payment of the old debts and
the actual remaining debt obligations will be amortized as an adjustment to
interest expense over the remaining life of the refunded debt. This balance
represents the unamortized deferred charges on refunding remaining as of
June 30, 2014.

8,567,927

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.

(5,121,849)

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.

14,750,215

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

Long-term obligations at year-end consist of:

Bonds payable	196,028,633
Unamortized premium on issuance	20,866,129
Certificates of participation	53,080,000
Unamortized discount on issuance	(466,007)
Compensated absences (vacations)	843,685
Other postemployment benefits (OPEB)	16,232,826
Supplemental early retirement (SERP)	12,701,677

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

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

17,913,537

Total Long-Term Obligations

(317,200,480)

Total Net Position - Governmental Activities

\$ 846,715,425

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Building Fund	County Schools Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 348,824,324	\$ -	\$ -
Federal sources	52,585,744	-	-
Other State sources	83,448,519	-	29,609,507
Other local sources	8,796,250	589,390	376,575
Total Revenues	493,654,837	589,390	29,986,082
EXPENDITURES			
Current			
Instruction	302,867,661	-	-
Instruction-related activities:			
Supervision of instruction	19,588,399	-	-
Instructional library, media, and technology	2,911,129	-	-
School site administration	43,091,503	-	-
Pupil services:			
Home-to-school transportation	15,643,417	-	-
All other pupil services	31,429,739	-	-
Administration:			
Data processing	5,678,832	-	-
All other administration	21,100,872	-	-
Plant services	48,304,026	-	-
Facility acquisition and construction	4,353,214	6,404,623	30,516,418
Community services	1,362,385	-	-
Other outgo	9,776	-	-
Debt service			
Principal	-	-	-
Interest and other	2,854,039	-	-
Total Expenditures	499,194,992	6,404,623	30,516,418
Deficiency of Revenues Over Expenditures	(5,540,155)	(5,815,233)	(530,336)
Other Financing Sources (Uses)			
Transfers in	13,049	353,576	3,632,162
Transfers out	(553,584)	(1,477,379)	(602,699)
Net Financing Sources (Uses)	(540,535)	(1,123,803)	3,029,463
NET CHANGE IN FUND BALANCES	(6,080,690)	(6,939,036)	2,499,127
Fund Balances - Beginning	62,148,755	74,330,945	54,471,485
Fund Balances - Ending	\$ 56,068,065	\$ 67,391,909	\$ 56,970,612

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 348,824,324
1,744,065	54,329,809
6,296,955	119,354,981
28,591,082	38,353,297
<u>36,632,102</u>	<u>560,862,411</u>
1,125,194	303,992,855
170,529	19,758,928
-	2,911,129
243,997	43,335,500
-	15,643,417
-	31,429,739
-	5,678,832
450,734	21,551,606
206,114	48,510,140
33,316,470	74,590,725
6,340,493	7,702,878
825	10,601
6,905,000	6,905,000
6,696,252	9,550,291
<u>55,455,608</u>	<u>591,571,641</u>
<u>(18,823,506)</u>	<u>(30,709,230)</u>
1,746,914	5,745,701
<u>(3,112,039)</u>	<u>(5,745,701)</u>
<u>(1,365,125)</u>	<u>-</u>
<u>(20,188,631)</u>	<u>(30,709,230)</u>
58,647,889	249,599,074
<u>\$ 38,459,258</u>	<u>\$ 218,889,844</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds **\$ (30,709,230)**

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

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

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

Capital outlays	\$ 60,103,732	
Depreciation expense	<u>(12,677,479)</u>	
Net Expense Adjustment		47,426,253

In the Statement of Activities, certain operating expenses - compensated absences (vacation) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$219,562. Additionally, payments for supplemental early incentive program amounted to \$7,126,459.

7,346,021

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

(3,831,086)

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

General obligation bonds	6,905,000
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Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	1,423,046	
Amortization of debt discount	(39,944)	
Amortization of deferred charges on refunding	<u>(958,635)</u>	
Combined Adjustment		424,467

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2014

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds increased \$1,143,085, and second, \$3,584,840 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

\$ (4,727,925)

An Internal Service Fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds.

The net revenue of the Internal Service Fund is reported with governmental activities.

2,735,059

Change in Net Position of Governmental Activities

\$ 25,568,559

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	\$ 11,334,838	\$ 28,471,676
Receivables	2,536,415	161,550
Due from other funds	44,428	3,939,081
Stores inventories	899,980	-
Total Current Assets	14,815,661	32,572,307
Noncurrent Assets		
Capital assets	16,292,737	-
Less: accumulated depreciation	(10,376,015)	-
Total Noncurrent Assets	5,916,722	-
Total Assets	20,732,383	32,572,307
LIABILITIES		
Current Liabilities		
Accounts payable	160,942	309,461
Due to other funds	1,866,425	11,058
Unearned revenue	28,488	-
Current portion of claims liability	-	2,872,873
Current portion of SELF assessment	-	301,248
Total Current Liabilities	2,055,855	3,494,640
Noncurrent Liabilities		
Noncurrent portion of claims liability and assessment	-	14,327,452
NET POSITION		
Net investment in capital assets	5,916,722	-
Restricted	12,759,806	14,750,215
Total Net Position	\$ 18,676,528	\$ 14,750,215

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities <u>Enterprise Fund</u> Food Service	Governmental Activities - <u>Internal Service Fund</u>
OPERATING REVENUES		
Charges for services	\$ 1,349,778	\$ 75,000
Charges to other funds and miscellaneous revenues	25,774	9,154,005
Total Operating Revenues	<u>1,375,552</u>	<u>9,229,005</u>
OPERATING EXPENSES		
Payroll costs	11,175,903	486,568
Professional and contract services	1,213,207	-
Supplies and materials	15,499,515	7,842
Facility rental	106,418	-
Other operating cost	1,396,032	6,082,470
Depreciation	896,679	-
Total Operating Expenses	<u>30,287,754</u>	<u>6,576,880</u>
Operating Income (Loss)	<u>(28,912,202)</u>	<u>2,652,125</u>
NONOPERATING REVENUES		
Interest income	1,032	82,934
Federal grants	25,890,167	-
State grants	1,906,467	-
Total Nonoperating Revenues	<u>27,797,666</u>	<u>82,934</u>
Change in Net Position	<u>(1,114,536)</u>	<u>2,735,059</u>
Total Net Position - Beginning	<u>19,791,064</u>	<u>12,015,156</u>
Total Net Position - Ending	<u>\$ 18,676,528</u>	<u>\$ 14,750,215</u>

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, 2014

	Business-Type Activities Enterprise Fund Food Service	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 4,791,891	\$ 75,000
Cash receipts from interfund services provided	-	8,261,423
Cash payments to other suppliers of goods or services	(16,599,777)	2,282
Cash payments to employees for services	(11,175,903)	(486,568)
Cash payments for insurance claims	-	(3,746,011)
Other operating cash payments	(1,502,450)	-
Net Cash Provided (Used) by Operating Activities	(24,486,239)	4,106,126
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	27,796,634	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Sale of capital assets	5,218	-
Acquisition of capital assets	(614,729)	-
Net Cash Used for Capital and Related Financing Activities	(609,511)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	1,032	82,934
Net Increase in Cash and Cash Equivalents	2,701,916	4,189,060
Cash and Cash Equivalents - Beginning	8,632,922	24,282,616
Cash and Cash Equivalents - Ending	\$ 11,334,838	\$ 28,471,676
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (28,912,202)	\$ 2,652,125
Adjustments to reconcile operating income (loss) to net cash provided (used) for operating activities:		
Depreciation	896,679	-
Changes in assets and liabilities:		
Receivables	3,331,073	(120,306)
Due from other fund	(13,199)	(705,787)
Inventories	226,787	-
Accounts payables	(113,842)	130,430
Due to other fund	91,368	(186,795)
Unearned revenue	7,097	-
Claims liability and assessment	-	2,336,459
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (24,486,239)	\$ 4,106,126

