

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**Berkeley, California**

**FINANCIAL STATEMENTS**  
**June 30, 2011**

**BERKELEY UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2011**

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**BERKELEY UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
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 Berkeley Unified School District, as of and for the year ended June 30, 2011, which collectively comprise Berkeley Unified School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements 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 Berkeley Unified School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, 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 December 13, 2011 on our consideration of Berkeley Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial 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 assessing the results of our audit.

## INDEPENDENT AUDITORS' REPORT

(Continued)

Management's Discussion and Analysis and the Required Supplementary Information, such as the General Fund Budgetary Comparison Schedule and the Schedule of Other Postemployment Benefits Funding Progress, are not required parts of the basic financial statements, but are supplementary information required by 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 Berkeley Unified School District's basic financial statements. The accompanying financial and statistical information listed in the Table of Contents, including the Schedule of Expenditure of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements of Berkeley Unified School District. 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.



Crowe Horwath LLP

Sacramento, California  
December 13, 2011

# BERKELEY UNIFIED SCHOOL DISTRICT

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## Management's Discussion & Analysis

The Management's Discussion and Analysis Section of the audit report is District management's view of the District's financial condition, and provides an opportunity to discuss important fiscal issues with the board and the public. Accounting rules require this discussion and analysis, which makes reporting of finances similar to that of private business.

### Financial Reports

Two government-wide financial reports are included in the financial statements, the Statement of Net Assets and the Statement of Activities, which begin on page 12. These two statements report the District-wide financial condition and activities. The individual fund statements which focus on reporting the District's operations in more detail begin on page 14.

### Overview of the Financial Statements

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

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

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

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. This overview section is the Management's Discussion and Analysis and highlights the structure and contents of each of the statements.

## District-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

## Statement of Net Assets

	Governmental Activities		Change 2010-2011
	2010	2011	
Current and other assets	\$ 110,400,330	\$ 126,659,597	
Capital assets	219,814,018	229,454,432	
Total assets	332,214,348	356,114,029	7%
Long-term debt outstanding	216,696,199	241,536,715	
Other liabilities	32,536,889	25,041,994	
Total liabilities	249,233,088	266,578,709	7%
Invested in capital assets, net of	50,574,848	57,684,136	
Restricted	28,984,587	23,437,607	
Unrestricted	3,421,825	8,413,577	
Total net assets	\$ 82,981,260	\$ 89,535,320	8%

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	*statement of net assets	*balance sheet	*statement of net assets	*statement of fiduciary net assets
	*statement of activities	*statement of revenues, expenditures & changes in fund balances	*statement of revenues, expenses & changes in fund net assets *statement of cash flows	*statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can.
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Statement of Activities

Governmental Activities		
	<u>2010</u>	<u>2011</u>
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 858,681	\$ 829,837
Operating Grants	32,548,001	27,831,355
General Revenues:		
Property Taxes	74,800,713	75,145,197
Federal and State Aid	34,527,454	38,839,142
Other	2,946,900	1,893,063
Total Revenues	<u>145,681,749</u>	<u>144,538,594</u>
<b>Program Expenses</b>		
Instruction	77,745,632	77,377,830
Instruction Related Services	15,010,365	15,173,175
Pupil Services	11,220,118	11,172,827
Ancillary Services	250,293	218,615
Community Services	196,996	235,535
General Administration	8,352,166	9,396,785
Plant Services	14,112,098	13,884,015
Enterprise Services	622,050	1,878,274
Interest	8,099,218	8,596,680
Other	1,686,140	50,798
Total Expenses	<u>137,295,076</u>	<u>137,984,534</u>
Increase in Net Assets	8,386,673	6,554,060
Net Assets - Beginning	<u>74,594,587</u>	<u>82,981,260</u>
Net Assets - Ending	<u>\$ 82,981,260</u>	<u>\$ 89,535,320</u>

## Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds*— The District’s General Operating, Special Revenue and Capital Projects Funds are included in the governmental funds. Special Revenue Funds include the Adult Education, Child Development, Cafeteria, Deferred Maintenance, Pupil transportations Equipment and Special Reserve Funds. The Capital Projects Funds include the Building and County School facilities Funds. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the District funds by making a contribution based on a percentage of payroll expenditures are reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District’s Self Insurance Fund used to account for the District’s Workers’ Compensation program transactions is a proprietary fund.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for assets that belong to others, such as the Warrant Pass-Through fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**Financial Condition of the General Fund**

The District’s Unaudited Actuals demonstrate that the District is fiscally solvent and has met the 3% reserve required by the State of California. The State of California requires that all Districts reserve 3% of their total expenditures (including transfers out) for economic uncertainties. The District’s 3% state reserve requirement of \$3.5 million is maintained in the Special Reserve Fund which is reported with the General Fund. As of June 30, 2011, the District ended the year with \$6.2 million in excess of the 3% state reserve requirement in its Unrestricted General fund excluding Parcel Tax reserves. The excess reserves are \$2.2 million more than projected. In fiscal year 2010-2011, the District did not deficit spend and revenues exceeded expenditures by \$856K.

The following table summarizes General Fund financial statements:

	General Fund		Percentage
	<u>2010</u>	<u>2011</u>	<u>2010-2011</u>
Total Revenues	\$ 113,159,392	\$ 116,255,468	2.7%
Expenses	108,594,121	112,617,367	3.7%
Other financing sources	<u>(3,209,468)</u>	<u>(2,781,825)</u>	-13.3%
Change in fund balance	<u>\$ 1,355,803</u>	<u>\$ 856,276</u>	-36.8%

### Capital Assets

At year-end, the District's capital assets had an increase of \$7.7 million over the prior year. This represents a 3.4% increase over last year's total capital assets.

