

**BERKELEY UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

BERKELEY UNIFIED SCHOOL DISTRICT

OF ALAMEDA COUNTY

BERKELEY, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Joaquin J. Rivera	President	2008
John T Selawsky	Vice President	2008
Shirley Issel	Member	2010
Nancy Riddle	Member	2010
Karen Hemphill	Member	2010

ADMINISTRATION

Michele Lawrence	Superintendent
Eric D. Smith	Deputy Superintendent, Business

BERKELEY UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2007

FINANCIAL SECTION

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	17
Proprietary Fund - Statement of Net Assets	19
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
Proprietary Fund - Statement of Cash Flows	21
Fiduciary Funds - Statement of Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	46
----------------------------------------------	----

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	47
Local Education Agency Organization Structure	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	52
Schedule of Financial Trends and Analysis	53
Excess Sick Leave	54
Note to Supplementary Information	55

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	57
Schedule of Selective Statement of Revenues, Expenditures, and Changes in Fund Balance	58
Note to Unaudited Supplementary Information	59

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and 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>	60
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	62
Report on State Compliance	64

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	66
Financial Statement Findings	67
Federal Award Findings and Questioned Costs	69
State Award Findings and Questioned Costs	70
Summary Schedule of Prior Year Audit Findings	71

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Berkeley Unified School District
Berkeley, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Berkeley Unified School District (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Berkeley Unified School District, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 11 and budgetary comparison information on page 46 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds and is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Varrink Time Day + Co. LLP

Palo Alto, California
January 18, 2008

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

This section of Berkeley 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, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District using the integrated approach as prescribed by GASB Statement Number 34 (the Statement).

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the Statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Proprietary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

The Primary unit of the government is the Berkeley Unified School District.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The difference between revenues and expenses is the District's operating results. Since the board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we include the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service fund is reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$63.8 million and \$52.4 million for the fiscal years ended June 30, 2007 and 2006, respectively. The District has an unrestricted fund balance of \$8.4 million at June 30, 2007. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the school board's ability to use those net assets for day-to-day operations. The following analyses focus on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Table 1

	Governmental Activities 2007	Governmental Activities 2006
Current and other assets	\$ 121,045,269	\$ 88,949,871
Capital assets, net of depreciation	203,840,204	204,420,505
Total Assets	324,885,473	293,370,376
Current liabilities	36,945,757	36,138,058
Long-term debt	224,168,231	204,772,764
Total Liabilities	261,113,988	240,910,822
Net assets		
Invested in capital assets, net of related debt	35,690,210	34,567,939
Restricted	19,632,104	14,137,781
Unrestricted	8,449,171	3,753,834
Total Net Assets	\$ 63,771,485	\$ 52,459,554

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, and rearranges them slightly so you can see our total revenues for the year.

BERKELEY UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Table 2

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program revenues		
Charges for services	\$ 611,578	\$ 690,242
Operating grants and contributions	26,738,806	23,717,798
Capital grants and contributions	-	6,083,560
General revenues:		
Federal and state sources	34,700,589	29,774,408
Property taxes	65,384,966	63,343,973
Other general revenues	16,158,207	10,099,107
Total Revenues	143,594,146	133,709,088
Expenses		
Instruction related	88,439,102	82,004,994
Student support services	11,075,152	9,760,645
Administration	7,547,615	5,412,242
Maintenance and operations	14,096,902	12,029,668
Interest, depreciation and other	11,123,444	9,220,980
Total Expenses	132,282,215	118,428,529
Change in Net Assets	\$ 11,311,931	\$ 15,280,559

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities this year was \$132.2 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes and other sources of revenue was only \$104.9 million because the cost was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$65.4 million in taxes and \$34.7 million in State and Federal funds and other revenues, like interest and general entitlements.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

In Table 3, we have presented the net cost of each of the District's five largest functions - (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Net Cost of Services 2007	Net Cost of Services 2006
Instruction and instruction related	\$ 66,650,381	\$ 56,471,669
Pupil services	6,830,046	6,001,503
General Administration	6,340,791	4,350,366
Maintenance and operations	11,650,164	11,981,986
Other	13,460,449	9,131,405
Totals	\$ 104,931,831	\$ 87,936,929

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$86,506,749, which is an increase of \$29,534,867 from last year.

The primary reasons for the increase are:

- a. Building Fund – reflects receipts of \$24,500,000 in proceeds from the sales of bonds.
- b. General Fund—reflects a full year of tax receipts for the new Measure B Parcel Tax

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final working budget was adopted on June 28, 2007. (A schedule showing the District's original and final budget amounts compared to actual revenues and expenditures is provided in our annual report on page 46 –Budgetary Comparison Schedule).

The \$3,731,587 favorable variance in revenues of 2006-07 Actual over Final Budget was mostly due to an increase in federal and local revenues. This favorable variance excludes state on-behalf payments which are included in the budgetary comparison schedule as additional state revenues.

The \$4,417,331 favorable variance in expenditures, again, net of on- behalf payments, was mostly due to conservative spending on plant and pupil services, carry over for books and supplies not being spent down and unspent contingency funds.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007 and 2006, the District had \$203.8 million and \$204.4 million, respectively, in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions and depreciation) of \$.58 million, or 0.3 percent, from last year.

Table 4

	Governmental Activities	
	2007	2006
Land	\$ 6,919,100	\$ 6,919,100
Construction in progress	14,879,418	21,812,789
Improvements of sites	8,514,883	7,118,849
Buildings	233,326,760	222,060,637
Equipment	8,303,454	7,851,581
Accumulated depreciation	(68,103,411)	(61,342,451)
Totals	\$ 203,840,204	\$ 204,420,505

Several capital projects are planned for the 2007-08 year. We anticipate capital additions to be \$4.6 million for the 2007-08 year. These funds are to complete ongoing new construction, modernization and bond projects. We present more detailed information about our Capital Assets in Note 4 to the financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Long-Term Obligations

At the end of this year, the District had \$224.2 million in bonds outstanding. The District's long-term obligations are summarized below.

Table A-5

<i>Years ending</i>	2007	2006
General obligation bonds	\$ 221,605,000	\$ 202,860,000
Capital appreciation bonds	1,695,000	1,695,000
Unamortized bond defeasance cost	(2,461,493)	(2,606,287)
Unamortized bond premium	1,529,114	1,024,325
Accumulated vacation - net	1,800,610	1,799,726
Totals	\$ 224,168,231	\$ 204,772,764

The State limits the amount of general obligation debt that District's can issue to 2.5 percent of the assessed value of all taxable property within the District's boundaries.

Other obligations include compensated absences payable and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2006-2007 ARE NOTED BELOW:

The District produces a balanced budget which was approved by the Alameda County Office of Education for the third year in a row. The District also certified positive for both the First and Second Interim Financial Reports and curtailed a deficit spending pattern that had existed for more than four years.

Fiscal year 2006-2007 was the second full year that tax receipts were collected for Measure B, the voter approved parcel tax in November of 2004. Measure B generates roughly \$8,000,000 annually and supports the District missions with regard to class size reduction, enrichment programs, and library staff. The District also has two other voter approved parcel taxes, Measure BSEP and Measure BB, which generate annual revenues of \$11,196,000 and \$4,305,000 respectively for the 2006-07 fiscal year.