NONCASH, NONCAPITAL FINANCING ACTIVITIES

During the year, the District received \$1,704,430 of food commodities from the U.S. Department of Agriculture.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2014

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 390,771	\$ 1,353,382
Receivables	342	782
Stores inventories	-	138,965
Total Assets	<u>391,113</u>	<u>\$ 1,493,129</u>
LIABILITIES		
Accounts payable	-	\$ 66,475
Due to student groups	-	1,426,654
Total Liabilities	<u>-</u>	<u>\$ 1,493,129</u>
NET POSITION		
Held in reserve for scholarships	391,113	
Total Net Position	<u>\$ 391,113</u>	

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
JUNE 30, 2014**

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 1,305</u>
DEDUCTIONS	
Scholarships awarded	<u>15,000</u>
Change in Net Position	(9,252)
Net Position - Beginning	<u>400,365</u>
Net Position - Ending	<u><u>\$ 391,113</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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

Other Related Entities

Charter School The District has approved Charters for PAL Academy, Public Safety Academy, ASA Charter, Casa Ramona Academy, Options for Youth - San Bernardino, New Vision Middle, Academy of the Inland Empire, Center for Learning and Unlimited Educational Success, Hardy Brown College Prep, Excel Prep Charter, SOAR Charter Academy, Taft T. Newman Leadership Academy, and Woodward Leadership Academy pursuant to *Education Code* Section 47605.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

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

Non-Major Governmental Funds

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

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

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

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Current Loans

Current loans consist of amounts outstanding at June 30, 2014, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs.

Debt Issuance Costs, Premiums and Discounts

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Fund Balances - Governmental Funds

As of June 30, 2014, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$138,007,697 of restricted net position, which is restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

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

Estimates

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Budgetary Data

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

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

Property Tax

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

Change in Accounting Principles

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

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

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$4,239,115. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

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

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

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

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

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

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

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 243,466,436
Business-type activities	11,334,838
Fiduciary funds	1,744,153
Total Deposits and Investments	<u>\$ 256,545,427</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 1,028,917
Cash in revolving	520,395
Investments	254,996,115
Total Deposits and Investments	<u>\$ 256,545,427</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, 2014

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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	\$ 242,632,938	\$ 242,730,518	428
US Bank Money Market Mutual Fund	640,302	640,302	N/A
Wells Fargo Advantage Money Market Mutual Funds	3,051,775	3,051,775	24
Wells Fargo Advantage Repurchase Agreement			
Overland Express Sweep Account	8,671,100	8,671,100	1
Total	<u>\$ 254,996,115</u>	<u>\$ 255,093,695</u>	

Credit Risk

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

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance of \$1,257,577 was exposed to custodial credit risk because it was uninsured and uncollateralized.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 3 - RECEIVABLES

Receivables at June 30, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Federal Government				
Categorical aid	\$ 15,563,614	\$ -	\$ -	\$ 799,388
State Government				
LCFF apportionment	60,243,426	-	-	-
Categorical aid	997,744	-	-	16,945
Lottery	3,986,599	-	-	-
Special Education	6,738,825	-	-	-
Local Government				
Interest	-	62,858	56,919	26,094
Other Local Sources				
Other	3,104,491	3,142	167,749	96,873
Total	<u>\$ 90,634,699</u>	<u>\$ 66,000</u>	<u>\$ 224,668</u>	<u>\$ 939,300</u>
	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Federal Government				
Categorical aid	\$ -	\$ 16,363,002	\$ 2,359,658	\$ -
State Government				
LCFF apportionment	-	60,243,426	-	-
Categorical aid	-	1,014,689	143,061	-
Lottery	-	3,986,599	-	-
Special Education	-	6,738,825	-	-
Local Government				
Interest	24,044	169,915	-	-
Other Local Sources				
Other	137,506	3,509,761	33,696	1,124
Total	<u>\$ 161,550</u>	<u>\$ 92,026,217</u>	<u>\$ 2,536,415</u>	<u>\$ 1,124</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013 as Restated	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 32,151,833	\$ -	\$ -	\$ 32,151,833
Construction in process	483,211,752	58,841,732	16,387,350	525,666,134
Total Capital Assets Not Being Depreciated	515,363,585	58,841,732	16,387,350	557,817,967
Capital Assets Being Depreciated				
Land improvements	43,149,684	-	-	43,149,684
Buildings and improvements	462,949,327	16,387,350	-	479,336,677
Furniture and equipment	29,920,995	1,262,000	-	31,182,995
Total Capital Assets Being Depreciated	536,020,006	17,649,350	-	553,669,356
Less Accumulated Depreciation				
Land improvements	32,994,321	812,996	-	33,807,317
Buildings and improvements	116,567,595	10,521,769	-	127,089,364
Furniture and equipment	22,418,160	1,342,714	-	23,760,874
Total Accumulated Depreciation	171,980,076	12,677,479	-	184,657,555
Governmental Activities Capital Assets, Net	<u>\$ 879,403,515</u>	<u>\$ 63,813,603</u>	<u>\$ 16,387,350</u>	<u>\$ 926,829,768</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Buildings and improvements	\$ 8,841,937	\$ -	\$ -	\$ 8,841,937
Furniture and equipment	5,896,827	541,596	5,218	6,433,205
Vehicles	975,344	73,133	30,882	1,017,595
Total Capital Assets Being Depreciated	15,714,108	614,729	36,100	16,292,737
Less Accumulated Depreciation				
Buildings and improvements	4,139,463	443,389	-	4,582,852
Furniture and equipment	4,629,315	367,982	-	4,997,297
Vehicles	741,440	85,308	30,882	795,866
Total Accumulated Depreciation	9,510,218	896,679	30,882	10,376,015
Business-Type Activities Capital Assets, Net	<u>\$ 6,203,890</u>	<u>\$ (281,950)</u>	<u>\$ 5,218</u>	<u>\$ 5,916,722</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Governmental Activities

Instruction	\$ 11,409,730
All other pupil services	253,550
All other general administration	126,775
Plant services	887,424
Total Depreciation Expenses Governmental Activities	<u>12,677,479</u>

Business-Type Activities

Food services	896,679
Total Depreciation Expenses All Activities	<u><u>\$ 13,574,158</u></u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2014, between major and non-major governmental funds, enterprise funds, and internal service funds, are as follows:

Due To	Due From						Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Food Service Enterprise Fund	
General Fund	\$ 34,098	\$ -	\$ 182,758	\$ 2,804,649	\$ 3,407	\$ 1,790,578	\$ 4,815,490
Building Fund	-	-	31,103	8,000	-	-	39,103
County Schools							
Facilities Fund	-	57,484	478,098	267,970	-	-	803,552
Non-Major							
Governmental Funds	3,145,561	-	-	-	-	-	3,145,561
Internal Service Fund	3,743,887	2,027	5,674	103,995	7,651	75,847	3,939,081
Food Service							
Enterprise Fund	44,428	-	-	-	-	-	44,428
Total	\$ 6,967,974	\$ 59,511	\$ 697,633	\$ 3,184,614	\$ 11,058	\$ 1,866,425	\$ 12,787,215

The balance of \$1,790,578 due to the General Fund from the Food Service Major Enterprise Fund resulted from payroll, indirect costs, benefits, and other operating costs.

A balance of \$2,729,167 due to the General Fund from the Child Development Non-Major Governmental Fund resulted from indirect costs, benefits, and other operating costs.

A balance of \$3,080,286 due to the Child Development Non-Major Governmental Fund from the General Fund resulted from operating contributions.