	Governmental Activities		Percentage
	<u>2010</u>	<u>2011</u>	<u>Change</u> <u>2010-2011</u>
Land	\$ 6,919,100	\$ 6,919,100	
Improvement of sites	6,033,306	5,787,842	
Buildings	186,479,708	182,238,226	
Equipment	1,458,777	1,060,059	
Work-in-process	20,923,127	33,449,205	
Total	<u>\$ 221,814,018</u>	<u>\$ 229,454,432</u>	3.4%

Land is accounted for at purchase value, not market value, and is not depreciated. Many of our school sites have low values for today's market because the District acquired the land many decades ago. We have determined the value of school buildings to be the depreciated cost of modernization unless the building is less than 25 years old. The decrease in the value of Buildings and Equipment was due to depreciation. Increase in work-in process represents increased cost for projects that are starting, on-going and not yet completed. Once these projects are completed these costs are transferred to Improvement of Sites or Building costs.

### District Indebtedness

At year-end, the District has incurred \$241.5 million of long-term debt. Of that, \$238.4 million is General Obligation Bonds secured by property tax increases voted on by local residents. The District issues General Obligation Bonds which is a long term obligation in order to borrow up front funds for bond measures until property tax proceeds are received from Berkeley residents. There were \$35 million of new General Obligation Bonds issued in 2010-2011.

	Governmental Activities		Percentage
	<u>2010</u>	<u>2011</u>	<u>Change</u> <u>2010-2011</u>
Compensated absences	\$ 2,372,442	\$ 1,406,549	
General obligation bonds	213,759,222	238,409,222	
Post-employment medical benefits	1,214,064	1,720,944	
Total	<u>\$ 217,345,728</u>	<u>\$ 241,536,715</u>	11.1%

Post-employment medical benefits represent the annual unfunded portion that has not yet reserved for future payments. The accumulated liability balance of \$1.7 million for post-employment medical benefits is based on an actuarial study. Compensated absences represent the amount of liability the District owes for vacation that has been earned but not yet taken or paid out.

**Cost of General Fund Operations (Funds 01-08)**

At year-end, the District's cost of operation was \$112.6 million. Total District expenditures were \$4 million more than the previous year due to increased staffing and benefits due to growth in enrollment.

	General Fund		Percentage
	<u>2010</u>	<u>2011</u>	<u>Change</u> <u>2010-2011</u>
Certificated salaries	\$ 45,821,448	\$ 47,410,718	3.5%
Classified salaries	20,386,122	20,975,118	2.9%
Employee benefits	20,193,923	21,076,955	4.4%
Books and supplies	3,383,571	3,541,813	4.7%
Contract services and operating expenditures	18,597,625	19,534,375	5.0%
Capital outlay	211,432	68,901	-67.4%
Other outgo	-	9,487	100.0%
Total	<u>\$ 108,594,121</u>	<u>\$ 112,617,367</u>	3.7%

**Budget to Actual Analysis**

The District develops its budget pursuant to the Governor's proposals. Throughout the year the budget is adjusted primarily due to new or adjusted funding levels. A comparison of the General Fund Budget to Actual Revenues and Expenditures is as follows:

	Final Budget	Actual	Percentage
	<u>2011</u>	<u>2011</u>	<u>Variance</u>
<b>Revenues</b>			
Revenue Limit	\$ 49,007,035	\$ 49,434,794	
Federal Revenues	7,318,938	6,473,981	
State Revenues	22,708,715	21,695,493	
Local Revenues	37,953,953	38,651,200	
Total Revenues	116,988,641	116,255,468	-0.6%
<b>Expenditures</b>			
Salaries & Benefits	91,461,038	89,462,791	
Books & Supplies	7,010,882	3,541,813	
Services & Other Operating	20,429,380	19,534,375	
Capital Outlay Other Outgo	79,097	78,388	
Total Expenditures	<u>\$118,980,397</u>	<u>\$ 112,617,367</u>	-5.3%

Total budgeted revenues were \$0.7 million lower than actual revenues received. Actual federal revenue was lower than budgeted due to the deferral of unexpended revenue to the following year. Total expenditures were \$6.0 million less than budgeted due to unexpended budgets that resulted in carryover in parcel tax, federal and state grants to the next fiscal year. There was also salary and non-salary savings generated from budget reductions and unexpended funds.

## ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

In considering the District Budget for the 2011-2012 year, the Governing Board and management used the following criteria:

### **2011-12 ADOPTED BUDGET ASSUMPTIONS**

The 2011-12 Adopted Budget has been compiled using the Governor's May Revise and School Services of California (SSC) Dartboard.

The District's Adopted Budget has a positive certification that indicates that the District will be able to meet its financial obligations in the current and subsequent two fiscal years. The report demonstrates the District will meet the 3% reserve required by the State of California for Fiscal Year 2011-2012. The State of California requires all Districts reserve 3% of their total expenditures (including transfers out) for economic uncertainties.

Although the District is reporting the full state reserve requirement has been met and there is \$6.0 million sitting in the Unrestricted General Fund in excess of the 3% state reserve requirement, the District must continue to monitor its finances very closely since the structural deficit in the State Budget has not been fully addressed and there could be more reductions in the future.