The District issued a Tax and Revenue Anticipation Note in the amount of \$16,015,000 and received a rating of SP-1+ from Standard and Poors on the issuance of the notes. Through aggressive management, the District eradicated a historical negative fund balance in the Self Insurance Fund and established fiscal solvency in the fund for the first time in five years.

The District continues to work with their Audit Committee to review financial information and to prevent management from eroding internal controls. The Audit Committee is a "Brown Act" Committee and is comprised of both community and Board members.

BERKELEY UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006/2007 year, the board and management approved the following key budget development assumptions:

The key assumptions in the District's General Fund unrestricted revenue forecast are:

1. Total Revenue Limit Income with a COLA Of 5.92% to arrive at \$48,541,511 in revenue limit sources
2. Prior Year P-2 (on which Revenues are calculated) Average Daily Attendance – ADA of 8,272.72

The district has been subtle enrollment decline over the past four years but it is our expectation that enrollment will stabilize in the 2006-2007 fiscal year and remain relatively constant over the short term.

In Fiscal Year 2007, the District spent approximately \$5.8 million on its facility program. Of this total, most was spent at two sites: Berkeley High School and King Middle School. Approximately \$1.3 million was spent at Berkeley High School and almost \$0.8 million was spent at King Middle School to construct the new Dining Commons.

In Fiscal Year 2008, the District is planning to spend \$2.1 million for equipment at the King Dining Commons as well \$2.5 million on other capital projects district-wide.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact:

Javetta Robinson, CPA, Deputy Superintendent, Business Services
2134 Martin Luther King, Jr. Way, Berkeley, CA 94704

Pauline Follansbee, CPA, Director of Fiscal Services
2134 Martin Luther King, Jr. Way, Berkeley, CA 94704

BERKELEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2007

	Governmental Activities
Assets	
Deposits and investments	\$ 107,284,895
Receivables	13,078,389
Prepaid expenses	4,522
Deferred charges	608,025
Stores inventories	69,438
Capital assets not depreciated	21,798,518
Capital assets depreciated	250,145,097
Less: Accumulated depreciation	(68,103,411)
Total assets	<u>324,885,473</u>
Liabilities	
Overdrafts	284,379
Accounts payable	13,804,238
Interest payable	3,885,890
Deferred revenue	1,467,813
Claims liability	1,488,329
Current loan	16,015,108
Current portion of long-term obligations, net of defeasance cost	9,199,677
Noncurrent portion of long-term obligations	214,968,554
Total liabilities	<u>261,113,988</u>
Net Assets	
Invested in capital assets, net of related debt	35,690,210
Restricted for:	
Legally restricted	5,540,228
Debt service	10,211,196
Special revenue	3,140,017
Self insurance	740,663
Unrestricted	8,449,171
Total net assets	<u>\$ 63,771,485</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Revenues and Changes in Net Assets</u>
				<u>Governmental Activities</u>
Governmental activities:				
Instruction	\$ 73,645,498	\$ 154,003	\$ 17,997,846	\$ (55,493,649)
Instruction related activities:				
Supervision of instruction	5,249,822	17,828	3,280,174	(1,951,820)
Instructional library and technology	2,179,738	741	14,380	(2,164,617)
School site administration	7,364,044	3,036	320,713	(7,040,295)
Pupil services:				
Home-to-school transportation	4,279,219	168,407	1,293,728	(2,817,084)
Food services	3,094,878	231,258	1,544,260	(1,319,360)
All other pupil services	3,701,055	1,334	1,006,119	(2,693,602)
General administration:				
Data processing	916,103	-	-	(916,103)
All other general administration	6,631,512	26,490	1,180,334	(5,424,688)
Plant services	11,697,055	5,639	41,252	(11,650,164)
Ancillary services	235,609	-	-	(235,609)
Community services	227,787	2,842	55,734	(169,211)
Enterprise services	1,936,451	-	-	(1,936,451)
Interest on long-term obligations	11,108,120	-	-	(11,108,120)
Other (outgo)	15,324	-	4,266	(11,058)
Total governmental-type activities	<u>\$132,282,215</u>	<u>\$ 611,578</u>	<u>\$ 26,738,806</u>	<u>(104,931,831)</u>
General revenues and subventions:				
Property taxes, levied for general purposes				24,189,893
Property taxes, levied for debt service				15,849,669
Taxes levied for other specific purposes				25,345,404
Federal and State aid not restricted to specific purposes				34,700,589
Interest and investment earnings				3,736,874
Miscellaneous				12,421,333
Subtotal, general revenues				<u>116,243,762</u>
Change in net assets				11,311,931
Net assets - beginning				52,459,554
Net assets - ending				<u>\$ 63,771,485</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$30,384,006	\$55,573,639	\$ 13,356,948
Receivables	10,579,915	519,808	676,816
Due from other funds	1,009,783	329,685	-
Prepaid expenses	4,522	-	-
Stores inventories	-	-	-
Total assets	\$41,978,226	\$56,423,132	\$ 14,033,764
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	10,711,057	2,205,505	-
Due to other funds	756,167	-	-
Other current liabilities	16,015,108	-	-
Deferred revenue	1,353,658	-	-
Total liabilities	28,835,990	2,205,505	-
Fund Balances:			
Reserved for:			
Other inventories	104,522	-	-
Grant reservations	4,732,677	-	-
Unreserved:			
Designated	8,305,037	-	-
Undesignated, reported in:			
Special revenue funds	-	-	-
Debt service funds	-	-	14,033,764
Capital projects funds	-	54,217,627	-
Total fund balance	13,142,236	54,217,627	14,033,764
Total Liabilities and Fund Balances	\$41,978,226	\$56,423,132	\$ 14,033,764

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

Non Major Governmental Funds	Total Governmental Funds
\$ 5,797,917	\$ 105,112,510
1,070,117	12,846,656
313,752	1,653,220
-	4,522
69,438	69,438
<u>\$ 7,251,224</u>	<u>\$ 119,686,346</u>

\$ 284,379	\$ 284,379
807,604	13,724,166
931,964	1,688,131
-	16,015,108
114,155	1,467,813
<u>2,138,102</u>	<u>33,179,597</u>

70,654	175,176
24,350	4,757,027
1,814,780	10,119,817
3,140,016	3,140,016
63,322	14,097,086
-	54,217,627
<u>5,113,122</u>	<u>86,506,749</u>
<u>\$ 7,251,224</u>	<u>\$ 119,686,346</u>

BERKELEY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

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

Total Fund Balance - Governmental Funds		\$ 86,506,749
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	\$ 271,943,615	
Accumulated depreciation is	<u>(68,103,411)</u>	203,840,204
Deferred charges relating to issuance of debt is expensed over the life of the debt on the government-wide financial statements, but were recorded as an expenditure in the governmental fund statements when the debt was issued.		608,025
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized as it accrues.		(3,885,890)
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		129,965
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.		740,663
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	221,605,000	
Capital appreciation bonds	1,695,000	
Bond premium	1,529,114	
Defeasance cost	(2,461,493)	
Compensated absences (vacations)	<u>1,800,610</u>	(224,168,231)
Total Net Assets - Governmental Activities		<u><u>\$ 63,771,485</u></u>