The balance of \$3,743,887 due to the Internal Service Fund from the General Fund resulted from the transfer of designated funds reserved for retiree health and welfare benefits.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 13,049	\$ -	\$ 13,049
Building Fund	-	-	73,361	280,215	353,576
County Schools Facilities Fund	63,631	1,475,226	-	2,093,305	3,632,162
Non-Major Governmental Funds	489,953	2,153	516,289	738,519	1,746,914
Total	<u>\$ 553,584</u>	<u>\$ 1,477,379</u>	<u>\$ 602,699</u>	<u>\$ 3,112,039</u>	<u>\$ 5,745,701</u>

The General Fund transferred qualified capital outlay expenditures to the County Schools Facilities Fund. \$ 63,631

The General Fund transferred to the Child Development Non-Major Governmental Fund for operating contributions. 489,699

The General Fund transferred qualified capital outlay expenditures to the Capital Facilities Non-Major Governmental Fund. 254

The Building Fund transferred qualified capital outlay expenditures to the following funds:
County School Facilities Fund 1,475,226
Capital Facilities Non-Major Governmental Fund 2,153

The County Schools Facilities Fund transferred qualified capital outlay expenditures to the
General Fund 13,049
Building Fund 73,361
Capital Facilities Non-Major Governmental Fund 3,820
Special Reserve Non-Major Governmental Fund for Capital Outlay Projects 512,469

The Capital Facilities Non-Major Governmental Fund transferred qualified capital outlay
County School Facilities Fund 1,948,357
Building Fund 73

The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred qualified capital outlay expenditures to the County Schools Facilities Fund. 144,852

The Capital Projects Non-Major Governmental Fund for Blended Component Units transferred
Building Fund 280,142
County School Facilities Fund 96
Special Reserve Non-Major Governmental Fund for Capital Outlay Projects 738,519
Total \$ 5,745,701

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds
Accrued salaries and benefits	\$ 26,268,357	\$ 12,869	\$ 30,787	\$ 474,053
LCFF apportionment	4,339,566	-	-	-
Books and supplies	2,269,175	37,186	-	39,993
Services and other operating	12,763,216	485,607	321,406	136,460
Construction	3,411,919	3,780,005	3,979,347	2,438,583
Other vendor payables	-	-	262,440	79,750
Total	<u>\$ 49,052,233</u>	<u>\$ 4,315,667</u>	<u>\$ 4,593,980</u>	<u>\$ 3,168,839</u>

	Internal Service Fund	Total Governmental Activities	Food Service Enterprise Fund	Fiduciary Funds
Accrued salaries and benefits	\$ 824	\$ 26,786,890	\$ -	\$ -
LCFF apportionment	-	4,339,566	-	-
Books and supplies	-	2,346,354	82,406	-
Services and other operating	308,499	14,015,188	78,536	-
Construction	-	13,609,854	-	-
Other vendor payables	138	342,328	-	66,475
Total	<u>\$ 309,461</u>	<u>\$ 61,440,180</u>	<u>\$ 160,942</u>	<u>\$ 66,475</u>

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities	Food Service Enterprise Fund
Federal financial assistance	\$ 335,620	\$ -	\$ 335,620	\$ -
State categorical aid	34,235	77,722	111,957	-
Other local	113,068	749,201	862,269	28,488
Total	<u>\$ 482,923</u>	<u>\$ 826,923</u>	<u>\$ 1,309,846</u>	<u>\$ 28,488</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$39,650,000 of Tax Revenue Anticipation Notes dated February 20, 2013, through the California School Cash Reserve Program Authority. The notes matured on October 1, 2013, with 2.00 percent interest. The notes were sold to supplement cash flow. Repayment requirements were that a percentage of principal and interest would be deposited with the Fiscal Agent until 100 percent of principal and interest due was on account in October 2013.

The District issued \$23,915,000 of Tax Revenue Anticipation Notes dated February 25, 2014, through the California School Cash Reserve Program Authority. The notes mature on October 1, 2014, with an interest rate of 2.00 percent. The notes were sold to supplement cash flow. Repayment requires that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account in October 2014.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2013	Additions	Payments	Outstanding June 30, 2014
2/20/2013	2.00%	10/1/2013	\$ 39,650,000	\$ -	\$ 39,650,000	\$ -
2/25/2014	2.00%	10/1/2014	-	23,915,000	-	23,915,000
			<u>\$ 39,650,000</u>	<u>\$ 23,915,000</u>	<u>\$ 39,650,000</u>	<u>\$ 23,915,000</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 217,262,330	\$ 3,584,840	\$ 6,905,000	\$ 213,942,170	\$ 7,710,000
Premium on issuance	22,289,175	-	1,423,046	20,866,129	-
2011 Certificates of Participation	53,080,000	-	-	53,080,000	-
Discount on issuance	(505,951)	39,944	-	(466,007)	-
Accumulated vacation - net	1,063,247	-	219,562	843,685	-
Claims liability	12,680,582	4,982,630	2,872,873	14,790,339	2,872,873
SELF assessment	2,484,532	527,950	301,248	2,711,234	301,248
Supplemental early retirement plan (SERP)	19,828,136	-	7,126,459	12,701,677	6,225,241
Other postemployment benefits (OPEB)	12,401,740	6,528,701	2,697,615	16,232,826	-
Total	\$ 340,583,791	\$ 15,664,065	\$ 21,545,803	\$ 334,702,053	\$ 17,109,362

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Accreted	Redeemed	Bonds Outstanding June 30, 2014
9/1/99	8/1/14	4.20 - 5.60%	\$ 7,300,000	\$ 1,571,048	\$ 66,060	\$ 820,000	\$ 817,108
5/1/03	8/1/27	1.10 - 5.46%	15,000,000	13,026,809	709,911	-	13,736,720
9/16/04	8/1/29	1.25 - 5.46%	44,999,498	17,528,356	85,942	905,000	16,709,298
9/16/04	8/1/24	1.25 - 4.59%	37,055,000	15,705,000	-	1,585,000	14,120,000
5/18/06	8/1/30	4.50 - 5.15%	67,999,967	8,787,724	566,084	1,945,000	7,408,808
3/14/07	8/1/30	3.77 - 4.74%	9,997,217	10,647,213	430,527	5,000	11,072,740
3/3/11	8/1/42	7.41 - 7.50%	11,525,419	14,318,969	1,090,089	-	15,409,058
3/3/11	8/1/35	7.41 - 7.50%	5,477,434	7,012,211	636,227	-	7,648,438
5/22/13	8/1/28	2.00 - 5.00%	86,000,000	86,000,000	-	1,645,000	84,355,000
6/12/13	8/1/37	2.00 - 4.00%	30,150,000	30,150,000	-	-	30,150,000
6/12/13	8/1/27	0.99 - 4.66%	12,515,000	12,515,000	-	-	12,515,000
				<u>\$ 217,262,330</u>	<u>\$ 3,584,840</u>	<u>\$ 6,905,000</u>	<u>\$ 213,942,170</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, 2014, 1999 General Obligation Bonds, Series B, totaling \$817,018 (including accretion) were still outstanding.

1999 General Obligation Bonds, Series C

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

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

At June 30, 2014, 1999 General Obligation Bonds, Series C totaling \$13,736,720 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$259,101.

2004 General Obligation Bonds, Series A

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

At June 30, 2014, 2004 General Obligation Bonds, Series A, totaling \$16,709,298 (including accretion) were still outstanding. Unamortized premium received on issuance amounted to \$1,167,783.

2004 General Obligation Refunding Bonds

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

At June 30, 2014, 2004 General Obligation Refunding Bonds totaling \$14,120,000 were still outstanding. Unamortized premium received on issuance amounted to \$1,036,220.

2004 General Obligation Bonds, Series B

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

The bonds have a final maturity which occurs on August 1, 2030, with interest yields of 4.50 to 5.15 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2014, the principal balance outstanding (including accretion) was \$7,408,808. Unamortized premium received on issuance amounted to \$3,810,873.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2004 General Obligation Bonds, Series C

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

The bonds have a final maturity which occurs on August 1, 2030, and yield interest rates of 3.77 to 4.74 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation and repair of certain school facilities. At June 30, 2014, the principal balance outstanding (including accretion) was \$11,072,740. Unamortized premium received on issuance amounted to \$220,566.