The District is projected to deficit spend by approximately \$.2 million in fiscal year 2011-2012, \$3.0 million in Fiscal Year 2012-13 and \$3.7 million in fiscal year 2013-14. The reason for the increased deficit in fiscal year 2012-2013 is due to the depletion of the balance of the Federal Jobs Bill funding at the end of this year. Additionally, these deficit spending projections assumes the Cost-of-Living-Adjustment (COLA) projected by the State does not materialize and the District's enrollment continues to decline. The District does not have enough ending fund balance in FY 2013-14 above the 3% reserve requirement to absorb these deficits.

School district budgets are not static documents and must be revised as often as necessary in order to respond to the changing politics at the State and Federal level, as well as to the changing goals and needs of the District. In order to project the budget, a series of assumptions are determined and inserted into State and District formulas.

### **Charter School**

This is the first year of two Charter Schools operating in the District, and 64 additional students left our District to attend the Charter Schools. Accordingly, our enrollment decreased by 64 students with a corresponding decrease in ADA.

The 2011-12 Adopted Budget is based on the following assumptions, as appropriate with conservative estimate for both revenues and expenditures:

### **GENERAL FUND REVENUES**

#### Revenue Limit

- Revenue Limit COLA of 2.24%
- Projected regular ADA of 8,863. This projection is based on prior year P-2 due to declining enrollment less the transfer to the charter school.
- 19.754% Deficit Reduction for Revenue Limit
- No Equalization budgeted.
- Other Revenue Limit sources have been calculated to reflect amounts to be received based on SSC Dartboard estimates, grant letters, and other reliable sources.

#### Federal Revenues

- Federal funding includes balance of new federal Jobs Bill funding.
- Projections based on entitlements and grant award letters.

### Lottery Revenues

- Projected on estimated funding of \$111.75 per ADA for unrestricted and \$17.00 for restricted lottery funding (Prop. 20).

### Mandated Costs

- Mandated costs were not included in budget.

### State Revenues

- No COLA for State Categorical programs.
- Projections based on entitlements and grant award letters

### Parcel tax revenue

- There was a 2.24% COLA in budget for Measure A/BSEP since there was a State funded COLA
- There was no COLA included in budget for Measure BB since COLA is based on prior year State funded COLA.

## **GENERAL FUND EXPENDITURES**

### Certificated and Classified Salaries

- Salaries were based on projected staffing costs, step and column increases
- Unrestricted General Fund certificated salaries is projected to increase over prior year by \$1.6 million due to depletion of ARRA federal stimulus fund.
- The District is still using \$1.7 million in Federal Jobs Bill fund to prevent layoff of teachers. These funds supports 23 FTE in teacher staffing.
- Reductions in positions were made based on board approved budget cuts.
- There was no COLA or salary increase included in the budget for all bargaining units.

### Employee Benefits

- Benefit rates reflect current available rates at time budget was prepared. Health Benefit costs were increased to reflect premium increases that are below the District's cap. The employees that have plans that exceed the District's cap bear the costs of any increased premiums. This is the case for all health benefit tiers for the Berkeley Federation of Teachers. Therefore, the majority of increased premium costs are passed on to the employee.

### Books, Supplies and Other Materials

- Prior year budgets were rolled over
- Reductions were made to central office budgets based on board approved reductions.
- Restricted resources adjusted to balance grant totals.

### Services/Other Operating Expenses

- Prior year budgets were rolled over
- Reductions were made to central office budgets based on board approved reductions.
- Restricted resources adjusted to balance grant totals.

### Reserve for Economic Uncertainties

The District's Reserve for Economic Uncertainties meets the State minimum requirement of 3%.

### Multi-Year Projections

**Revenues for the multi-year projections follow the 2011 SSC's dashboard based on the Adopted 2011-12 State Budget. Changes in the revenue limit represent projected changes in ADA, deficit funding and projected COLAs.**

Expenditures have been adjusted to reflect any necessary reductions required to maintain an adequate reserve. However, given the State's fiscal condition and pending Governor's funding guarantees, it's difficult to predict with certainty even one year into the future. Thus, we have chosen to use current law in addition to conservative estimates to prepare these multi-year projections.

***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 any additional financial information please feel free to contact Javetta Cleveland, Deputy Superintendent or Pauline Follansbee, Director of Fiscal Services at 510-644-8593.

## **BASIC FINANCIAL STATEMENTS**

BERKELEY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	\$ 105,129,474
Receivables	20,627,100
Stores inventory	137,027
Prepaid expenses	765,996
Non-depreciable capital assets (Note 4)	40,368,305
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>189,086,127</u>
Total assets	<u>356,114,029</u>
<b>LIABILITIES</b>	
Accounts payable	18,832,112
Claims payable (Note 9)	3,411,463
Deferred revenue	2,798,419
Long-term liabilities (Note 5):	
Due within one year	10,720,000
Due after one year	<u>230,816,715</u>
Total liabilities	<u>266,578,709</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	57,684,136
Restricted (Note 6)	23,437,607
Unrestricted	<u>8,413,577</u>
Total net assets	<u>\$ 89,535,320</u>