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

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BERKELEY UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$48,425,372	\$ -	\$ -
Federal sources	5,277,723	-	-
Other state sources	22,436,152	-	168,147
Other local sources	33,726,067	1,476,267	16,011,449
Total Revenues	109,865,314	1,476,267	16,179,596
EXPENDITURES			
Current			
Instruction	61,939,490	-	-
Instruction related activities:			
Supervision of instruction	4,544,176	-	-
Instructional library and technology	2,056,302	-	-
School site administration	5,724,055	-	-
Pupil Services:			
Home-to school transportation	3,758,892	-	-
Food services	93,626	-	-
All other pupil services	3,225,441	-	-
General administration:			
Data processing	864,225	-	-
All other general administration	5,508,402	-	-
Plant services	10,666,387	-	-
Facility acquisition and construction	1,062,516	4,177,593	-
Ancillary services	222,267	-	-
Community services	214,888	-	-
Other outgo	15,324	-	-
Debt service			
Principal	-	-	5,755,000
Interest and other	788,950	193,771	10,314,245
Total Expenditures	100,684,941	4,371,364	16,069,245
Excess (deficiency) of revenues over expenditures	9,180,373	(2,895,097)	110,351
Other Financing Sources (Uses):			
Transfers in	-	-	-
Other sources	-	24,500,000	555,504
Transfers out	(3,493,613)	(507,747)	-
Net Financing Sources (Uses)	(3,493,613)	23,992,253	555,504
NET CHANGE IN FUND BALANCES	5,686,760	21,097,156	665,855
Fund Balance - Beginning	7,455,476	33,120,471	13,367,909
Fund Balance - Ending	\$13,142,236	\$54,217,627	\$ 14,033,764

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,150,624	\$ 53,575,996
2,222,786	7,500,509
4,676,156	27,280,455
1,239,690	52,453,473
<u>13,289,256</u>	<u>140,810,433</u>
7,643,399	69,582,889
408,355	4,952,531
-	2,056,302
1,222,972	6,947,027
278,000	4,036,892
2,825,993	2,919,619
266,028	3,491,469
-	864,225
746,741	6,255,143
497,921	11,164,308
803,125	6,043,234
-	222,267
-	214,888
-	15,324
-	5,755,000
986	11,297,952
<u>14,693,520</u>	<u>135,819,070</u>
<u>(1,404,264)</u>	<u>4,991,363</u>
3,489,360	3,489,360
-	25,055,504
-	(4,001,360)
<u>3,489,360</u>	<u>24,543,504</u>
2,085,096	29,534,867
3,028,026	56,971,882
<u>\$ 5,113,122</u>	<u>\$ 86,506,749</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

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

Total Net Change in Fund Balances - Governmental Funds **\$ 29,534,867**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are own in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

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

Depreciation expense	\$(6,760,960)	
Capital outlays	<u>6,180,659</u>	(580,301)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned exceeded the amounts used by \$884. (884)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 5,755,000

Proceeds received from Sale of Bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities. (24,500,000)

Proceeds received from bond premium is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities. (555,504)

Amortization of premium on long-term debt is not recognized in the governmental funds. In the government-wide statements, it is deferred and amortized over the life of the related debt. 50,415

Amortization of debt defeasance cost is not recognized in the governmental funds. In the government-wide statements, it is capitalized and amortized over the life of the related bond. (144,494)

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

BERKELEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - CONTINUED FOR THE YEAR ENDED JUNE 30, 2007

Amortization of issuance cost is not recorded in the governmental funds, but is amortized over the life of the related bond on the government-wide statements.	(19,727)
Payment of issuance costs of bonds is an expenditure in the governmental funds in the year paid but it is recorded as deferred charges and amortized over the life of the bonds in the statement of activities.	193,771
In the governmental funds, the receipt of the special education mandate settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount.	(41,422)
Interest on long-term debt 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.	109,867
An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	1,510,343
Change in Net Assets of Governmental Activities	<u>\$ 11,311,931</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 2,172,385
Receivables	24,244
Due from other funds	102,270
Total Current Assets	<u>2,298,899</u>
LIABILITIES	
Current Liabilities	
Accounts payable	69,612
Due to other funds	295
Claim Liabilities	1,488,329
Total Current Liabilities	<u>1,558,236</u>
NET ASSETS	
Restricted	740,663
Total Net Assets	<u>\$ 740,663</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Indistrict contributions	\$ 2,783,032
OPERATING EXPENSES	
Payroll costs	107,939
Supplies and materials	3,489
Claims expense	1,715,365
Total Operating Expenses	<u>1,826,793</u>
Operating Income	<u>956,239</u>
NONOPERATING REVENUES	
Interest revenue	42,104
Transfers in	512,000
Total Nonoperating Revenues	<u>554,104</u>
Change in net assets	1,510,343
Total Net Assets - Beginning	<u>(769,680)</u>
Total Net Assets - Ending	<u>\$ 740,663</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 2,783,032
Cash received from assessments made to other funds	409,730
Cash payments to employees for services	(107,939)
Cash payments for insurance claims	(1,309,640)
Cash payments to suppliers for goods and services	(3,489)
Net Cash Provided by Operating Activities	<u>1,771,694</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	17,860
Net increase in cash and cash equivalents	<u>1,789,554</u>
Cash and cash equivalents - Beginning	382,831
Cash and cash equivalents - Ending	<u>\$ 2,172,385</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 1,468,239
Changes in assets and liabilities:	
Prepaid expenses	125,000
Accrued liabilities	280,430
Due to/from other fund	(101,975)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,771,694</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	Warrant Pass Through Agency Funds	Student Body Agency Funds
ASSETS		
Deposits and investments	\$ 186,078	\$ 326,382
Receivables	89,523	-
Due from other funds	10,460	-
Total assets	\$ 286,061	\$ 326,382
LIABILITIES		
Due to statutory agencies	\$ 208,537	\$ -
Due to student groups	-	326,382
Due to other funds	77,524	-
Total liabilities	\$ 286,061	\$ 326,382

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

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Berkeley Unified School District was unified in 1879 under the laws of the State of California. The District operates under a locally-elected five-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 11 elementary, 3 middle, 2 high schools, one adult, and one independent study program.

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, this includes general operations, food service, and student related activities of the District.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with the School Excess Liability Fund public entity risk pool. The organization does not meet the criteria for inclusion as component unit of the District.

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 governmental funds:

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of General and Capital Appreciation Bonds.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Other Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains the following special revenue funds:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

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

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. In addition to the one presented as major fund, the District maintains another nonmajor debt service fund:

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. In addition to the one presented as major fund, the District also maintains the following capital projects funds:

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a workers compensation insurance program that is accounted for in an internal service fund.

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

The District operates only agency fund types. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB) and the cash revolving/warrant pass through fund.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide 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 expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the District and for each governmental program. 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.

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor 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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

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. For the District, available means expected to be received within 90 days of fiscal year-end. 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 requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term obligations, which

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

have not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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, 2007, 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 county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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 over the benefiting period.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. In 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. 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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvement to sites, 5 to 30 years; equipment, 3 to 30 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental columns of the statement of net assets

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable 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.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide 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 a liability on the fund financial statements when due.

Deferred Issuance Costs, Premiums and Discounts

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

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Fund Balance Reserves and Designations

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

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

Net Assets

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

Interfund Activity

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

Estimates

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

Budgetary Data

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

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 purposes of the budget, 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 Alameda bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

GASB Statement No. 47 – In June 2005, the GASB issues Statement No. 47, *Accounting for Termination Benefits*. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. The termination benefits provided through an existing defined benefit other post employment benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2005. The District has not determined its effect on the financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

GASB Statement No. 48 – In September 2006, the GASB issued Statement No. 49, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is not effective until June 30, 2008. The Berkeley Unified School District has not determined its effect on the financial statements.