2004 General Obligation Bonds, Series D

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

The bonds have a final maturity which occurs on August 1, 2042, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds were used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2014, the principal balance outstanding (including accretion) was \$15,409,058. Unamortized premium received on issuance amounted to \$453,173.

2004 General Obligation Bonds, Series E

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

The bonds have a final maturity which occurs on August 1, 2035, and yield interest rates of 7.41 to 7.50 percent. Proceeds from the sale of the bonds will be used to fund capitalized interest and to pay the premiums of bond insurance and a reserve surety bond for the 2011 Certificates of Participation Series A. At June 30, 2014, the principal balance outstanding (including accretion) was \$7,648,438. Unamortized premium on issuance amounted to \$198,902.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2013 Refunding General Obligation Bonds

On May 22, 2013, the San Bernardino City Unified School District issued 2013 Refunding General Obligation Bonds in the amount of \$86,000,000. The refunding bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$99,134,891 (representing the principal amount of \$86,000,000 and premium of \$13,864,035, less cost of issuance of \$729,144). The bonds have a final maturity which occurs on August 1, 2028, with interest rate ranging from 2.0 to 5.0 percent. Proceeds from the sale of bonds were used to provide current refunding of \$13,730,000, \$16,175,000, and \$59,995,000 for the 2004 Refunding General Obligation Bonds, 2004 General Obligation Bonds, Series A, and 2004 General Obligation Bonds, Series B, respectively. The refunding resulted in a cumulative cash flow savings of \$7,894,614 over the life of the new debt and an economic gain of \$6,343,785 based on the difference between the present value of the existing debt service requirements and new debt service requirements discounted at 1.50 percent. As of June 30, 2014, the principal balance outstanding was \$84,355,000. Unamortized premium and deferred on refunding were \$12,862,744 and \$8,567,927, respectively.

2012 General Obligation Bonds, Series A

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series A in the amount of \$30,150,000. The Series A represents the first series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$30,769,060, representing the principal amount of \$30,150,000 plus an original issue premium of \$897,269 less cost of issuance of \$278,209. The bonds have a final maturity which occurs on August 1, 2037, and yield interest rates of 2.00 to 4.00 percent. The bonds will be used to fund the construction, renovation, and repair of certain District facilities. At June 30, 2014, 2012 General Obligation Bonds, Series A, totaling \$30,150,000 were still outstanding. Unamortized premium received on issuance amounted to \$856,767.

2012 General Obligation Bonds, Series B

On June 12, 2013, the San Bernardino City Unified School District issued the 2012 General Obligation Bonds, Series B in the amount of \$12,515,000. The Series B represents the second series of authorized bonds not to exceed \$250,000,000 to be issued under the measure as approved by voters. The bonds were issued at an aggregate price of \$12,406,730, representing the principal amount of \$12,515,000 less cost of issuance of \$108,270. The bonds have a final maturity which occurs on August 1, 2027, and yield interest rates of 0.99 to 4.66 percent. The bonds were issued to fund the construction, renovation, and repair of certain District facilities. At June 30, 2014, 2012 General Obligation Bonds, Series B, totaling \$12,515,000 were still outstanding.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2015	\$ 7,687,108	\$ 22,892	\$ 7,275,443	\$ 14,985,443
2016	7,462,078	172,922	7,132,499	14,767,499
2017	6,249,945	5,055	6,922,527	13,177,527
2018	6,948,043	6,957	6,622,561	13,577,561
2019	7,755,000	-	6,264,578	14,019,578
2020-2024	49,657,597	2,527,403	25,183,152	77,368,152
2025-2029	63,444,900	8,435,100	13,096,417	84,976,417
2030-2034	31,725,431	40,779,569	4,476,500	76,981,500
2035-2039	26,423,249	52,006,751	1,228,900	79,658,900
2040-2043	6,588,819	38,321,181	-	44,910,000
Total	<u>\$ 213,942,170</u>	<u>\$ 142,277,830</u>	<u>\$ 78,202,577</u>	<u>\$ 434,422,577</u>

2011 Certificates of Participation, Series A

On March 3, 2011, the San Bernardino City Unified School District issued the 2011 Certificates of Participation Series A in the amount of \$53,080,000. The certificates were issued at an aggregate price of \$52,092,198 (representing the principal amount of \$53,080,000 less an original issue discount of \$599,154 and cost of issuance of \$388,648). The certificates have a final maturity date of February 1, 2026, with interest rates ranging from 7.903 to 8.403 percent. Proceeds from the sale of certificates will be used to finance the construction, renovation, and repair of certain school facilities. At June 30, 2014, the principal balance outstanding was \$53,080,000. Unamortized discount on issuance amounted to \$466,007.

The certificates mature through 2026 as follows:

Year Ending June 30,	Principal	Current Interest to Maturity	Total
2015	\$ -	\$ 4,220,372	\$ 4,220,372
2016	-	4,220,372	4,220,372
2017	-	4,220,373	4,220,373
2018	-	4,220,373	4,220,373
2019	-	3,809,803	3,809,803
2020-2024	40,170,000	12,489,303	52,659,303
2025-2026	12,910,000	1,606,034	14,516,034
Total	<u>\$ 53,080,000</u>	<u>\$ 34,786,630</u>	<u>\$ 87,866,630</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Accumulated Unpaid Employee Vacation

The accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$843,685.

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, 2014, amounted to \$14,790,339, using a discount factor of three percent.

SELF Assessment

The District is a member of School Excess Liability Fund (SELF), a cost sharing Joint Powers Authority (JPA) for the purpose of providing the District workers' compensation insurance. The SELF board of directors declared an equity assessment to the member districts. At June 30, 2014 the District's outstanding obligation on their pro-rata share of equity assessed was \$2,711,234.

Supplementary Early Retirement Plan (SERP)

During 2009, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 114 employees who retired during the 2008-2009 school year, were purchased from the United of Omaha Life Insurance Company.

During 2010, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchased for 241 employees who retired during the 2009-2010 school year, were purchased from United of Omaha Life Insurance Company.

During 2011, the District adopted a supplemental early retirement plan whereby certain eligible employees are provided an annuity to supplement the retirement benefits they are entitled to through the California State Teachers' Retirement System and the California Public Employees' Retirement System. The annuities offered to the employees are to be paid over a five-year period. The annuities, which were purchase purchased for 62 employees who retired during 2010-2011 school year, were purchased from United of Omaha Life Insurance Company.

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

As of June 30, 2014, the outstanding obligation for the aforementioned Supplemental Early Retirement Plans were \$12,701,677.

Future payments are as follows:

Year Ending June 30,	Annual Payment
2015	\$ 6,225,241
2016	3,464,201
2017	3,012,235
Total	<u>\$ 12,701,677</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$6,541,175, and contributions made by the District during the year were \$2,697,615. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$589,083 and (\$601,557), respectively, which resulted in an increase to the net OPEB obligation of \$3,831,086. As of June 30, 2014, the net OPEB obligation was \$16,232,826. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	County Schools Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 211,000	\$ -	\$ -	\$ -	\$ 211,000
Stores inventories	437,080	-	-	-	437,080
Prepaid expenditures	54,928	-	-	-	54,928
Total Nonspendable	703,008	-	-	-	703,008
Restricted					
Legally restricted programs	23,005,893	-	-	516,002	23,521,895
Capital projects	-	67,391,909	56,970,612	19,506,750	143,869,271
Debt services	-	-	-	16,260,570	16,260,570
Total Restricted	23,005,893	67,391,909	56,970,612	36,283,322	183,651,736
Assigned					
Salary reserve	843,686	-	-	-	843,686
Adult education	-	-	-	31,584	31,584
Future capital projects	-	-	-	2,144,352	2,144,352
Total Assigned	843,686	-	-	2,175,936	3,019,622
Unassigned					
Reserve for economic uncertainties	9,750,000	-	-	-	9,750,000
Remaining unassigned	21,765,478	-	-	-	21,765,478
Total Unassigned	31,515,478	-	-	-	31,515,478
Total	\$ 56,068,065	\$ 67,391,909	\$ 56,970,612	\$ 38,459,258	\$ 218,889,844