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



**BERKELEY UNIFIED SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**June 30, 2011**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and investments:					
Cash in County Treasury	\$ 14,060,317	\$ 67,795,683	\$ 15,746,300	\$ 569,825	\$ 98,172,125
Cash on hand and in banks	17,290			634,636	651,926
Cash in revolving fund	100,000				100,000
Receivables	19,254,425	85,834	25,582	1,251,512	20,617,353
Prepaid expenses	2,247				2,247
Due from other funds	665,890	350,000		1,031,886	2,047,776
Stores inventory				137,027	137,027
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 34,100,169</u>	<u>\$ 68,231,517</u>	<u>\$ 15,771,882</u>	<u>\$ 3,624,886</u>	<u>\$ 121,728,454</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 12,940,608	\$ 1,592,591		\$ 625,172	\$ 15,158,371
Deferred revenue	2,321,188			477,231	2,798,419
Due to other funds	976,120			1,046,933	2,023,053
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>16,237,916</u>	<u>1,592,591</u>	<u>                    </u>	<u>2,149,336</u>	<u>19,979,843</u>
Fund balances:					
Nonspendable	102,247			137,027	239,274
Restricted	2,755,487	66,638,926	\$ 15,771,882	1,338,523	86,504,818
Assigned	5,407,965				5,407,965
Unassigned	9,596,554				9,596,554
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balances	<u>17,862,253</u>	<u>66,638,926</u>	<u>15,771,882</u>	<u>1,475,550</u>	<u>101,748,611</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and fund balances	<u>\$ 34,100,169</u>	<u>\$ 68,231,517</u>	<u>\$ 15,771,882</u>	<u>\$ 3,624,886</u>	<u>\$ 121,728,454</u>

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

BERKELEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2011

Total fund balances - Governmental Funds		\$ 101,748,611
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$320,749,483 and the accumulated depreciation is \$91,295,051 (Note 4).		229,454,432
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at June 30, 2011 consisted of (Note 5):		
General Obligation Bonds	\$ (238,409,222)	
Other Postemployment Benefits (Note 8)	(1,720,944)	
Compensated absences	<u>(1,406,549)</u>	(241,536,715)
Unamortized premiums and costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as net assets in governmental funds.		763,749
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets.		2,568,692
In governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred.		<u>(3,463,449)</u>
Total net assets - governmental activities		<u>\$ 89,535,320</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGE IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2011

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>All Non-Major Funds</b>	<b>Total Governmental Funds</b>
Revenues:					
Revenue limit sources:					
State apportionment	\$ 23,208,864				\$ 23,208,864
Local sources	26,225,930			\$ 812,482	27,038,412
Total revenue limit	49,434,794			812,482	50,247,276
Federal sources	6,473,981			3,571,187	10,045,168
Other state sources	21,695,493		\$ 174,404	3,016,300	24,886,197
Other local sources	38,651,200	\$ 235,994	19,036,022	1,436,867	59,360,083
Total revenues	116,255,468	235,994	19,210,426	8,836,836	144,538,724
Expenditures:					
Certificated salaries	47,410,718			3,534,528	50,945,246
Classified salaries	20,975,118	184,476		3,368,341	24,527,935
Employee benefits	21,076,955	65,636		2,214,431	23,357,022
Books and supplies	3,541,813	353,546		1,890,611	5,785,970
Contract services and operating expenditures	19,534,375	145,266		446,842	20,126,483
Capital outlay	68,901	12,403,775		610,389	13,083,065
Other outgo	9,487				9,487
Debt service:					
Principal retirement			10,350,000		10,350,000
Interest			8,688,700		8,688,700
Total expenditures	112,617,367	13,152,699	19,038,700	12,065,142	156,873,908
Excess (deficiency) of revenues over (under) expenditures	3,638,101	(12,916,705)	171,726	(3,228,306)	(12,335,184)
Other financing sources (uses):					
Operating transfers in	596,786	263,734		3,135,115	3,995,635
Operating transfers out	(3,378,611)			(860,520)	(4,239,131)
Proceeds from issuance of debt		35,000,000			35,000,000
Total other financing sources (uses)	(2,781,825)	35,263,734		2,274,595	34,756,504
Net change in fund balances	856,276	22,347,029	171,726	(953,711)	22,421,320
Fund balances, July 1, 2010	17,005,977	44,291,897	15,600,156	2,429,261	79,327,291
Fund balances, June 30, 2011	\$ 17,862,253	\$ 66,638,926	\$ 15,771,882	\$ 1,475,550	\$ 101,748,611

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

BERKELEY UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -  
TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

Net change in fund balances - Total Governmental Funds		\$ 22,421,320
Amounts reported for governmental activities in the statement of activities are different because:		
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4).	\$ 13,837,698	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(6,197,284)	
Issuance on long-term liabilities is a revenue in the governmental funds, but increases long-term liabilities in the statement of net assets (Note 5).	(35,000,000)	
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 5).	10,350,000	
In governmental funds, premiums on the issuance of debt is recognized as revenue, and issuance costs are recognized as expenditures. In government-wide statements, premiums and issuance costs are reported as adjustments to the related debt.	114,220	
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.	254,977	
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, internal service activities are reported with governmental activities in the statement of activities.	314,116	
In the statement of activities, expenses related to post-retirement employee benefits and compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 5).	<u>459,013</u>	<u>(15,867,260)</u>
Change in net assets of governmental activities		<u>\$ 6,554,060</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND**  
**INTERNAL SERVICE FUND**

**June 30, 2011**

**ASSETS**

Cash and investments:	
Cash in County Treasury	\$ 5,955,423
Cash with Fiscal Agent	250,000
Receivables	<u>9,747</u>
 Total assets	 <u>6,215,170</u>

**LIABILITIES**

Accounts payable	210,292
Claims liability	3,411,463
Due to other funds	<u>24,723</u>
 Total liabilities	 <u>3,646,478</u>

**NET ASSETS**

Net assets - restricted	<u><u>\$ 2,568,692</u></u>
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The accompanying notes are an integral  
part of these financial statements.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN**  
**FUND NET ASSETS - PROPRIETARY FUND**

