



VICENTI LLOYD & STUTZMAN LLP

MAKING A POSITIVE DIFFERENCE IN OUR WORLD

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPOSITION 39 GENERAL OBLIGATION BONDS
BOND BUILDING FUND
MEASURE T
FINANCIAL AUDIT**

Fiscal Year Ending June 30, 2007

RESPECT FOR
THE
INDIVIDUAL



HIGH ETHICAL
STANDARDS



INNOVATION
CREATIVITY
CHANGE



MUTUAL TRUST



UNEQUIVOCAL
EXCELLENCE

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**PROPOSITION 39 GENERAL OBLIGATION BONDS
BOND BUILDING FUND
MEASURE T
FINANCIAL AUDIT**

June 30, 2007

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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, 2007. 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 of the Bond Building Fund for the San Bernardino City Unified School District as of June 30, 2007, 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 29, 2008 on our consideration of the San Bernardino City Unified School District's internal control over Bond Building Fund 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 29, 2008

SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT

**BALANCE SHEET
BOND BUILDING FUND**

June 30, 2007

ASSETS

Cash in County Treasury	\$ 40,147,747
Accounts Receivable	<u>544,622</u>
TOTAL ASSETS	<u>\$ 40,692,369</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable	\$ 12,728,427
Due to General Fund	<u>14,116</u>
TOTAL LIABILITIES	<u>12,742,543</u>

Fund Balance

Designated	<u>27,949,826</u>
TOTAL FUND BALANCE	<u>27,949,826</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,692,369</u>
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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, 2007

REVENUES

Revenue from Local Sources

Interest and Investment Income \$ 2,802,778

TOTAL REVENUES 2,802,778

EXPENDITURES

Other Services 2,840,009

Capital Outlay 49,937,346

TOTAL EXPENDITURES 52,777,355

Deficiency of revenues over expenditures (49,974,577)

OTHER FINANCING SOURCES

Transfer In 5,144,603

Proceeds from Sale of Bonds 10,303,561

TOTAL OTHER FINANCING SOURCES 15,448,164

Deficiency of revenues over expenditures and other sources (34,526,413)

Fund Balance at Beginning of Year 62,476,239

Fund Balance at End of Year \$ 27,949,826

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, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Revenue from Local Sources			
Interest and Investment Income	\$ -	\$ 2,802,778	\$ 2,802,778
TOTAL REVENUES	<u>-</u>	<u>2,802,778</u>	<u>2,802,778</u>
 EXPENDITURES			
Supplies	54,697	-	54,697
Other Services	3,905,388	2,840,009	1,065,379
Capital Outlay	<u>70,591,796</u>	<u>49,937,346</u>	<u>20,654,450</u>
TOTAL EXPENDITURES	<u>74,551,881</u>	<u>52,777,355</u>	<u>21,774,526</u>
 Deficiency of revenues over expenditures	<u>(74,551,881)</u>	<u>(49,974,577)</u>	<u>24,577,304</u>
 OTHER FINANCING SOURCES			
Transfer In	-	5,144,603	5,144,603
Proceeds from Bonds	<u>9,997,216</u>	<u>10,303,561</u>	<u>306,345</u>
TOTAL OTHER FINANCING SOURCES	<u>9,997,216</u>	<u>15,448,164</u>	<u>5,450,948</u>
 Deficiency of revenues over expenditures and other sources	<u>\$ (64,554,665)</u>	<u>(34,526,413)</u>	<u>\$ 30,028,252</u>
 Fund Balance at Beginning of Year		<u>62,476,239</u>	
 Fund Balance at End of Year		<u>\$ 27,949,826</u>	

See the accompanying notes to the financial statements.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

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 FINANCIAL STATEMENTS

June 30, 2007

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 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 outstanding related bonded debt for the San Bernardino City Unified School District at June 30, 2007 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2007</u>
9/16/2004	2.0 - 5.0%	8/1/2029	\$ 44,999,498	\$ 42,744,498	\$	\$ 2,470,000	\$ 40,274,498
5/3/2006	4.5 – 5.0%	8/1/2030	67,999,967	67,999,967			67,999,967
3/1/2007	3.4 - 4.7%	8/1/2031	9,997,217		9,997,217		9,997,217
			<u>\$ 122,996,682</u>	<u>\$ 110,744,465</u>	<u>\$ 9,997,217</u>	<u>\$ 2,470,000</u>	<u>\$ 118,271,682</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 3 – BONDED DEBT: (continued)

Series A

On September 16, 2004, \$44,999,497 of general obligation bonds were sold. The annual requirements to amortize Series A bonds payable, outstanding as of June 30, 2007, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Accreted Interest Component</u>	<u>Total</u>
2008	\$ 2,650,000	\$ 1,757,644	\$	\$ 4,407,644
2009	595,000	1,697,950		2,292,950
2010	885,000	1,679,087		2,564,087
2011	980,000	1,652,219		2,632,219
2012	1,085,000	1,615,818		2,700,818
2013-2017	5,075,000	7,518,941		12,593,941
2018-2022	8,445,000	5,922,838		14,367,838
2023-2027	13,125,000	3,396,800		16,521,800
2028-2030	<u>7,434,498</u>	<u>354,000</u>	<u>3,415,502</u>	<u>11,204,000</u>
Totals	\$ <u>40,274,498</u>	\$ <u>25,595,297</u>	\$ <u>3,415,502</u>	\$ <u>69,285,297</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 3 – BONDED DEBT: (continued)

