

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS**

**BOND BUILDING FUND**

**MEASURE T**

**FINANCIAL AUDIT**

**Fiscal Year Ending June 30, 2006**

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**PROPOSITION 39 GENERAL OBLIGATION BONDS**

**BOND BUILDING FUND**

**MEASURE T**

**FINANCIAL AUDIT**

**June 30, 2006**

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**Chairman**

ROYCE A. STUTZMAN

**Partners**

PETER F. GAUTREAU

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WADE N. McMULLEN

KARIN HECKMAN NELSON

CARL PON

GEMA M. PTASINSKI

MARY ANN QUAY

LINDA M. SADDLEMIRE

**Principal**

JERI A. WENGER

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SHARI PROSSER

COLLEEN K. TAYLOR

## INDEPENDENT AUDITORS' REPORT

The Citizens' Oversight Committee  
San Bernardino City Unified School District  
777 North "F" Street  
San Bernardino, CA 92410

We have audited the accompanying Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Bond Building Fund of the San Bernardino City Unified School District as of and for the fiscal year ended June 30, 2006. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit of the Bond Building Fund in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements for the Bond Building Fund are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Bond Building Fund financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the San Bernardino City Unified School District as of June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The Citizens' Oversight Committee  
San Bernardino City Unified School District

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2007 on our consideration of the San Bernardino City Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the San Bernardino City Unified School District Bond Building Fund. The supplementary schedule is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

January 8, 2007

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**BALANCE SHEET  
BOND BUILDING FUND**

**June 30, 2006**

**ASSETS**

Cash in County Treasury	\$ 64,330,876
Accounts Receivable	<u>227,406</u>

<b>TOTAL ASSETS</b>	<b>\$ <u>64,558,282</u></b>
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**LIABILITIES AND FUND BALANCE**

**Liabilities**

Accounts Payable	\$ 1,967,642
Due to General Fund	<u>114,401</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,082,043</u></b>

**FUND BALANCE**

Designated	<u>62,476,239</u>
<b>TOTAL FUND BALANCE</b>	<b><u>62,476,239</u></b>

<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>64,558,282</u></b>
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See the accompanying notes to the financial statements.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BOND BUILDING FUND**

**For the Fiscal Year Ended June 30, 2006**

**REVENUES**

**Revenue from Local Sources**

Interest and Investment Income \$ 227,406

**TOTAL REVENUES** 227,406

**EXPENDITURES**

Other Services 4,231,158

Capital Outlay 3,128,272

**TOTAL EXPENDITURES** 7,359,430

Deficiency of revenues over expenditures (7,132,024)

**OTHER FINANCING SOURCES**

Proceeds from Sale of Bonds 69,608,263

**TOTAL OTHER FINANCING SOURCES** 69,608,263

Excess of revenues over expenditures and other sources 62,476,239

Fund Balance at Beginning of Year -

Fund Balance at End of Year \$ 62,476,239

See the accompanying notes to the financial statements.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE**

**BUDGET AND ACTUAL - BOND BUILDING FUND**

**For the Fiscal Year Ended June 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>			
<b>Revenue from Local Sources</b>			
Interest and Investment Income	\$ -	\$ 227,406	\$ 227,406
<b>TOTAL REVENUES</b>	<u>-</u>	<u>227,406</u>	<u>227,406</u>
 <b>EXPENDITURES</b>			
Other Services	4,764,627	4,231,158	533,469
Capital Outlay	<u>11,058,563</u>	<u>3,128,272</u>	<u>7,930,291</u>
<b>TOTAL EXPENDITURES</b>	<u>15,823,190</u>	<u>7,359,430</u>	<u>8,463,760</u>
 Deficiency of revenues over expenditures	<u>(15,823,190)</u>	<u>(7,132,024)</u>	<u>8,691,166</u>
 <b>OTHER FINANCING SOURCES</b>			
Proceeds from Bonds	<u>67,999,968</u>	<u>69,608,263</u>	<u>1,608,295</u>
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>67,999,968</u>	<u>69,608,263</u>	<u>1,608,295</u>
 Excess of revenues over expenditures and other sources	<u>\$ 52,176,778</u>	62,476,239	<u>\$ 10,299,461</u>
 Fund Balance at Beginning of Year		<u>-</u>	
 Fund Balance at End of Year		<u>\$ 62,476,239</u>	

See the accompanying notes to the financial statements.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants.