**INTERNAL SERVICE FUND**

**For the Year Ended June 30, 2011**

Operating revenues:	
In-district contributions	<u>\$ 1,852,441</u>
Operating expenses:	
Classified salaries	174,904
Employee benefits	72,091
Books and supplies	17,982
Claims expense	<u>1,546,602</u>
Total operating expenses	<u>1,811,579</u>
Operating income	<u>40,862</u>
Non-operating income:	
Interest income	29,758
Transfers from other funds	<u>243,496</u>
Total non-operating income	<u>273,254</u>
Change in net assets	314,116
Net assets, July 1, 2010	<u>2,254,576</u>
Net assets, June 30, 2011	<u><u>\$ 2,568,692</u></u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**INTERNAL SERVICE FUND**

**For the Year Ended June 30, 2011**

Cash flows from operating activities:	
Cash received from user charges	\$ 1,851,272
Cash paid to employees for services	(118,188)
Cash paid for insurance claims	(1,546,602)
Cash paid for books and supplies	<u>(17,982)</u>
Net cash provided by operating activities	<u>168,500</u>
Cash flows provided by financing activities:	
Transfer from other funds	<u>655,496</u>
Cash flows provided by investing activities:	
Interest income	<u>29,757</u>
Change in cash and investments	853,753
Cash and investments, July 1, 2010	<u>5,351,670</u>
Cash and investments, June 30, 2011	<u><u>\$ 6,205,423</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 40,862</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase provided by:	
Receivables	(1,169)
Accounts payable	106,675
Due to other funds	<u>22,132</u>
Total adjustments	<u>127,638</u>
Net cash provided by operating activities	<u><u>\$ 168,500</u></u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**ALL AGENCY FUNDS**

June 30, 2011

	<u>Warrant Pass Through Fund</u>	<u>Student Body Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments (Note 2):			
Cash in County Treasury	\$ 289,019		\$ 289,019
Cash on hand and in banks		\$ 324,546	324,546
Due from statutory agencies	<u>121</u>		<u>121</u>
Total assets	<u>\$ 289,140</u>	<u>\$ 324,546</u>	<u>\$ 613,686</u>
<b>LIABILITIES</b>			
Due to statutory agencies	\$ 289,140		\$ 289,140
Due to student groups		<u>\$ 324,546</u>	<u>324,546</u>
Total liabilities	<u>\$ 289,140</u>	<u>\$ 324,546</u>	<u>\$ 613,686</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Berkeley Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The following is a summary of the more significant policies:

Reporting Entity

The Board of Trustees is the level of government which has governance responsibilities over all activities related to public elementary school education in Berkeley Unified School District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation - Financial Statements

The financial statements include a Management Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations, financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure, and a focus on the major funds.

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets.

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) N50.118-.121.

*Program revenues:* Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation - Government-Wide Financial Statements (Continued)

*Allocation of indirect expenses:* The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories which, in aggregate, include six fund types as follows:

A - Governmental Fund Types

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

2 - Special Revenue Funds:

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. This classification includes the Adult Education, Child Development, Cafeteria, Deferred Maintenance, and Pupil Transportation Equipment.

3 - Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition of capital facilities by the District. This classification includes the Building and County School Facilities Funds.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

4 - Debt Service Funds:

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term liabilities principal, interest and related costs. This classification includes the Bond Interest and Redemption and Tax Override Funds.

B - Proprietary Fund Type

1 - Self-Insurance Fund:

The Self-Insurance Fund is an internal service fund which is used to account for the District's workers compensation claims.

C - Fiduciary Fund Type

1 - Agency Funds:

Agency Funds are used to account for assets of others for which the District has an agency relationship with the activity of the fund. This classification consists of the Warrant/Pass-Through and the Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Governmental activities in the government-wide financial statements and the fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

By state law, the Board of Trustees must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Trustees complied with these requirements.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 5 - 50 years depending on asset types.

Compensated Absences

Compensated absences in the amount of \$1,406,549 is recorded as a liability of the District. The liability is for earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenditures in the period sick leave is taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for all STRS and CalPERS employees, when the employee retires.

Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

**BERKELEY UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Stores Inventory

Stores inventory is recorded using the consumption method, in that inventory acquisitions are initially recorded in the inventory asset account, and then charged to expenditure when used. Inventory reserves are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net assets.

Deferred Revenue

Revenues from federal, state, and local special projects and programs are recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriable for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenses and stores inventory reflect the portion of net assets represented by revolving cash fund, prepaid expenses, and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues represents the portion of net assets restricted to specific program expenditures. The restrictions for special revenues, capital projects and debt repayment represents the portion of net assets restricted for special purposes, capital projects and the retirement of debt. The restriction for self insurance represents the portion of net assets which will be used for payment of workers compensation claims.

Fund Balance Classifications

Governmental Accounting Standards Board Codification Sections 1300 and 1800, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Cod. Sec. 1300 and 1800) implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are nonspendable, restricted, committed, assigned and unassigned.

A - Nonspendable Fund Balance:

The nonspendable fund balance classification reflects amounts that are not in spendable form, such as revolving fund cash, prepaid expenditures and stores inventory.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Fund Balance Classifications (Continued)

**B - Restricted Fund Balance:**

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

**C - Committed Fund Balance:**

The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Board of Trustees. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. Formal action by the Board of Trustees is required to remove any commitment from any fund balance. At June 30, 2011, the District had no committed fund balances.