NOTE 11 – EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2014, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual*	Excess
General Fund	\$ 489,094,111	\$ 499,748,576	\$ 10,654,465

* Includes on behalf payments of \$12,153,318.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Bernardino City Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 421 retirees and beneficiaries currently receiving benefits, two terminated Plan members entitled to but not yet receiving benefits, and 4,508 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 2013-2014, the District contributed \$2,697,615 to the Plan, all of which was used for current premiums (approximately 82.5 percent of total premiums). Plan members receiving benefits contributed \$572,217, or approximately 17.5 percent of the total premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 6,541,175
Interest on net OPEB obligation	589,083
Adjustment to annual required contribution	(601,557)
Annual OPEB cost (expense)	<u>6,528,701</u>
Contributions made	<u>(2,697,615)</u>
Increase in net OPEB obligation	3,831,086
Net OPEB obligation, beginning of year	<u>12,401,740</u>
Net OPEB obligation, end of year	<u><u>\$ 16,232,826</u></u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 4,765,250	\$ 2,258,655	47.40%	\$ 10,252,797
2013	4,794,349	2,645,406	55.18%	12,401,740
2014	6,528,701	2,697,615	41.32%	16,232,826

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2013	\$ 51,530	\$ 54,255,216	\$ 54,203,686	0.09%	\$ 305,037,648	17.77%

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

Actuarial Methods and Assumptions

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

In the July 1, 2013, actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 4.75 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a long-term fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2014, was 23 years.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2014, 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 2014, the District was self-funded for workers' compensation, with excess coverage provided by the Schools Excess Liability Fund (SELF) public entity risk pool.

Employee Medical Benefits

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

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2012 to June 30, 2014:

	Workers' Compensation
Liability Balance, July 1, 2012	\$ 12,680,582
Claims and changes in estimates	3,295,471
Claims payments	(3,295,471)
Liability Balance, June 30, 2013	12,680,582
Claims and changes in estimates	4,982,630
Claims payments	(2,872,873)
Liability Balance, June 30, 2014	\$ 14,790,339
Assets available to pay claims at June 30, 2014	\$ 23,201,873

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. 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 2013-2014 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, 2014, 2013, and 2012 were \$18,491,317, \$17,454,712, and \$18,099,964, 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. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 2013-2014 was 11.442 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, 2014, 2013, and 2012, were \$7,985,917, \$7,710,455, and \$8,034,146, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$12,153,318 (5.541 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

Public Agency Retirement System

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

During the year, the District's required and actual contributions amounted to \$47,320, which was one percent of its current-year covered payroll. Employee contributions amounted to \$307,580.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 15 - 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, 2014.

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, 2014.

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitments</u>	<u>Expected Date of Completion</u>
Modernization at various sites	\$ 10,663,140	01/01/15
New school construction - various sites	38,470,254	04/01/15
SDC additions projects - various sites	17,739,943	06/15/15
Miscellaneous/other projects	26,207,026	09/14/14
	<u>\$ 93,080,363</u>	

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

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

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

During the year ended June 30, 2014, the District made payments of \$1,875,705, \$5,384,982, and \$301,248 to SCSRM, SCSEBA, and SELF, respectively, for the coverage noted above.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 830,875,075
Restatement/cost of issuance	(4,239,115)
Net Position - Beginning as Restated (before correction of prior period - See Note 18)	<u>\$ 826,635,960</u>

NOTE 18 - CORRECTION OF AN ERROR OF PRIOR YEAR NET POSITION

The District corrected its beginning capital assets and the related accumulated depreciation balance to more fairly reflect the underlying transactions related to its capital assets. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning (before correction of prior period - See Note 17)	\$ 826,635,960
Correction of prior year's construction in process	11,285,641
Correction of prior year's equipment	3,850,970
Correction of prior year's accumulated depreciation	(834,641)
Net Position - Beginning as Restated	<u>\$ 840,937,930</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 251,533,860	\$ 351,605,662	\$ 348,824,324	\$ (2,781,338)
Federal sources	50,834,764	48,991,191	52,585,744	3,594,553
Other State sources	127,601,316	65,256,504	83,448,519	18,192,015
Other local sources	5,395,243	6,266,057	8,796,250	2,530,193
Total Revenues ¹	435,365,183	472,119,414	493,654,837	21,535,423
EXPENDITURES				
Current				
Certificated salaries	208,637,861	224,980,231	227,100,122	(2,119,891)
Classified salaries	63,241,125	62,508,017	63,389,710	(881,693)
Employee benefits	96,252,987	96,478,902	106,480,893	(10,001,991)
Books and supplies	21,209,570	27,012,970	23,728,507	3,284,463
Services and operating expenditures	70,554,347	75,006,069	73,194,764	1,811,305
Other outgo	(2,142,064)	(2,091,738)	(1,836,989)	(254,749)
Capital outlay	2,543,275	4,638,435	4,335,361	303,074
Debt service - interest	-	97,608	2,802,624	(2,705,016)
Total Expenditures ¹	460,297,101	488,630,494	499,194,992	(10,564,498)
Excess (Deficiency) of Revenues Over Expenditures	(24,931,918)	(16,511,080)	(5,540,155)	10,970,925
Other Financing Sources (Uses)				
Transfers in	-	74,478	13,049	(61,429)
Transfers out	(754,246)	(463,617)	(553,584)	(89,967)
Net Financing Sources (Uses)	(754,246)	(389,139)	(540,535)	(151,396)
NET CHANGE IN FUND BALANCE	(25,686,164)	(16,900,219)	(6,080,690)	10,819,529
Fund Balance - Beginning	62,148,755	62,148,755	62,148,755	-
Fund Balance - Ending	\$ 36,462,591	\$ 45,248,536	\$ 56,068,065	\$ 10,819,529

¹ On behalf payments of \$12,153,318 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, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 1, 2009	\$ 1,348,550	\$ 34,233,825	\$ 32,885,275	3.94%	\$ 333,483,774	9.86%
June 30, 2011	553,767	40,228,979	39,675,212	1.38%	302,224,966	13.13%
July 1, 2013	51,530	54,255,216	54,203,686	0.09%	305,037,648	17.77%

SUPPLEMENTARY INFORMATION

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education	84.060A	[1]	\$ 108,259
Funds for the Improvement of Education - Every Student Connected	84.215L	[1]	116,990
Passed through California Department of Education (CDE)			
Adult Basic Education:			
Adult Education - Basic Grants to States:			
Adult Basic Education and ESL	84.002A	14508	396,168
Adult Secondary Education	84.002	13978	275,225
Adult English Literacy and Civics Education	84.002A	14109	198,037
Subtotal Adult Education - Basic Grants to States			869,430
No Child Left Behind Act (NCLB):			
Title I, Part A - Low Income and Neglected	84.010	14329	24,249,589
School Improvement Grants:			
Title I, School Improvement Grant for QEIA Schools	84.377	15127	5,689,882
ARRA Title I School Improvement Grants	84.388	15020	2,043,768
Subtotal School Improvement Grants			7,733,650
Title I, Part G - Advanced Placement Test Fee Reimbursement	84.333	14831	81,135
Title II, Part A - Improving Teacher Quality	84.367	14341	3,221,706
English Language Acquisition Grants:			
Title III - Immigrant Education Program	84.365	15146	27,557
Title III - Limited English Proficient Student Program	84.365	10084	1,460,463
Subtotal English Language Acquisition Grants Cluster			1,488,020
Twenty-First Century Community Learning Centers:			
Title IV, Part B - 21st Century Community Learning Centers: High School ASSET Program	84.287	14535	234,675
Title IV, Part B - 21st Century Community Learning Centers: CORE	84.287	14349	438,750
Title IV, Part B - 21st Century Community Learning Centers: Family Literacy	84.287	14788	60,000
Subtotal Twenty-First Century Community Learning Centers			733,425