**FUND STRUCTURE**

The Statement of Revenues, Expenditures, and Change in Fund Balance is a statement of financial activities of the Bond Building Fund related to the current reporting period. Fund expenditures frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization.

**BASIS OF ACCOUNTING**

The Bond Building Fund of the San Bernardino City Unified School District is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, which is to say, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

During the year, Cash in the County Treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

**BUDGET**

The Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual includes a column entitled “Budget”. The amounts in this column represent the budget adopted by the Board and all amendments throughout the year.



**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**CAPITAL ASSETS AND LONG-TERM DEBT**

The accounting and reporting treatment applied to the capital assets and long-term liabilities associated with the Bond Building Fund are determined by its measurement focus. The bond building funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Bond Building Fund are accounted for in the basic financial statements of the San Bernardino City Unified School District.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:**

There were no excesses of expenditures over appropriations, by major object accounts.

**NOTE 3 – BONDED DEBT:**

On March 2, 2004, the District voters authorized the issuance and sale of general obligation bonds totaling \$140,000,000.

The outstanding related bonded debt for the San Bernardino City Unified School District at June 30, 2006 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2006</u>
9/16/04	2-5%	8/1/2029	\$ 44,999,498	\$ 44,999,498	\$	\$ 2,255,000	\$ 42,744,498
5/3/06	4.5 – 5%	8/1/2030	67,999,967		67,999,967		67,999,967
			<u>\$112,999,465</u>	<u>\$ 44,999,498</u>	<u>\$ 67,999,967</u>	<u>\$ 2,255,000</u>	<u>\$110,744,465</u>

**Series A**

On September 16, 2004, \$44,999,497 of general obligation bonds were sold under Proposition 39/Measure T which provides that proceeds of the bonds will generally be used to repair buildings, classrooms, science labs, upgrade earthquake/fire safety, repair sidewalks, leaky roofs, drainage/water pipes, upgrade wiring/equipment for computer technology, enhance nursing/firefighter training, construct, acquire and equip modern classrooms/buildings, improve campus security and prepayment of interim District financings and that bond proceeds will not be used for salaries or administrative expenses.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 3 – BONDED DEBT: (continued)**

The annual requirements to amortize Series A bonds payable, outstanding as of June 30, 2006, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2007	\$ 2,470,000	\$ 1,909,444	\$	\$ 4,379,444
2008	2,650,000	1,810,644		4,460,644
2009	595,000	1,704,644		2,299,644
2010	885,000	1,691,256		2,576,256
2011	980,000	1,666,919		2,646,919
2012-2016	4,920,000	7,825,119		12,745,119
2017-2021	7,665,000	6,507,750		14,172,750
2022-2026	12,080,000	4,266,538		16,346,538
2027-2030	<u>10,499,498</u>	<u>1,027,750</u>	<u>3,415,502</u>	<u>14,942,750</u>
Totals	<u>\$42,744,498</u>	<u>\$28,410,064</u>	<u>\$ 3,415,502</u>	<u>\$74,570,064</u>

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 3 – BONDED DEBT: (continued)**

**Series B**

On May 3, 2006, \$67,999,967 of general obligation bonds were sold under Proposition 39/Measure T which provides that proceeds of the bonds will generally be used to repair buildings, classrooms, science labs, upgrade earthquake/fire safety, repair sidewalks, leaky roofs, drainage/water pipes, upgrade wiring/equipment for computer technology, enhance nursing/firefighter training, construct, acquire and equip modern classrooms/buildings, improve campus security and prepayment of interim District financings and that bond proceeds will not be used for salaries or administrative expenses

The annual requirements to amortize Series B bonds payable, outstanding as of June 30, 2006, are as follows:

<b><u>Year Ended June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Accreted Interest Component</u></b>	<b><u>Total</u></b>
2007	\$	\$	\$	\$ -
2008		3,593,479		3,593,479
2009	256,600	2,987,650	48,400	3,292,650
2010	381,142	2,987,650	108,858	3,477,650
2011	589,703	2,987,650	230,297	3,807,650
2012-2016	5,123,962	14,938,250	4,046,038	24,108,250
2017-2021	15,130,000	13,630,650		28,760,650
2022-2026	24,420,000	8,989,750		33,409,750
2027-2031	<u>22,098,560</u>	<u>2,099,000</u>	<u>10,046,440</u>	<u>34,244,000</u>
Totals	67,999,967	<u>\$ 52,214,079</u>	<u>\$ 14,480,033</u>	<u>\$134,694,079</u>
Net Bond Premium	<u>1,608,296</u>			
Total Bond Proceeds	<u>\$ 69,608,263</u>			

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006**

**NOTE 3 – BONDED DEBT: (continued)**

Capital appreciation bonds were issued as part of the Series A and B issuances. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued has been reflected in the long term debt balance of the District's financial statements.