**D - Assigned Fund Balance:**

The assigned fund balance classification reflects amounts that the District's Board of Trustees has approved to be used for specific purposes, based on the District's intent related to those specific purposes. The Board of Trustees can designate personnel with the authority to assign fund balances, however, as of June 30, 2011, no such designation has occurred.

**E - Unassigned Fund Balance:**

In the General Fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes.

In any fund other than the General Fund, a positive unassigned fund balance is never reported because amounts in any other fund are assumed to have been assigned, at least, to the purpose of that fund. However, deficits in any fund, including the General Fund that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Fund Balance Policy

The District has an expenditure policy relating to fund balances. For purposes of fund balance classifications, expenditures are to be spent from restricted fund balances first, followed in order by committed fund balances (if any), assigned fund balances and lastly unassigned fund balances.

While GASB Cod. Sec. 1300 and 1800 do not require districts to establish a minimum fund balance policy or a stabilization arrangement, GASB Cod. Sec. 1300 and 1800 do require the disclosure of a minimum fund balance policy and stabilization arrangements, if they have been adopted by the Board of Trustees. At June 30, 2011, the District has not established a minimum fund balance policy nor has it established a stabilization arrangement.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Alameda bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**2. CASH AND INVESTMENTS**

Cash and investments at June 30, 2011 consisted of the following:

	Governmental Funds	Fiduciary Funds
Pooled Funds:		
Cash in County Treasury	\$104,127,548	\$ 289,019
Deposits:		
Cash on hand and in banks	651,926	324,546
Cash in revolving fund	100,000	
Cash with Fiscal Agent	250,000	
Total	\$105,129,474	\$ 613,565

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

In accordance with applicable state laws, the Alameda County Treasurer may invest in derivative securities. However, at June 30, 2011, the Alameda County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

Deposits - Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, interest-bearing cash balances held in banks are insured up to \$250,000 and noninterest-bearing cash balances held in banks are fully insured by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2011, the carrying amount of the District's accounts was \$1,076,472 and the bank balance was \$2,179,076. \$518,598 of the bank balance was FDIC insured and \$1,660,478 remained uninsured.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**2. CASH AND INVESTMENTS (Continued)**

Cash with Fiscal Agent

Cash with Fiscal Agent in the Self-Insurance Fund represents a security deposit held by a third party.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2011, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of state law.

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2011, the District had no concentration of credit risk.

**3. INTERFUND TRANSACTIONS**

Interfund Activity

Transactions between funds of the District for goods and services are recorded as interfund transfers. The unpaid balances at year end, as a result of such transactions, are shown as due to and from other funds.

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2011 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General	\$ 665,890	\$ 976,120
Building	350,000	
Non-Major Funds:		
Adult Education	340,584	138,432
Child Development	28,449	360,590
Cafeteria	662,853	547,911
Proprietary Fund:		
Self-Insurance		<u>24,723</u>
Totals	<u>\$ 2,047,776</u>	<u>\$ 2,047,776</u>

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**3. INTERFUND TRANSACTIONS (Continued)**

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2010-2011 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund to supplement budget shortfalls.	\$ 3,074,659
Transfer from the County School Facilities Fund to the Building Fund for school facilities modernization grant funds.	263,734
Transfer from the General Fund to the Self-Insurance Fund for coverage premiums.	243,496
Transfer from the Child Development Fund to the General Fund for indirect cost.	275,054
Transfer from the Cafeteria Fund to the General Fund for indirect cost.	183,300
Transfer from the Adult Education Fund to the General Fund for indirect cost.	138,432
Transfer from the General Fund to the Child Development Fund to supplement budget shortfalls.	33,495
Transfer from the General Fund to the Deferred Maintenance Fund to replenish funds swept in error.	<u>26,961</u>
	<u>\$ 4,239,131</u>

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**4. CAPITAL ASSETS**

A schedule of changes in capital assets for the year ended June 30, 2011, is shown below:

	<u>Balance July 1, 2010</u>	<u>Transfers and Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2011</u>
Non-depreciable:				
Land	\$ 6,919,100			\$ 6,919,100
Work-in-process	20,923,127	\$ 13,545,034	\$ (1,018,956)	33,449,205
Depreciable:				
Improvement of sites	10,724,212	246,382		10,970,594
Buildings	259,185,891	881,359		260,067,250
Equipment	<u>9,159,455</u>	<u>183,879</u>		<u>9,343,334</u>
Totals, at cost	<u>306,911,785</u>	<u>14,856,654</u>	<u>(1,018,956)</u>	<u>320,749,483</u>
Less accumulated depreciation:				
Improvement of sites	(4,690,906)	(491,846)		(5,182,752)
Buildings	(72,706,183)	(5,122,841)		(77,829,024)
Equipment	<u>(7,700,678)</u>	<u>(582,597)</u>		<u>(8,283,275)</u>
Total accumulated depreciation	<u>(85,097,767)</u>	<u>(6,197,284)</u>		<u>(91,295,051)</u>
Capital assets, net	<u>\$221,814,018</u>	<u>\$ 8,659,370</u>	<u>\$ (1,018,956)</u>	<u>\$229,454,432</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,677,884
Instructional supervision and administration	297,459
Instructional library, media and technology	87,878
School site administration	351,427
Home-to-school transportation	177,914
Food services	158,950
All other pupil services	223,828
Ancillary services	11,262
Community services	9,718
Enterprise activities	121,217
All other general administration	363,459
Centralized data processing	58,938
Plant services	<u>657,350</u>
Total depreciation expense	<u>\$ 6,197,284</u>

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**5. LONG-TERM LIABILITIES**

General Obligation Bonds

The District's outstanding General Obligation bonded debt is as follows:

<u>Issue Date</u>	<u>Original Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2010</u>	<u>Bonds Issued</u>	<u>Bonds Redeemed</u>	<u>Bonds Outstanding June 30, 2011</u>
05/14/03	08/01/27	2.00 - 4.80%	\$ 50,000,000	\$ 41,450,000		\$ 1,625,000	\$ 39,825,000
10/21/04	08/01/21	3.20 - 4.30%	28,950,000	24,400,000		2,115,000	22,285,000
05/19/05	08/01/24	2.00 - 4.30%	19,090,000	17,330,000		890,000	16,440,000
07/28/05	08/01/29	3.35 - 7.00%	24,500,000	23,095,000		755,000	22,340,000
06/28/07	08/01/31	4.75 - 5.00%	24,500,000	23,880,000		655,000	23,225,000
07/30/08	08/01/24	3.20 - 4.00%	43,300,000	40,865,000		2,275,000	38,590,000
05/26/09	08/01/33	3.35 - 4.00%	17,774,222	17,774,222			17,774,222
11/10/09	08/01/20	2.00 - 5.00%	25,440,000	24,965,000		2,035,000	22,930,000
05/10/11	05/01/26	3.50 - 5.50%	25,000,000		\$ 25,000,000		25,000,000
05/10/11	08/01/35	5.00 - 5.37%	10,000,000		10,000,000		10,000,000
			<u>\$268,554,222</u>	<u>\$213,759,222</u>	<u>\$ 35,000,000</u>	<u>\$ 10,350,000</u>	<u>\$238,409,222</u>

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**5. LONG-TERM LIABILITIES** (Continued)

General Obligation Bonds mature as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 10,720,000	\$ 9,489,109	\$ 20,209,109
2013	11,125,000	9,641,261	20,766,261
2014	11,550,000	9,224,628	20,774,628
2015	12,049,222	8,773,431	20,822,653
2016	13,035,000	8,274,942	21,309,942
2017-2021	75,860,000	32,397,036	108,257,036
2022-2026	60,585,000	17,340,491	77,925,491
2027-2031	31,640,000	7,557,608	39,197,608
2032-2036	11,845,000	1,380,800	13,225,800
	<u>\$238,409,222</u>	<u>\$104,079,306</u>	<u>\$342,488,528</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Amounts Due Within One Year
General Obligation Bonds	\$ 213,759,222	\$ 35,000,000	\$ 10,350,000	\$ 238,409,222	\$ 10,720,000
Other postemployment benefits (Note 8)	1,214,064	2,437,050	1,930,170	1,720,944	
Compensated absences	<u>2,372,442</u>		<u>965,893</u>	<u>1,406,549</u>	
	<u>\$ 217,345,728</u>	<u>\$ 37,437,050</u>	<u>\$ 13,246,063</u>	<u>\$ 241,536,715</u>	<u>\$ 10,720,000</u>

Payments on the General Obligation Bonds were made from the Bond Interest and Redemption Funds. Payments on the other postemployment benefits and compensated absences are made from the fund for which the related employee worked.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**6. NET ASSETS / FUND BALANCES**

The restricted net assets as of June 30, 2011 consisted of the following:

	Governmental Activities
Restricted for:	
Revolving cash fund	\$ 100,000
Prepaid expenses	765,996
Stores inventory	137,027
Unspent categorical program revenues	2,755,487
Special revenue funds	1,277,159
Debt repayment	15,833,246
Self-insurance	<u>2,568,692</u>
	<u><u>\$ 23,437,607</u></u>

Fund balances, by category, at June 30, 2011 consisted of the following:

	General Fund	Building Fund	Bond Interest and Redemption Fund	All Non-Major Funds	Total
Nonspendable:					
Revolving cash fund	\$ 100,000				\$ 100,000
Prepaid expenses	2,247				2,247
Stores inventory	<u>          </u>	<u>          </u>	<u>          </u>	<u>\$ 137,027</u>	<u>137,027</u>
Subtotal nonspendable	<u>102,247</u>	<u>          </u>	<u>          </u>	<u>137,027</u>	<u>239,274</u>
Restricted:					
Unspent categorical revenues	2,755,487				2,755,487
Special revenues				1,277,159	1,277,159
Capital projects		\$ 66,638,926			66,638,926
Debt service	<u>          </u>	<u>          </u>	<u>\$ 15,771,882</u>	<u>61,364</u>	<u>15,833,246</u>
Subtotal restricted	<u>2,755,487</u>	<u>66,638,926</u>	<u>15,771,882</u>	<u>1,338,523</u>	<u>86,504,818</u>
Assigned:					
Parcel taxes	<u>5,407,965</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>5,407,965</u>
Unassigned:					
Designated for economic uncertainty	3,463,976				3,463,976
Undesignated	<u>6,132,578</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>6,132,578</u>
Subtotal unassigned	<u>9,596,554</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>9,596,554</u>
Total fund balances	<u><u>\$ 17,862,253</u></u>	<u><u>\$ 66,638,926</u></u>	<u><u>\$ 15,771,882</u></u>	<u><u>\$ 1,475,550</u></u>	<u><u>\$101,748,611</u></u>

**BERKELEY UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**7. EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension 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 California Public Employees' Retirement System (CalPERS).

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

*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 Law. 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 Q Street, Sacramento, California 95811.