GASB Statement No. 49 – In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009. The Berkeley Unified School District has not determined its effect on the financial statements.

GASB Statement No. 50 – In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is not effective until June 30, 2008. The Berkeley Unified School District has not determined its effect on the financial statements.

GASB Statement No. 51 – In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The Berkeley Unified School District has not determined its effect on the financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 105,112,510
Proprietary	2,172,385
Fiduciary funds	512,460
Less:	
Overdraft	(284,379)
Total Deposits and Investments	<u>\$ 107,512,976</u>

Deposits and investments as of June 30, 2007, consist of the following:

Cash on hand and in banks	\$ 1,752,177
Cash in revolving	100,000
Investments	105,660,799
Total Deposits and Investments	<u>\$ 107,512,976</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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by depositing substantially all of its funds in the County Treasury Pool and Federal Home Loan.

Investment Type	Cost	Fair Value	Maturity Date
County Pool	\$ 89,680,558	\$ 89,480,570	6/30/2007
Federal Home Loan	15,980,241	15,980,241	10/26/2007
Total	<u>\$ 105,660,799</u>	<u>\$ 105,460,811</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 District's investments in the county pool and Federal Home Loan are not required to be rated.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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. The District believes there is no significant custodial credit risk with respect to any of the District's bank balances at June 30, 2007.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Building	Bond Interest and Redemption	Nonmajor Funds	Total	Proprietary	Fiduciary Funds
Federal Government							
Categorical aid	\$ 1,218,970	\$ -	\$ -	\$ 396,487	\$ 1,615,457	\$ -	\$ -
State Government							
Apportionment	695,462	-	-	395,079	1,090,541	-	-
Categorical aid	3,119,920	-	-	163,299	3,283,219	-	-
Lottery	779,840	-	-	-	779,840	-	-
Local Government							
Interest	409,251	517,968	-	43,590	970,809	24,244	89,523
Other Local Sources	4,356,472	1,840	676,816	71,662	5,106,790	-	-
Total	<u>\$10,579,915</u>	<u>\$519,808</u>	<u>\$676,816</u>	<u>\$1,070,117</u>	<u>\$12,846,656</u>	<u>\$ 24,244</u>	<u>\$89,523</u>

The District also had \$129,965 in mandated special education long-term receivables recorded in the government-wide statements.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 6,919,100	\$ -	\$ -	\$ 6,919,100
Construction in Progress	21,812,789	3,480,402	10,413,773	14,879,418
Total Capital Assets not being depreciated	28,731,889	3,480,402	10,413,773	21,798,518
Capital Assets being depreciated:				
Improvements of sites	7,118,849	1,396,034	-	8,514,883
Buildings	222,060,637	11,266,123	-	233,326,760
Equipment	7,851,581	451,873	-	8,303,454
Total Capital Assets being depreciated	237,031,067	13,114,030	-	250,145,097
Total Capital Assets	265,762,956	16,594,432	10,413,773	271,943,615
Less Accumulated Depreciation:				
Improvements of sites	2,851,231	401,590	-	3,252,821
Buildings	52,894,120	6,135,163	-	59,029,283
Equipment	5,597,100	224,207	-	5,821,307
Total Accumulated Depreciation	61,342,451	6,760,960	-	68,103,411
Governmental Activities Capital Assets, Net	\$204,420,505	\$ 9,833,472	\$10,413,773	\$ 203,840,204

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities		
Instruction		\$ 4,062,609
Supervision of Instruction		297,291
Instructional Library Media and Technology		123,436
School Administration		417,017
Pupil Transportation		242,327
Food Services		175,259
Other Pupil Services		209,586
Ancillary Services		13,342
Community Services		12,899
Enterprise		109,659
Other General Administration		375,485
Data Processing Services		51,878
Plant Maintenance and Operations		670,172
Total Depreciation Expense Governmental Activities		<u>\$ 6,760,960</u>

BERKELEY UNIFIED SCHOOL DISTRICT

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

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2007, between major and non-major governmental funds, internal service funds, and fiduciary funds are as follows:

		Due From				Total
		General	Nonmajor Governmental	Proprietary	Fiduciary	
Due To	General	\$ -	\$ 931,964	\$ 295	\$ 77,524	\$ 1,009,783
	Building	329,685	-	-	-	329,685
	Nonmajor governmental	313,752	-	-	-	313,752
	Proprietary	102,270	-	-	-	102,270
	Fiduciary	10,460	-	-	-	10,460
	Total	\$ 756,167	\$ 931,964	\$ 295	\$ 77,524	\$ 1,765,950

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

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Operating Transfers

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfer To	Transfer from		Total
	Nonmajor Governmental	Internal Service	
General	\$ 2,981,613	\$ 512,000	\$ 3,493,613
Building	507,747	-	507,747
Total	\$ 3,489,360	\$ 512,000	\$ 4,001,360

The General Fund transferred to the Adult Education Fund for support.	\$ 150,000
The General Fund transferred to the Child Development Fund for support.	23,268
The General Fund transferred to the Cafeteria Fund for cafeteria encroachment.	742,743
The Building Fund transferred to the Deferred Maintenance Fund for the District Match.	507,747
The General Fund transferred to the Pupil Transportation fund for bus purchases.	298,000
The General Fund transferred to the Special Reserve - Other than Capital Outlay for economic uncertainties to meet the 3% requirement.	1,767,602
The General Fund transferred to the Self-Insurance fund for claims payments.	512,000
Total	\$ 4,001,360

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General	Building	Nonmajor Governmental	Total	Proprietary
Vendor payables	\$ 2,631,030	\$ 377,604	\$ 211,103	\$ 3,219,737	\$ 69,612
State apportionment	19,765	-	158,601	178,366	-
Salaries and benefits	7,755,943	-	437,165	8,193,108	-
Other significant payables	299,953	1,827,770	-	2,127,723	-
Other	4,366	131	735	5,232	-
Total	\$10,711,057	\$ 2,205,505	\$ 807,604	\$13,724,166	\$ 69,612