[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, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION, Continued			
Passed through CDE			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster:			
Part B, Sec 611, Basic Local Assistance	84.027	13379	\$ 9,136,207
Part B, Sec 619, Preschool Grants	84.173	13430	159,231
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	248,859
Part B, Sec 611, Mental Health Services	84.027A	14468	578,522
Part B, Sec 619, Preschool Staff Development	84.173A	13431	1,394
Subtotal Special Education (IDEA) Cluster			<u>10,124,213</u>
Part C, Early Intervention Grants	84.181	23761	59,697
Carl D. Perkins Vocational and Technical Education Act of 1998			
Career and Technical Education - Basic Grants to States			
Secondary Education	84.048	13924	576,406
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.126A	10006	385,931
PROMISE Grant	84.000	N/A	65,406
Total U.S. Department of Education			<u>49,813,857</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Health Education to Prevent AIDS	93.938	[1]	1,575
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	768,043
Passed through CDE			
Federal Child Care, Center Based	93.593	13609	874,635
Total U.S. Department of Health and Human Services			<u>1,644,253</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13396	18,455,748
Especially Needy Breakfast Program	10.553	13526	4,788,740
Meal Supplements	10.556	13392	766,160
Seamless Summer Food Program	10.559	13004	102,295
Commodities	10.555	13396	1,704,430
Subtotal Child Nutrition Cluster			<u>25,817,373</u>
Child & Adult Care Food Program	10.558	13393	72,794
Total U.S. Department of Agriculture			<u>25,890,167</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, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Office Training Corps	12.000	[1]	\$ 197,798
U.S. Department of Defense Total			<u>197,798</u>
Total Expenditure of Federal Awards			<u><u>\$ 77,546,075</u></u>

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

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2014

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Michael J. Gallo	President	2015
Bobbie Perong	Vice President	2015
Margaret Hill	Member	2015
Dr. Barbara Flores	Member	2017
Abigail Medina	Member	2017
Lynda K. Savage	Member	2015
Danny Tillman	Member	2017

ADMINISTRATION

Dr. Dale Marsden	Superintendent
Dr. Harold Vollkommer	Deputy Superintendent
Dr. Perry Wiseman	Assistant Superintendent, Human Resources
John Peukert	Assistant Superintendent, Facilities/Operations
Dr. Matty Zamora	Assistant Superintendent, Educational Services
Dr. Kennon Mitchell	Assistant Superintendent, Student Services
Janet King	Director, Fiscal Services

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2014

	Final Report	
	Second Period Report 13950A55	Annual Report 085BD64B
Regular ADA		
Transitional kindergarten through third	16,417.20	16,451.58
Fourth through sixth	11,273.02	11,271.12
Seventh and eighth	6,631.82	6,624.43
Ninth through twelfth	12,600.26	12,433.16
Total Regular ADA	46,922.30	46,780.29
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	6.77	6.65
Fourth through sixth	22.37	23.62
Seventh and eighth	27.64	27.82
Ninth through twelfth	58.96	58.07
Total Special Education, Nonpublic, Nonsectarian Schools	115.74	116.16
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.61	0.61
Fourth through sixth	1.77	2.24
Seventh and eighth	1.79	2.60
Ninth through twelfth	4.39	5.21
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	8.56	10.66
Community Day School		
Transitional kindergarten through third	1.13	0.92
Fourth through sixth	9.83	9.82
Seventh and eighth	8.52	8.64
Ninth through twelfth	8.29	7.94
Total Community Day School	27.77	27.32
Total ADA	47,074.37	46,934.43

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87	Reduced 1986-87	2013-14	Number of Days		Status
	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	35,000	175	175	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			52,875	175	175	Complied
Grade 2			52,875	175	175	Complied
Grade 3			52,875	175	175	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			52,875	175	175	Complied
Grade 5			52,875	175	175	Complied
Grade 6			59,742	175	175	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			59,742	175	-	Complied
Grade 8			59,742	175	-	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			63,666	175	-	Complied
Grade 10			63,666	175	-	Complied
Grade 11			63,666	175	-	Complied
Grade 12			63,666	175	-	Complied

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	(Budget) ¹			
	2015	2014	2013	2012
GENERAL FUND				
Revenues and other sources	\$ 523,667,685	\$ 493,654,837	\$ 471,734,480	\$ 488,643,750
Other sources and transfers in	-	13,049	-	-
Total Revenues and Other Sources	523,667,685	493,667,886	471,734,480	488,643,750
Expenditures	(544,489,821)	(499,194,992)	(471,955,601)	(479,598,203)
Other uses and transfers out	(1,408,171)	(553,584)	(133,630)	(626,113)
Total Expenditures and Other Uses	(545,897,992)	(499,748,576)	(472,089,231)	(480,224,316)
INCREASE (DECREASE) IN FUND BALANCE	\$ (22,230,307)	\$ (6,080,690)	\$ (354,751)	\$ 8,419,434
ENDING FUND BALANCE	\$ 33,837,758	\$ 56,068,065	\$ 62,148,755	\$ 62,503,506
AVAILABLE RESERVES ²	\$ 11,977,411	\$ 31,515,478	\$ 9,240,000	\$ 9,400,000
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	2.2%	6.2%	2.0%	2.0%
LONG-TERM OBLIGATIONS	N/A	\$ 334,702,053	\$ 340,583,791	\$ 293,542,185
K-12 AVERAGE DAILY ATTENDANCE AT P-2	48,458	47,074	47,155	47,932

The General Fund balance has decreased by \$6,435,441 over the past two years. The fiscal year 2014-2015 budget projects a further decrease of \$22,230,307 (39.6 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have increased by \$41,159,868 over the past two years.

Average daily attendance has decreased by 858 over the past two years. Growth of 1,384 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$12,153,318, \$12,056,604, and \$11,849,812 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013, and 2012, respectively.

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2014

Name of Charter School	Included in Audit Report
PAL Academy (0335)	No
ASA Charter (0677)	No
Public Safety Academy (0731)	No
Casa Ramona Academy (0897)	No
SOAR Charter Academy (0982)	No
Options for Youth (1132)	No
New Vision Middle (1089)	No
Hardy Brown College Prep (1155)	No
Excel Prep Charter (1153)	No
The Academy of the Inland Empire (1222)	No
Taft T. Newman Leadership Academy (1437)	No
Woodward Leadership Academy (1438)	No
Center for Learning and Unlimited Educational Success (1574)	No

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2014

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 70,619	\$ 790,694	\$ 18,854,603
Receivables	837,675	70,953	21,681
Due from other funds	64,957	3,080,286	-
Total Assets	<u>\$ 973,251</u>	<u>\$ 3,941,933</u>	<u>\$ 18,876,284</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 91,138	\$ 532,893	\$ 8,074
Due to other funds	102,294	2,814,350	1,762
Unearned revenue	748,235	78,688	-
Total Liabilities	<u>941,667</u>	<u>3,425,931</u>	<u>9,836</u>
Fund Balances:			
Restricted	-	516,002	18,866,448
Assigned	31,584	-	-
Total Fund Balances	<u>31,584</u>	<u>516,002</u>	<u>18,866,448</u>
Total Liabilities and Fund Balances	<u>\$ 973,251</u>	<u>\$ 3,941,933</u>	<u>\$ 18,876,284</u>