**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**

The Citizens' Oversight Committee  
San Bernardino City Unified School District  
777 North "F" Street  
San Bernardino, CA 92410

**Chairman**  
ROYCE A. STUTZMAN

**Partners**  
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PRISCILLA OSBORNE FLORES  
TINA HENTON  
PHEBE M. McCUTCHEON  
SHARI PROSSER  
COLLEEN K. TAYLOR

We have audited the Balance Sheet, Statement of Revenues, Expenditures and Change in Fund Balance and Statement of Revenues, Expenditures and Change in Fund Balance – Budget and Actual for the Bond Building Fund of the San Bernardino City Unified School District as of and for the fiscal year ended June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Bernardino City Unified School District's internal control over Bond Building Fund financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Bond Building Fund financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect San Bernardino City Unified School District's ability to record process, summarize and report financial data consistent with the assertions of management in the Bond Building Fund financial statements. The reportable condition is described in the accompanying schedule of findings and questions costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable condition and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

2210 E. ROUTE 66, STE 100, GLENDORA, CA 91740

**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**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino City Unified School District's Bond Building Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 of the Bond Building Fund disclosed no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the District's Board of Education, the Citizens' Oversight Committee and District management. It is not intended to be and should not be used by anyone other than these specified parties.

*Vicenti, Lloyd & Stutzman LLP*

VICENTI, LLOYD & STUTZMAN LLP

January 8, 2007

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**SCHEDULE OF EXPENDITURES  
June 30, 2006**

	Expenditures in Previous Years	Actual Expenditures for Fiscal Year Ended June 30, 2006	Total Expenditures through June 30, 2006
Chavez Middle School	\$ 260,635	\$ 2,756,655	\$ 3,017,290
Construction Management		2,474,016	2,474,016
Modernization		520,463	520,463
Defeasance of Certificates of Participation	44,742,912		44,742,912
Bond Issue Costs and Legal Fees on Series B Bonds		1,608,296	1,608,296
	<u>\$ 45,003,547</u>	<u>\$ 7,359,430</u>	<u>\$ 52,362,977</u>

See the accompanying notes to the financial statements.

**SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT  
BOND BUILDING FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2006**

**Finding 06-01- Expenditure Coding**

**Finding:** During the course of the audit, it was brought to our attention that Proposition 39/ Measure T expenditures were improperly coded to Resource Code 0001 rather than Resource Code 0002. Resource Code 0001 was for the Series A bond proceeds, which were entirely expended during fiscal year 2004-05. Resource Code 0002 is to be used to account for the use of the Series B bond proceeds. District staff had to analyze all expenditures charged to Resource Code 0001 and determine what should have been charged to Resource Code 0002. As a result, \$5,113,145 of expenditures were moved from Resource Code 0001 to Resource Code 0002 in preparing the financial statements.

**Recommendation:** Personnel need to take care when coding expenditures for posting in the District's general ledger system. Coding expenditures to the proper Resource Code is imperative because the Bond Building Fund records expenditures for non-Proposition 39/ Measure T expenses. In addition, the balance in Resource Code 0001, after the transfer, should be zeroed out by transferring remaining expenses to the proper accounts. Since Resource Code 0001 relates to Series A, there should be no activity in Resource Code 0001 in current and future years.

**District Response:** On March 1, 2007 Business Services met with Facilities to discuss the expenditures that were miscoded to Resource 0001 that should have been properly charged to Resource 0002. The majority of the charges were for the Chavez Middle School project and construction management fees paid to URS. Also included in the discussion were several non-Prop 39 expenditures charged to Resource 0001 that should have been charged to the Chavez operating budget and the ESC budget. The charges will be corrected and moved to the proper accounts within the general ledger. After the correcting entries are posted, Resource 0001 accounts will be deactivated and eventually closed to prevent future miscoded transactions.