BERKELEY UNIFIED SCHOOL DISTRICT

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

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 310,596	\$ 11,545	\$ 322,141
State categorical aid	128,993	90,480	219,473
Other local	914,069	12,130	926,199
Total	<u>\$ 1,353,658</u>	<u>\$ 114,155</u>	<u>\$ 1,467,813</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On November 15, 2006, the District issued \$16,015,000 Tax and Revenue Anticipation Notes bearing interest at 4.5 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on November 28, 2007. By June 30, 2007, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2006	Additions	Payments	Outstanding June 30, 2007
10/20/2005	4.5%	11/1/2006	\$ 16,810,000	\$ -	\$ 16,810,000	\$ -
11/15/2006	4.5%	11/28/2007	-	16,015,000	-	16,015,000
Total			<u>\$ 16,810,000</u>	<u>\$ 16,015,000</u>	<u>\$ 16,810,000</u>	<u>\$ 16,015,000</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2006	Additions	Deductions	Balance June 30, 2007	Due in One Year
General obligation bonds	\$ 202,860,000	\$ 24,500,000	\$ 5,755,000	\$ 221,605,000	\$ 5,775,000
Capital appreciation bonds	1,695,000	-	-	1,695,000	1,695,000
Bond premium	1,024,325	555,504	50,715	1,529,114	73,861
Defeasance cost	(2,606,287)	-	(144,794)	(2,461,493)	(144,794)
Sub Total	202,973,038	25,055,504	5,660,921	222,367,621	7,399,067
Accumulated vacation - net	1,799,726	884	-	1,800,610	1,800,610
	<u>\$ 204,772,764</u>	<u>\$ 25,056,388</u>	<u>\$ 5,660,921</u>	<u>\$ 224,168,231</u>	<u>\$ 9,199,677</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Issued/ Accreted	Redeemed	Bonds Outstanding June 30, 2007
General Obligation Bonds							
5/20/98	2023	4.4%-7.4%	\$ 18,000,000	\$ 14,905,000	\$ -	\$ 575,000	\$ 14,330,000
4/27/99	2024	4.2%-5.3%	20,000,000	17,285,000	-	630,000	16,655,000
5/23/00	2025	5.0%-8.0%	21,000,000	1,835,000	-	570,000	1,265,000
9/1/99	2021	4.4%-5.0%	38,945,000	33,605,000	-	1,695,000	31,910,000
5/29/01	2026	4.0%-7.0%	17,000,000	15,715,000	-	475,000	15,240,000
5/14/03	2028	2.0%-4.8%	50,000,000	47,375,000	-	1,395,000	45,980,000
10/21/04	2024	3.2%-4.3%	28,950,000	28,950,000	-	255,000	28,695,000
5/19/05	2025	3.0%-4.3%	19,090,000	18,690,000	-	160,000	18,530,000
7/28/05	2030	3.35%-7.0%	24,500,000	24,500,000	-	-	24,500,000
6/28/07	2031	4.75%-5.0%	24,500,000	-	24,500,000	-	24,500,000
Subtotal				202,860,000	24,500,000	5,755,000	221,605,000
Capital Appreciation Bonds							
6/11/97	2022	3.9%-5.8%	19,000,777	1,695,000	-	-	1,695,000
Total General Obligation Bonds				<u>\$ 204,555,000</u>	<u>\$ 24,500,000</u>	<u>\$ 5,755,000</u>	<u>\$ 223,300,000</u>

BERKELEY UNIFIED SCHOOL DISTRICT

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

Debt Service Requirements to Maturity

The bonds mature through 2032 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2008	\$ 6,809,526	\$ 10,033,440	\$ 16,842,966
2009	7,000,000	10,243,475	17,243,475
2010	9,660,000	8,926,495	18,586,495
2011	10,070,000	8,516,026	18,586,026
2012	10,480,000	8,089,312	18,569,312
2013-2017	60,260,000	33,439,930	93,699,930
2018-2022	61,485,000	19,768,108	81,253,108
2023-2027	41,315,000	7,897,927	49,212,927
2028-2032	15,560,000	1,369,447	16,929,447
Subtotal	<u>222,639,526</u>	<u>\$ 108,284,160</u>	<u>\$ 330,923,686</u>
Accretion to date:	660,474		
Total	<u>\$ 223,300,000</u>		

State and Public School Building Loans

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code. As of June 30, 2007, there is no outstanding remaining balance.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 10 – FUND BALANCES

Fund balances are with reservations/designations composed of the following elements:

	General	Building	Bond Interest and Redemption	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Stores inventory	-	-	-	69,468	69,468
Prepaid expenditures	4,522	-	-	-	4,522
Restricted programs	4,732,677	-	-	25,536	4,758,213
Total Reserved	4,837,199	-	-	95,004	4,932,203
Unreserved					
Designated					
Economic uncertainties	1,253,443	-	-	1,814,780	3,068,223
Other designation	7,051,594	-	-	-	7,051,594
Total Designated	8,305,037	-	-	1,814,780	10,119,817
Undesignated	-	54,217,627	14,033,764	3,203,338	71,454,729
Total Unreserved	8,305,037	54,217,627	14,033,764	5,018,118	81,574,546
Total	\$13,142,236	\$54,217,627	\$14,033,764	\$ 5,113,122	\$ 86,506,749

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2007, the District contracted with School Excess Liability Fund (SELF) 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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Workers' Compensation

The District's worker's compensation activities are recorded in the Internal Service Fund. The purpose of the fund is to administer employee's compensation on a cost reimbursement basis. The program accounts for the risk financing activities of the District, but does not constitute a transfer or risk from the District.

Coverage provided by the Schools Excess Liability Fund and the Berkeley Unified School District Worker's Compensation Self-Insurance Program is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
Berkeley Unified School District Workers Compensation Insurance Program	Workers' Compensation	Statutory limit
Berkeley Unified School District	Property & Liability	\$25,000
School Excess Liability Fund	Excess Property and Liability	Limits vary depending

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 self insurance program was initiated in January 1, 2004. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2005 to June 30, 2007:

	Self Insurance Programs
Liability Balance, July 1, 2005	\$ 1,178,791
Claims and changes in estimates	3,186,242
Claims payments	(3,186,242)
Liability Balance, June 30, 2006	1,178,791
Claims and changes in estimates	1,363,949
Claims payments	(1,054,501)
Liability Balance, June 30, 2007	\$ 1,488,329
Assets available to pay claims at June 30, 2007	2,228,992

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 12 – EMPLOYEE RETIREMENT SYSTEMS

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

STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$3,486,111, \$3,310,677, and \$3,073,075, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (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 death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006-2007 was 9.124 percent of annual 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, 2007, 2006, and 2005, were \$1,771,891, \$1,707,269, and \$1,809,444, respectively, and equal 100 percent of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to STRS

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,904,479 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been recorded in the financial statements, but they are not included in the budgeted revenues and expenditures of the District. These amounts have been excluded from the computation of the available reserves percentage.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

Litigation

The District is involved in various litigations 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, 2007.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Berkeley High School Theatre Modernization	25,000	08/30/06
Franklin Lights	111,000	11/14/07
Jefferson Elementary School Roof	160,000	09/05/07
King Middle School Dining Commons	866,000	06/30/07
King Middle School Dining Equipments	2,129,000	04/01/08
King Middle School Science Modernization	15,000	10/10/07
King Middle School Track	510,000	02/28/08
Malcom X Elementary School Wall	119,000	10/10/07
Oxford Elementary School HVAC	199,000	01/09/08
Willard Middle School Modernization	21,000	08/30/06
Williard Middle School Roof	182,000	09/05/07
Berkley Adult Educational School HVAC	237,000	01/09/08
	<u>\$ 4,574,000</u>	