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ 4,937,985	\$ 640,302	\$ 16,260,570	\$ 41,554,773
8,991	-	-	939,300
318	-	-	3,145,561
<u>\$ 4,947,294</u>	<u>\$ 640,302</u>	<u>\$ 16,260,570</u>	<u>\$ 45,639,634</u>
\$ 2,536,734	\$ -	\$ -	\$ 3,168,839
266,208	-	-	3,184,614
-	-	-	826,923
<u>2,802,942</u>	<u>-</u>	<u>-</u>	<u>7,180,376</u>
-	640,302	16,260,570	36,283,322
2,144,352	-	-	2,175,936
<u>2,144,352</u>	<u>640,302</u>	<u>16,260,570</u>	<u>38,459,258</u>
<u>\$ 4,947,294</u>	<u>\$ 640,302</u>	<u>\$ 16,260,570</u>	<u>\$ 45,639,634</u>

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2014

	Adult Education Fund	Child Development Fund	Capital Facilities Fund
REVENUES			
Federal sources	\$ 869,430	\$ 874,635	\$ -
Other State sources	62,091	6,018,869	-
Other local sources	219,113	176,535	3,496,796
Total Revenues	1,150,634	7,070,039	3,496,796
EXPENDITURES			
Current			
Instruction	1,125,194	-	-
Instruction-related activities:			
Supervision of instruction	-	170,529	-
School site administration	18,582	225,415	-
Administration:			
All other administration	6,158	444,576	-
Plant services	-	206,114	-
Facility acquisition and construction	-	-	822,262
Community services	-	6,340,493	-
Other outgo	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	1,149,934	7,387,127	822,262
Excess (Deficiency) of			
Revenues Over Expenditures	700	(317,088)	2,674,534
Other Financing Sources (Uses)			
Transfers in	-	489,699	6,227
Transfers out	-	-	(1,948,430)
Net Financing Sources (Uses)	-	489,699	(1,942,203)
NET CHANGE IN FUND BALANCES	700	172,611	732,331
Fund Balances - Beginning	30,884	343,391	18,134,117
Fund Balances - Ending	\$ 31,584	\$ 516,002	\$ 18,866,448

See accompanying note to supplementary information.

Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,744,065
-	-	215,995	6,296,955
9,295,268	14,520	15,388,850	28,591,082
9,295,268	14,520	15,604,845	36,632,102
-	-	-	1,125,194
-	-	-	170,529
-	-	-	243,997
-	-	-	450,734
-	-	-	206,114
9,447,811	23,046,397	-	33,316,470
-	-	-	6,340,493
-	-	825	825
-	-	6,905,000	6,905,000
-	1,423,748	5,272,504	6,696,252
9,447,811	24,470,145	12,178,329	55,455,608
(152,543)	(24,455,625)	3,426,516	(18,823,506)
1,250,988	-	-	1,746,914
(144,852)	(1,018,757)	-	(3,112,039)
1,106,136	(1,018,757)	-	(1,365,125)
953,593	(25,474,382)	3,426,516	(20,188,631)
1,190,759	26,114,684	12,834,054	58,647,889
\$ 2,144,352	\$ 640,302	\$ 16,260,570	\$ 38,459,258

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, 2014

(Dollar amounts in thousands)

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 52,586	10.6	\$ 64,857	13.8	\$ 77,123	15.8
State and local revenue included in LCFF	348,824	70.7	254,620	54.0	256,502	52.5
Other State revenue	83,449	16.9	143,529	30.4	144,808	29.6
Other local revenue	8,796	1.8	8,655	1.8	9,983	2.1
Total Revenues	<u>493,655</u>	<u>100.0</u>	<u>471,661</u>	<u>100.0</u>	<u>488,416</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	227,100	46.0	214,089	45.4	222,234	45.5
Classified salaries	63,390	12.8	60,725	12.9	66,277	13.6
Employee benefits	106,480	21.6	104,620	22.2	99,874	20.4
Total Salaries and Benefits	396,970	80.4	379,434	80.5	388,385	79.5
Books and supplies	23,729	4.8	19,090	4.0	22,929	4.7
Contracts and operating expenses	73,195	14.8	72,067	15.3	65,502	13.4
Capital outlay	4,335	0.9	2,857	0.6	3,928	0.8
Other outgo	966	0.2	(1,492)	(0.3)	(1,146)	(0.2)
Total Expenditures	<u>499,195</u>	<u>101.1</u>	<u>471,956</u>	<u>100.1</u>	<u>479,598</u>	<u>98.2</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	<u>(5,540)</u>	<u>(1.1)</u>	<u>(295)</u>	<u>(0.1)</u>	<u>8,818</u>	<u>1.8</u>
OTHER FINANCING USES						
Operating transfers in	13	0.0	74	0.0	228	0.0
Operating transfers out	(554)	(0.1)	(134)	(0.0)	(626)	(0.1)
Total Other Financing Uses	<u>(541)</u>	<u>(0.1)</u>	<u>(60)</u>	<u>(0.0)</u>	<u>(398)</u>	<u>(0.1)</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>(6,081)</u>	<u>(1.2)</u>	<u>(355)</u>	<u>(0.1)</u>	<u>8,420</u>	<u>1.7</u>
FUND BALANCE, BEGINNING	<u>62,149</u>		<u>62,504</u>		<u>54,084</u>	
FUND BALANCE, ENDING	<u>\$ 56,068</u>		<u>\$ 62,149</u>		<u>\$ 62,504</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>11.4</u>		<u>13.2</u>		<u>12.8</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, 2014

(Dollar amounts in thousands)

	Actual Results for the Years					
	2013-2014		2012-2013		2011-2012	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal programs	\$ 25,890	88.8	\$ 25,455	88.0	\$ 24,912	87.5
State meal program	1,907	6.5	1,962	6.8	1,990	7.0
Food sales	1,350	4.6	1,495	5.2	1,577	5.5
Other	26	0.1	6	0.0	13	0.0
Total Revenues	29,173	100.0	28,918	100.0	28,492	100.0
EXPENDITURES						
Salaries and employee benefits	11,176	38.3	10,649	36.8	10,485	36.8
Food	14,711	50.4	16,354	56.6	14,581	51.2
Supplies	788	2.7	843	2.9	776	2.7
Other	3,612	12.4	3,634	12.5	3,063	10.7
Total Expenditures	30,287	103.8	31,480	108.8	28,905	101.4
INCREASE (DECREASE) IN NET ASSETS	(1,114)	(3.8)	(2,562)	(8.8)	(413)	(1.4)
NETS ASSETS, BEGINNING	19,791		22,353		22,766	
NET ASSETS, ENDING	\$ 18,677		\$ 19,791		\$ 22,353	
ENDING NET ASSETS TO TOTAL REVENUES		64.0		68.4		78.5

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2013-2014		2012-2013		2011-2012	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	278,194	4.3	302,357	4.6	337,328	5.0
Reduced price	617,551	9.6	621,955	9.5	611,292	9.2
Free	5,562,721	86.1	5,638,004	85.9	5,718,704	85.8
Total Lunches	6,458,466	100.0	6,562,316	100.0	6,667,324	100.0
BREAKFAST						
Paid	81,240	3.1	84,878	3.1	87,932	3.2
Reduced price	223,671	8.5	230,830	8.5	231,875	8.3
Free	2,333,522	88.4	2,405,856	88.4	2,460,896	88.5
Total Breakfast	2,638,433	100.0	2,721,564	100.0	2,780,703	100.0

See accompanying note to supplementary information.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balances and in the Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds that have been recorded as revenues that have not been expended by June 30, 2014. The unspent balances are reported as legally restricted ending balances within the General Fund. Additionally, the District received Qualified School Construction Bonds - Interest Subsidy funds which are not required to be reported on the Schedule of Expenditure Awards.