Series B

On May 3, 2006, \$67,999,967 of general obligation bonds were sold. The annual requirements to amortize Series B bonds payable, outstanding as of June 30, 2007, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest Component	Total
2008	\$	\$ 2,931,217	\$	\$ 2,931,217
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	751,337	2,987,650	378,663	4,117,650
2013-2017	6,792,625	14,883,800	3,667,375	25,343,800
2018-2022	16,760,000	12,467,250		29,227,250
2023-2027	26,645,000	7,102,625		33,747,625
2028-2031	<u>15,823,560</u>	<u>722,500</u>	<u>10,046,440</u>	<u>26,592,500</u>
Totals	\$ <u>67,999,967</u>	\$ <u>50,057,992</u>	\$ <u>14,480,033</u>	\$ <u>132,537,992</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 3 – BONDED DEBT: (continued)

Series C

On March 1, 2007, \$9,997,217 of general obligation bonds were sold. The annual requirements to amortize Series C bonds payable, outstanding as of June 30, 2007, are as follows:

Year Ended June 30,	Principal	Interest	Accreted Interest Component	Total
2008	\$	\$ 120,043	\$	\$ 120,043
2009	690,000	117,144		807,144
2010	480,773	94,219	24,227	599,219
2011	215,798	85,106	104,202	405,106
2012	84,027	85,106	55,973	225,106
2013-2017	52,120	425,531	57,880	535,531
2018-2022	85,135	422,031	59,865	567,031
2023-2027	140,844	414,034	124,156	679,034
2028-2032	<u>8,248,520</u>	<u>202,126</u>	<u>13,376,480</u>	<u>21,827,126</u>
Totals	9,997,217	\$ <u>1,965,340</u>	\$ <u>13,802,783</u>	\$ <u>25,765,340</u>
Net Bond Premium	<u>306,344</u>			
Total Bond Proceeds	\$ <u>10,303,561</u>			

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

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, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the fund financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's Bond Building Fund financial statement that is more than inconsequential will not be prevented or detected by the District's internal control.

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

**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**

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

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

January 29, 2008

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

**SCHEDULE OF EXPENDITURES
For the Fiscal Year Ended June 30, 2007**

	Expenditures in Previous Years	Actual Expenditures for Fiscal Year Ended June 30, 2007	Total Expenditures through June 30, 2007
Chavez Middle School	\$ 3,017,290	\$ 11,027	\$ 3,028,317
Administrative Costs		816	816
Alessandro		195,884	195,884
BS/Elementary #47		10,208,001	10,208,001
Secomb Area #52		298,882	298,882
New Elementary #54		82,405	82,405
BS/High School #8		1,437,239	1,437,239
Kitchen Remodel		120	120
Lunch Shelter Addition		62,991	62,991
BS/Monterey		9,428,088	9,428,088
BS/Multi-Use Rooms		15,572	15,572
New Curtis Middle School		12,092,377	12,092,377
Portables (New Multi Resource)		6,000	6,000
BS/Roosevelt		238,116	238,116
BS/SDC Classrooms		15,316,897	15,316,897
BS/Wilson		204,788	204,788
Program Management	2,474,016	2,310,321	4,784,337
Modernization	520,463	473,069	993,532
Defeasance of Certificates of Participation	44,742,912		44,742,912
Bond Issue Costs and Legal Fees on Series B Bonds	1,608,296	394,762	2,003,058
	<u>\$ 52,362,977</u>	<u>\$ 52,777,355</u>	<u>\$ 105,140,332</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, 2007**

FINDING 07-1 – INTERNAL CONTROL – AUDIT ADJUSTMENTS

Finding: Our testing disclosed that District held retentions were not being accrued resulting in an understatement of expenditures and accounts payable of \$497,935. Our testing also disclosed a duplicate journal entry transferring expenditures out of the Prop 39 resource resulting in an understatement of expenditures and cash of \$1,760,130. In addition, it was noted that 4th quarter interest was not allocated to the Prop 39 resource resulting in an understatement of revenue and accounts receivable of \$543,223. Statement on Auditing Standards No. 112 (SAS 112), effective during the 2006-07 fiscal year, suggests that audit adjustments are a strong indicator of a material weakness in internal controls over financial reporting.

Recommendation: Have management review the closing procedures and journal entry procedures currently in place to determine additional safeguards that could be implemented to strengthen the internal control

District Response: District concurs with the finding. Year end accruals were overlooked for retentions of companies that do not have a separate bank to hold retentions in escrow. For construction companies that leave their retentions with the County, Accounts Payable now reviews on a periodic basis these companies to ensure that retentions are properly recorded as expenditures at the end of the year. An adjusting journal entry will be prepared to correct the understatement of expenditures and accounts payable of \$497,935.

The duplicate journal entry that understated expenditures and cash of \$1,760,130 in Fund 21 Resource 0002 resulted in a corresponding overstatement in Fund 21 Resource 0000. Although this error has a zero effect within the overall fund, the duplicate entry will be reversed to correct the Resources.

A correcting journal entry will be posted to allocate the 4th quarter interest of \$543,223 to Fund 21 Resources 0002 and 0003. In addition, Accounting Services will continue to monitor entries, particularly at the end of the year, to ensure that all transactions are correctly recorded.

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

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007**

FINDING 06-1 – 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.

Current Status: Implemented