REQUIRED SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$ 48,541,511	\$48,478,243	\$ 48,425,372	\$ (52,871)
Federal sources	4,992,027	5,816,558	5,277,723	(538,835)
Other state sources	14,359,679	19,444,619	22,436,152	2,991,533
Other local sources	30,085,200	32,394,307	33,726,067	1,331,760
Total Revenues¹	97,978,417	106,133,727	109,865,314	3,731,587
EXPENDITURES				
Current				
Instruction	58,227,942	63,650,334	61,939,490	1,710,844
Instruction related activities:				
Supervision of instruction	3,943,710	4,625,987	4,544,176	81,811
Instructional library, media, and technology	2,054,843	2,241,567	2,056,302	185,265
School site administration	5,807,016	6,121,725	5,724,055	397,670
Pupil services:				
Home-to-school transportation	3,664,481	3,999,742	3,758,892	240,850
Food services	-	93,635	93,626	9
All other pupil services	3,162,886	3,765,266	3,225,441	539,825
General administration:				
Data processing	904,662	887,328	864,225	23,103
All other general administration	6,500,953	5,779,888	5,508,402	271,486
Plant services	11,649,079	11,522,947	10,666,387	856,560
Facility acquisition and construction	1,818,900	1,169,827	1,062,516	107,311
Ancillary services	219,833	212,280	222,267	(9,987)
Community services	272,782	216,767	214,888	1,879
Other outgo	22,000	22,000	15,324	6,676
Debt service				
Interest	-	792,979	788,950	4,029
Total Expenditures¹	98,249,087	105,102,272	100,684,941	4,417,331
Excess (Deficiency) of Revenues Over Expenditures	(270,670)	1,031,455	9,180,373	8,148,918
Other Financing Sources (Uses):				
Transfers out	(998,546)	(3,064,063)	(3,493,613)	(429,550)
NET CHANGE IN FUND BALANCES	(1,269,216)	(2,032,608)	5,686,760	7,719,368
Fund Balance - Beginning	7,455,476	7,455,476	7,455,476	-
Fund Balance - Ending	\$ 6,186,260	\$ 5,422,868	\$ 13,142,236	\$ 7,719,368

¹ On behalf payments of \$1,904,479 are included in both other state sources revenue and instruction expenditures in the actual column and are not included in the budgeted amounts.

SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants ¹	84.010	13797	\$ 1,203,877
Title I, Part A, Program Improvement District Intervention	84.018	14581	128,376
Title II, Part A, Teacher Quality ¹	84.367	14341	483,346
Title II, Part D, Education Technology	84.320	14368	393
Title II, Part D, Education Technology, Formula Grant	84.319	14334	9,652
Title III, Immigrant Education Program	84.365	14346	34,335
Title III, Limited English Proficiency Student Program	84.365	10084	80,460
Title IV, 21st Century Community Centers	84.287	14349	1,061,951
Title IV, Part A, Drug-Free Schools	84.186	14347	34,201
Title V, Part A, Innovative Education Strategies	84.298A	14354	22,721
Title X, McKinney - Vento Homeless Assistance Grants	84.196	14332	90,000
Special Education (PL94-142) ¹			
Basic Local Assistance Entitlement, Part B	84.027	13379	1,474,434
Preschool Grants, Part B	84.173	13430	36,947
Preschool Local Entitlement, Part B	84.027A	13682	28,981
Local Staff Development Grant, Part B	84.027A	13613	389
Low-Incidence Entitlement, Part B	84.027A	13459	5,101
Workability II, Transition Partnership	84.158	10006	161,549
Carl Perkins Act:			
Vocational & Applied Technology, Secondary	84.048	13577	52,992
Vocational & Applied Technology, Postsecondary	84.048	13578	81,308
Adult Education ¹			
Priority 1-3, English as a Second Language	84.002A	14302	290,700
Priority 5, Adult Secondary Education	84.002A	13978	12,150
English Literacy & Civics Education	84.002A	14109	28,291
English Literacy & Civics Education State Leadership	84.002A	14110	56,607
Medi-Cal Billing Option	93.778	10013	72,267
Smaller Learning Communities ¹	84.215L	2	246,162
Mental Health for Children ¹	84.215M	2	211,139
Subtotal			<u>5,908,329</u>

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2007**

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through CDE:

Child Development

Federal Child Care, Center-based	93.596	13609	278,730
Quality Improvement Activities	93.575	13942	11,216
Infant and Toddler Child Care Resource Contracts	93.575	13942	2,730
Subtotal			<u>292,676</u>

U.S. DEPARTMENT OF AGRICULTURE

Passed through CDE:

Child Nutrition Clusters

Child Care Food Program	10.558	13393	233,547
Lunch	10.556	14198	658,419
Needy Breakfast	10.556	14198	320,645
Supplement	10.556	14198	86,893
Subtotal			<u>1,299,504</u>

Total Expenditures of Federal Awards \$ 7,500,509

¹ Tested as a major program

² Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2007

ORGANIZATION

The Berkeley Unified School District was unified in 1879 under the laws of the State of California. The District operates under a locally-elected five-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 11 elementary, 3 middle, 2 high schools, one adult, and one independent study program.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Joaquin J. Rivera	President	2008
John T. Selawsky	Vice President	2008
Shirley Issel	Member	2010
Nancy Riddle	Member	2010
Karen Hemphill	Member	2010

ADMINISTRATION

NAME	TITLE
Michele Lawrence	Superintendent
Eric D. Smith	Deputy Superintendent, Business

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	568	570
First through third	1,668	1,668
Fourth through sixth	1,679	1,675
Seventh and eighth	1,150	1,147
Home and hospital	5	6
Special education	118	119
Total Elementary	5,189	5,185
SECONDARY		
Regular classes	2,868	2,838
Continuation education	80	83
Home and hospital	22	19
Special education	64	63
Total Secondary	3,035	3,004
Total K-12	8,224	8,188
CLASSES FOR ADULTS		
Concurrently enrolled	17	11
Not concurrently enrolled	1,654	1,769
Total Classes for Adults	1,671	1,780
Grand Total	9,895	9,968
		<u>Hours of Attendance</u>
SUMMER SCHOOL		
Elementary		48,680
High school		62,483
Total Hours		111,163

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2007

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	28,875	36,000	46,560	180	In Compliance
Grades 1 - 3	42,875	50,400	50,920	180	In Compliance
Grades 4 - 6	46,905	54,000	54,390	180	In Compliance
Grades 7 - 8	46,905	54,000	54,420	180	In Compliance
Grades 9 - 12	60,180	64,800	64,951	180	In Compliance

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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

	<u>General</u>	<u>Building</u>	<u>Bond Interest and Redemption</u>
FUND BALANCE			
Balance, June 30, 2007, Unaudited Actuals	\$ 12,989,837	\$ 54,773,131	\$ 13,490,820
Increase in accounts payable	-	(555,504)	-
Increase in accounts receivable	152,399	-	555,504
Decrease in cash in county treasury	-	-	(12,560)
Balance, June 30, 2007, Audited Financial Statements	<u>\$ 13,142,236</u>	<u>\$ 54,217,627</u>	<u>\$ 14,033,764</u>

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 107,171,184	\$ 109,865,314	\$ 98,455,750	\$ 87,349,364
Other sources	-	-	370,366	-
Total Revenues and Other Sources	107,171,184	109,865,314	98,826,116	87,349,364
Expenditures	106,390,570	100,684,941	94,011,765	86,837,332
Other uses and transfers out	1,577,730	3,493,613	1,125,352	1,372,629
Total Expenditures and Other Uses	107,968,300	104,178,554	95,137,117	88,209,961
INCREASE (DECREASE) IN FUND BALANCE	\$ (797,116)	\$ 5,686,760	\$ 3,688,999	\$ (860,597)
ENDING FUND BALANCE	\$ 12,345,120	\$ 13,142,236	\$ 7,455,476	\$ 3,766,477
AVAILABLE RESERVES	\$ 3,486,227	\$ 3,068,222	\$ 3,006,021	\$ 2,023,309
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	3.3%	3.0%	3.1%	2.3%
LONG-TERM OBLIGATIONS	\$ 214,968,554	\$ 224,168,231	\$ 204,772,764	\$ 187,246,964
AVERAGE DAILY ATTENDANCE AT P-2²	8,058	8,224	8,274	8,299

The General Fund balance has increased by \$9,375,759 over the past two years. The fiscal year 2007-2008 budget projects a decrease of \$797,116. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in one of the past three years and anticipates incurring an operating deficit during the 2007-2008 fiscal year. Total long-term obligations have increased by \$36,921,267 over the past two years.