Description	Federal CFDA	
	Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances and Statement of Revenues, Expenses and Changes in Net Position:		\$ 80,219,976
Medi-Cal Billing Option	93.778	(94,086)
Qualified School Construction Bonds - Interest Subsidy	[1]	(2,579,815)
Total Schedule of Expenditures of Federal Awards		<u>\$ 77,546,075</u>

[1] CFDA number not available

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

General Fund Selected Financial Information

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

Cafeteria Fund Selected Financial Information

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

INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Bernardino City Unified School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise San Bernardino City Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2014.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 1 and 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Correction of an Error

As discussed in Note 18 to the financial statements, the District restated its beginning capital assets and the related accumulated depreciation to more accurately reflect the underlying transactions related to the District's capital assets.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we reported to management of San Bernardino City Unified School District in a separate letter dated December 15, 2014.

San Bernardino City Unified School District's Response to Findings

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

Purpose of This Report

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

VARRINZ, TANE, DAY 4 10, 11

Rancho Cucamonga, California
December 15, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Bernardino City Unified School District's (the District) major Federal programs for the year ended June 30, 2014. San Bernardino City Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Bernardino City Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of San Bernardino City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Bernardino City Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Bernardino City Unified School District's internal control over compliance.

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

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

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

VAJINKE TRANE, DAI + W. WJ

Rancho Cucamonga, California
December 15, 2014



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited San Bernardino City Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies* 2013-2014 that could have a direct and material effect on each of the San Bernardino City Unified School District's State government programs as noted below for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the San Bernardino City Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies* 2013-2014. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Bernardino City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Bernardino City Unified School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, San Bernardino City Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2014.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No, see below
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, see below
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable
Charter School Facility Grant Program	1	Not Applicable

We did not perform testing for Independent Study because the ADA was below the materiality threshold required for testing. Additionally, we did not perform testing for California Clean Energy Jobs Act because there were no expenditures incurred by the District.

VAJINER, TRINE, DAN + LO, WP

Rancho Cucamonga, California
December 15, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Low Income and Neglected</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,326,382</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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

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

2014-001 30000

Criteria or Specific Requirements

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

Condition

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

- 1) The District does not have a designated employee and an alternate employee responsible for tracking, monitoring, and updating the District capital assets activities.
- 2) The District has been unable to fill positions with permanent employees which has led to a total loss of experience and continuity for this financial area.

Questioned costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Cause

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

Recommendation

The District should consider the following actions:

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

Corrective Action Plan

- The District is in the process of reviewing its current procedure/policy to determine appropriate revisions needed to ensure responsibilities are in place.
- The District experienced a delay in the hiring of an employee for this vacant position but the process is now functioning and the expectation is it will be filled within the next two months.
- The District will take steps to have an additional employee trained on the Financial 2000 fixed asset program at the completion of the review process.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

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

Financial Statement Finding

2013-1 30000

Criteria or Specific Requirements

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

Conditions

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

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

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

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

Cause

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

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Recommendations

The District should consider the following actions:

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

Current Status

Not implemented. See finding 2014-001.



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, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2014, on the government-wide financial statements of the District.

ASSOCIATED STUDENT BODY (ASB)

Thompson Elementary School

Observation

The ASB disbursements are not always adequately supported by proper documentation. During our review over cash disbursements, the auditor noted nine of 11 disbursements tested lacked receiving documentation indicating that all items ordered have been received prior to issuing payment. There was a lack of invoice documentation for one of the 11 disbursements tested.

Recommendation

All goods being ordered should be supported with explicit receiving documentation. Documentation should indicate the date that the goods have been received and 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 has been reviewed.

Observation

Based on the review of procedures over fundraising events it was noted that both fundraisers tested did not have a completed Revenue Potential Form on file.

Recommendation

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

Curtis Middle School

Observation

The ASB disbursements are not always adequately supported by proper documentation. During our review over cash disbursements, the auditor noted there was a no invoice for one of the 13 disbursements tested. In addition, based on the review of the disbursement procedures it was noted that one of 13 disbursements tested were not consistently preapproved prior to the transaction taking place.

Recommendation

In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases. The ASB should maintain proper documentation of expenditures including invoices and receipts. ASB should ensure that all disbursement requests are supported by adequate invoices prior to the checks being issued. This will identify and prevent potential misappropriation of ASB funds.

Indian Springs High School

Observation

Based on the review of procedures over cash deposits it was noted that two of seven deposits were not in compliance with the District's Policy. District Policy states that all schools sites must make a bank deposit as soon as they have \$300. In 28 percent of the deposits reviewed, the deposited money was over \$ 300 which is not in accordance with District policy. This could result in large cash balances being maintained at the sites which can hinder the safeguarding of ASB assets.

Recommendation

To verify the safety of assets and compliance with District policies, the site should deposit monies when they reach \$300 or at least once a week.

Observation

Based on the review of procedures over PE inventory it was noted that the student body was unable to provide documentation that a physical inventory count had taken place. The auditor verified that the perpetual inventory is being tracked within Tracks system.

Recommendation

The site should physically count inventory once a year and compare the total to the book balance. In addition, the difference between the two amounts should be supported with a reasonable explanation.

San Gorgonio High School

Observation

Governing Board
San Bernardino City Unified School District

Based on the review of procedures over fundraising events it was noted that two of four fundraisers tested were not approved prior to the event taking place.

Recommendation

The approval of fundraising events is an important control activity to prevent any potential unacceptable ASB activity and allows equal participation between all clubs and trusts. 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. The District has a policy that requires all fundraising activities to be approved by District personal as well, in order to document District wide events.

Observation

Based on the review of procedures over fundraising events it was noted that two of four fundraisers tested did not have a revenue potential form on file.

Recommendation

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

Observation

During testing of the student store, the auditor noted that daily sales cash overages and shortages were not explained. In addition, four of nine student store sales reports did not provide a sales date for the activity.

Recommendation

The site should implement a procedure documenting any variances between items sold compared to monies collected. The site should be questioning any unusual variances and documenting explanations in order to determine whether further investigations are necessary. In order to determine the date of sales each sales report must document the date of sales.

Observation

During testing of fundraiser activities, the auditor noted that three of four fundraisers did provide support for monies collected from the activities.

Recommendation

A document should be developed and used to summarize the monies collected by ASB Advisors. This form would provide an explanation of what the monies were collected for and allow the District to properly account for the funds once they are received by the site's ASB Technician. The document should include items sold compared to monies that are actually collected and a explanation for any differences.

Cajon High School

Observation

Based on the review of the disbursement procedures it was noted that two of 19 disbursements tested were not consistently preapproved prior to transactions taking place.

Recommendation

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

Sierra Continuation High School

Observation

The ASB disbursements are not always adequately supported by proper documentation. During our review over cash disbursements, the auditor noted, there was no invoice for three of the 11 disbursements tested, and 10 of 11 disbursements tested were made without explicit receiving documentation present for goods being ordered. In addition, based on the review of the disbursement procedures it was noted that one of 11 disbursements tested were not consistently preapproved prior to transactions taking place.

Recommendation

The ASB should maintain proper documentation of expenditures including invoices and receipts. ASB should ensure that all disbursement requests are supported by adequate invoices prior to the checks being issued. This will identify and prevent potential misappropriation of ASB funds. All goods being ordered should be supported with explicit receiving documentation. Documentation should indicate the date that the goods have been received and 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 has been reviewed. 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 the student council (if applicable) to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.

Observation

Based on the review of procedures over fundraising events, it was noted that the site does not utilize revenue potential forms to account for fundraising activities.

Recommendation

All revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potentials form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales and an explanation of the difference. The form also requires an explanation of any overages/shortages between sales receipted to monies deposited. The site

Governing Board
San Bernardino City Unified School District

administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

Observation

The auditor noted that during the month tested the site did not have any personnel assigned the task to account for ASB financial statements and receipting. The site did not issue any receipts for money received from October 2013 to November 2013. In addition, deposit information was also not recorded in the Blue Bear Software.

Recommendation

The ASB should issue receipts whenever it receives money or check for any events or sale. The site uses Blue Bear to account for financial functions, thus the site can use Blue Bear's Track module to issue receipts for cash and checks.

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

VARNEY, TRACY DAY 4 10, 11

Rancho Cucamonga, California
December 15, 2014