Average daily attendance has decreased by 75 over the past two years. Additional decrease of 166 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 is included for analytical purposes only and has not been subjected to audit.

² Excludes Adult Education ADA.

³ On-behalf payments of \$1,904,479, \$1,811,562 and \$1,681,187 have been excluded from the calculation of available reserves percentage for fiscal year ending June 30, 2007, 2006 and 2005.

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3)(c) Disclosure

Berkeley Unified School District allowed the employees of the Union of Berkeley Administrators (AFSA, Local 81, AFL-CIO) accrue excess sick leave as defined in Education Code Section 22170.5. The sick leave accrual allowance is as indicated below:

<u>Work Year</u>	<u>Sick Day Earned</u>
Less than 190 days	16 days
191 to 199 days	17 days
200 to 209 days	18 days
More than 210 days	19 days

In addition, the superintendent of the Berkeley Unified School District has accrued 16 sick leave days in the fiscal year of 2005-2006 and 2006-2007 instead of the 12 sick leave days as indicated in her contract.

See accompanying note to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

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*.

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 apportionment's of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

***SUPPLEMENTARY INFORMATION -
UNAUDITED***

BERKELEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2007**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 1,111,588	\$ 547,126	\$ 75,009
Receivables	564,153	216,816	237,834
Due from other funds	52,125	11,633	49,994
Stores inventories	-	-	69,438
Total assets	\$ 1,727,866	\$ 775,575	\$ 432,275
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ -	\$ 284,379
Accounts payable	393,798	336,677	62,595
Due to other funds	241,355	345,688	15,863
Deferred revenue	22,132	92,023	-
Total liabilities	657,285	774,388	362,837
Fund Balances:			
Reserved for:			
Other reservations	24,350	1,186	69,468
Unreserved:			
Designated	-	-	-
Undesignated, reported in:			
Special revenue funds	1,046,231	1	(30)
Debt service funds	-	-	-
Total fund balance	1,070,581	1,187	69,438
Total Liabilities and Fund Balances	\$ 1,727,866	\$ 775,575	\$ 432,275

See accompanying note to supplementary information.

Deferred Maintenance Fund	Pupil Transportation Fund	Special Reserve Non-Capital Fund	County School Facilities Fund	Tax Override Fund	Non Major Governmental Funds
\$ 2,063,488	\$ 20,199	\$ 1,593,339	\$ 324,689	\$ 62,479	\$ 5,797,917
24,390	272	21,440	4,369	843	1,070,117
-	-	200,000	-	-	313,752
-	-	-	-	-	69,438
<u>\$ 2,087,878</u>	<u>\$ 20,471</u>	<u>\$ 1,814,779</u>	<u>\$ 329,058</u>	<u>\$ 63,322</u>	<u>\$ 7,251,224</u>
\$ -	-	-	\$ -	\$ -	\$ 284,379
14,534	-	-	-	-	807,604
-	-	-	329,058	-	931,964
-	-	-	-	-	114,155
<u>14,534</u>	<u>-</u>	<u>-</u>	<u>329,058</u>	<u>-</u>	<u>2,138,102</u>
-	-	-	-	-	95,004
-	-	1,814,780	-	-	1,814,780
2,073,344	20,471	(1)	-	-	3,140,016
-	-	-	-	63,322	63,322
<u>2,073,344</u>	<u>20,471</u>	<u>1,814,779</u>	<u>-</u>	<u>63,322</u>	<u>5,113,122</u>
<u>\$ 2,087,878</u>	<u>\$ 20,471</u>	<u>\$ 1,814,779</u>	<u>\$ 329,058</u>	<u>\$ 63,322</u>	<u>\$ 7,251,224</u>

BERKELEY UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Revenue limit sources	\$ 4,585,590	\$ -	\$ 565,034
Federal sources	630,605	526,223	1,065,958
Other state sources	68,904	4,093,955	106,163
Other local sources	371,454	383,171	356,044
Total Revenues	<u>5,656,553</u>	<u>5,003,349</u>	<u>2,093,199</u>
EXPENDITURES			
Current			
Instruction	3,577,668	4,065,731	-
Instruction related activities:			
Supervision of instruction	32,116	376,239	-
School site administration	1,195,161	27,811	-
Pupil Services:			
Home-to school transportation	-	-	-
Food services	-	248,405	2,577,588
All other pupil services	266,028	-	-
General administration:			
All other general administration	226,592	346,122	174,027
Plant services	433,305	5,693	58,923
Facility acquisition and construction	12,530	-	-
Debt service			
Interest and other	-	-	-
Total Expenditures	<u>5,743,400</u>	<u>5,070,001</u>	<u>2,810,538</u>
Excess (deficiency) of revenues over expenditures	<u>(86,847)</u>	<u>(66,652)</u>	<u>(717,339)</u>
Other Financing Sources (Uses):			
Transfers in	<u>150,000</u>	<u>23,268</u>	<u>742,743</u>
NET CHANGE IN FUND BALANCES	63,153	(43,384)	25,404
Fund Balance - Beginning	1,007,428	44,571	44,034
Fund Balance - Ending	<u>\$ 1,070,581</u>	<u>\$ 1,187</u>	<u>\$ 69,438</u>

See accompanying note to supplementary information.

Deferred Maintenance Fund	Pupil Transportation Fund	Special Reserve Non-Capital Fund	County School Facilities Fund	Tax Override Fund	Non Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,150,624
-	-	-	-	-	2,222,786
407,134	-	-	-	-	4,676,156
66,114	471	47,177	12,520	2,739	1,239,690
<u>473,248</u>	<u>471</u>	<u>47,177</u>	<u>12,520</u>	<u>2,739</u>	<u>13,289,256</u>
-	-	-	-	-	7,643,399
-	-	-	-	-	408,355
-	-	-	-	-	1,222,972
-	278,000	-	-	-	278,000
-	-	-	-	-	2,825,993
-	-	-	-	-	266,028
-	-	-	-	-	746,741
-	-	-	-	-	497,921
461,537	-	-	329,058	-	803,125
-	-	-	-	986	986
<u>461,537</u>	<u>278,000</u>	<u>-</u>	<u>329,058</u>	<u>986</u>	<u>14,693,520</u>
11,711	(277,529)	47,177	(316,538)	1,753	(1,404,264)
<u>507,747</u>	<u>298,000</u>	<u>1,767,602</u>	<u>-</u>	<u>-</u>	<u>3,489,360</u>
519,458	20,471	1,814,779	(316,538)	1,753	2,085,096
1,553,886	-	-	316,538	61,569	3,028,026
<u>\$ 2,073,344</u>	<u>\$ 20,471</u>	<u>\$ 1,814,779</u>	<u>\$ -</u>	<u>\$ 63,322</u>	<u>\$ 5,113,122</u>

**BERKELEY UNIFIED SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BY OBJECT
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Revenue limit sources	\$48,425,372	\$4,585,590	\$ -	\$ 565,034	\$ -
Federal sources	5,277,723	630,605	526,223	1,065,958	-
Other state sources	22,436,152	68,904	4,093,955	106,163	407,134
Other local sources	33,726,067	371,454	383,171	356,044	66,114
Total Revenues	<u>109,865,314</u>	<u>5,656,553</u>	<u>5,003,349</u>	<u>2,093,199</u>	<u>473,248</u>
EXPENDITURES ¹					
Current					
Certificated salaries	42,810,126	3,178,031	1,667,962	-	-
Classified salaries	18,428,847	836,134	1,387,736	1,242,657	-
Employee benefits	19,918,304	909,703	1,169,277	501,788	-
Books and supplies	3,509,837	201,301	68,576	1,157,057	-
Services and other operating expenditures	15,591,727	365,562	430,326	(264,991)	-
Capital outlay	1,157,519	26,077	-	-	461,537
Other outgo	15,324	-	-	-	-
Transfer of indirect	(746,743)	226,592	346,124	174,027	-
Total Expenditures	<u>100,684,941</u>	<u>5,743,400</u>	<u>5,070,001</u>	<u>2,810,538</u>	<u>461,537</u>
Excess (deficiency) of revenues over expenditures	<u>9,180,373</u>	<u>(86,847)</u>	<u>(66,652)</u>	<u>(717,339)</u>	<u>11,711</u>
Other Financing Sources (Uses):					
Transfers in	-	150,000	23,268	742,743	507,747
Other sources	-	-	-	-	-
Transfers out	(3,493,613)	-	-	-	-
Net Financing Sources (Uses)	<u>(3,493,613)</u>	<u>150,000</u>	<u>23,268</u>	<u>742,743</u>	<u>507,747</u>
NET CHANGE IN FUND BALANCES	<u>5,686,760</u>	<u>63,153</u>	<u>(43,384)</u>	<u>25,404</u>	<u>519,458</u>
Fund Balance - Beginning	<u>7,455,476</u>	<u>1,007,428</u>	<u>44,571</u>	<u>44,034</u>	<u>1,553,886</u>
Fund Balance - Ending	<u>\$13,142,236</u>	<u>\$1,070,581</u>	<u>\$ 1,187</u>	<u>\$ 69,438</u>	<u>\$ 2,073,344</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Special Reserve Non-Capital Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Tax Override Fund	Self Insurance Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$53,575,996
-	-	-	-	-	-	-	7,500,509
-	-	-	-	168,147	-	-	27,280,455
471	47,177	1,476,267	12,520	16,011,449	2,739	2,825,136	55,278,609
471	47,177	1,476,267	12,520	16,179,596	2,739	2,825,136	143,635,569
-	-	-	-	-	-	-	47,656,119
-	-	145,772	-	-	-	73,661	22,114,807
-	-	60,636	-	-	-	34,278	22,593,986
-	-	6,143	-	-	-	3,489	4,946,403
-	-	333,371	-	-	-	1,715,365	18,171,360
278,000	-	3,825,442	329,058	-	-	-	6,077,633
-	-	-	-	16,069,245	986	-	16,085,555
-	-	-	-	-	-	-	-
278,000	-	4,371,364	329,058	16,069,245	986	1,826,793	137,645,863
(277,529)	47,177	(2,895,097)	(316,538)	110,351	1,753	998,343	5,989,706
298,000	1,767,602	-	-	-	-	512,000	4,001,360
-	-	24,500,000	-	555,504	-	-	25,055,504
-	-	(507,747)	-	-	-	-	(4,001,360)
298,000	1,767,602	23,992,253	-	555,504	-	512,000	25,055,504
20,471	1,814,779	21,097,156	(316,538)	665,855	1,753	1,510,343	31,045,210
-	-	33,120,471	316,538	13,367,909	61,569	(769,680)	56,202,202
\$ 20,471	\$ 1,814,779	\$54,217,627	\$ -	\$ 14,033,764	\$63,322	\$ 740,663	\$87,247,412

NOTE TO UNAUDITED SUPPLEMENTARY INFORMATION
JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

Non-major Governmental Funds – Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance

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

INDEPENDENT AUDITORS' REPORTS

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

Board of Education
Berkeley Unified School District
Berkeley, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berkeley Unified School District as of and for the year ended June 30, 2007, which collectively comprise Berkeley Unified School District's basic financial statements and have issued our report thereon dated January 18, 2008. 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 Berkeley Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Berkeley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Berkeley Unified School 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 combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Berkeley Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was 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*.

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

Vannink Trime Day + Co. LLP

Palo Alto, California
January 18, 2008



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

Board of Education
Berkeley Unified School District
Berkeley, California

Compliance

We have audited the compliance of Berkeley Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Berkeley Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Berkeley Unified School District's management. Our responsibility is to express an opinion on Berkeley Unified School District's compliance based on our audit.

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

In our opinion, Berkeley Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

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

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

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

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

Varrinck Time Day + Co. LLP

Palo Alto, California
January 18, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Education
 Berkeley Unified School District
 Berkeley, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Berkeley Unified School District as of and for the year ended June 30, 2007, and have issued our report thereon dated January 18, 2008. 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 2006-07*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Excess sick leave	3	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

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

Varrinck Trine Day + Co. LLP

Palo Alto, California
January 18, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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BERKELEY UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.367</u>	<u>Title II, Part A</u>
<u>84.215</u>	<u>Drug Free Schools</u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

The following findings represent reportable conditions, material weaknesses, 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
60000	Miscellaneous

2007-1 Cash Clearing - 30000

Criteria or Specific Requirements

Condition

The District did not prepare bank reconciliations for the revolving cash and cash clearing accounts in the general fund.

Questioned costs

Not Applicable

Context

District level cash control procedure.

Effect

Increase the opportunity for someone to commit fraud through the misuse or theft of funds out of the revolving cash and cash clearing accounts in the general fund.

Cause

Do to recent turnover the lack of administrative personnel has made it difficult for the District to keep up with this procedure.

Recommendation

Perform monthly reconciliations for both the revolving and cash clearing accounts and have them reviewed by management. This might mean that the District will need to hire part-time staff.

District Response

The task of preparing monthly reconciliations was assigned to a District staff member. A bank reconciliation was prepared for the year to date on June 5, 2007 and subsequently after the end of every month.

BERKELEY UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

2007-2 ASB – 30000

Criteria or Specific Requirements

General best accounting practices emphasize the importance of good internal controls. Strong internal controls over associated student body (ASB) funds are especially important due to the decentralized nature of ASB cash collections and disbursements.

Condition

No revenue potential forms completed for fundraising activities.

Questioned Costs

None.

Context

Student body activities at Berkeley High School

Effect

The absence of these forms prevents the District from tracking and preventing overages and shortages of fund raising funds.

Cause

Miscommunication.

Recommendation

Prepare revenue potentials forms for all fund raising activities.

District Response

The District will provide training to the ASB accounting staff, Activities Directors and Principals on how to prepare the revenue potential forms.

BERKELEY UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None Reported.

BERKELEY UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None Reported.

BERKELEY UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

None Reported.