*Funding Policy*

Active plan members are required to contribute 7% 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 2010-2011 was 10.707% 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, 2009, 2010 and 2011 were \$2,102,928, \$2,031,859 and \$2,339,533, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

*Plan Description*

The District contributes to the 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, disability 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 the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**7. EMPLOYEE RETIREMENT SYSTEMS** (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

*Funding Policy*

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2010-2011 was 8.25% 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, 2009, 2010 and 2011 were \$4,010,628, \$3,952,384 and \$4,004,196, respectively, and equal 100% of the required contributions for each year.

**8. OTHER POSTEMPLOYMENT BENEFITS**

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Berkeley Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 127 retirees and their beneficiaries currently receiving benefits, and 1,178 active plan members.

Funding Policy

The contribution requirements of plan members of the District are established and may be amended by the District and the California Teachers Association (CTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CTA, CSEA and the unrepresented groups. For the fiscal year ended June 30, 2011, the District contributed \$1,930,170 to the plan.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**8. OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Funding Policy (Continued)

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Cod. Sec. P50.108-.109. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 2,430,121
Interest on net OPEB obligation	60,703
Adjustment to annual required contribution	<u>(53,774)</u>
Annual OPEB cost (expense)	2,437,050
Contributions made	<u>(1,930,170)</u>
Increase in net OPEB obligation	506,880
Net OPEB obligation - beginning of year	<u>1,214,064</u>
Net OPEB obligation - end of year	<u><u>\$ 1,720,944</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011 and preceding two years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
June 30, 2009	\$ 2,206,092	57.7%	\$ 932,560
June 30, 2010	\$ 2,206,092	87.2%	\$ 1,214,064
June 30, 2011	\$ 2,437,050	79.4%	\$ 1,720,944

As of May 1, 2011, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$16.5 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$70.1 million, and the ratio of the UAAL to the covered payroll was 23.6 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**8. OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Funding Policy (Continued)

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

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

In the May 1, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan on the valuation date, and an annual healthcare cost trend rate of 4 percent initially, reduced by decrements to an ultimate rate of 3 percent. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 30 years.

**9. RISK MANAGEMENT**

Workers' Compensation

The District's workers' 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 of risk from the District.

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Berkeley Unified School District Workers' Compensation Insurance Program	Workers' Compensation	Statutory Limit
Berkeley Unified School District	Property & Liability	\$1,000,000
Schools Excess Liability Fund	Excess Property and Liability	Limits vary depending on type of loss

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
(Continued)

**9. RISK MANAGEMENT** (Continued)

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 represents the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2011:

	<u>Self Insurance Programs</u>
Liability balance, June 30, 2009	\$ <u>3,017,751</u>
Claims and changes in estimates	2,077,592
Claims payments	<u>(1,683,880)</u>
Liability balance, June 30, 2010	3,411,463
Claims and changes in estimates	1,546,602
Claims payments	<u>(1,546,602)</u>
Liability balance, June 30, 2011	<u>\$ 3,411,463</u>

**10. JOINT POWERS AGREEMENT**

The District is a member with other school districts of a Joint Powers Authority, Schools Excess Liability Fund (SELF), for the operation of a common risk management and insurance program for property and liability coverage. SELF is governed by a Governing Board consisting of representatives from member districts. The Board controls the operations of SELF, including selections of management and approval of operating budgets.

The following is a summary of financial information for SELF at June 30, 2011:

Total assets	\$174,774,000
Total liabilities	\$141,524,000
Net assets	\$ 33,250,000
Total revenues	\$ 9,165,000
Total expenses	\$ 12,425,000
Change in net assets	\$ (3,260,000)

**BERKELEY UNIFIED SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

(Continued)

**10. JOINT POWERS AGREEMENT (Continued)**

The relationship between the District and SELF is such that SELF is not a component unit of the District for financial reporting purposes.

**11. CONTINGENCIES**

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

Also, the District has received state and federal funds for specific purposes that are subject to review or audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**12. SUBSEQUENT EVENTS**

In September 2011, the District issued 2011 General Obligation Refunding Bonds totaling \$55,625,000. The proceeds of the 2011 General Obligation Refunding Bonds will be used to refund all of the Series 2003 Bonds, all of the 2004 General Obligation Refunding Bonds, and pay the cost of issuing the Bonds. The Refunding Bonds will bear an interest rate ranging from 2.0% to 5.0% and mature through August 1, 2027.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**For the Year Ended June 30, 2011**

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 19,196,751	\$ 22,549,524	\$ 23,208,864	\$ 659,340
Local sources	<u>26,470,689</u>	<u>26,457,511</u>	<u>26,225,930</u>	<u>(231,581)</u>
Total revenue limit	<u>45,667,440</u>	<u>49,007,035</u>	<u>49,434,794</u>	<u>427,759</u>
Federal sources	7,678,420	7,318,938	6,473,981	(844,957)
Other state sources	21,329,859	22,708,715	21,695,493	(1,013,222)
Other local sources	<u>35,593,694</u>	<u>37,953,953</u>	<u>38,651,200</u>	<u>697,247</u>
Total revenues	<u>110,269,413</u>	<u>116,988,641</u>	<u>116,255,468</u>	<u>(733,173)</u>
Expenditures:				
Certificated salaries	46,527,891	48,374,024	47,410,718	963,306
Classified salaries	20,349,160	21,203,612	20,975,118	228,494
Employee benefits	21,573,269	21,883,402	21,076,955	806,447
Books and supplies	4,816,066	7,010,882	3,541,813	3,469,069
Contract services and operating expenditures	16,738,417	20,429,380	19,534,375	895,005
Capital outlay	35,000	79,097	68,901	10,196
Other outgo	<u>                    </u>	<u>                    </u>	<u>9,487</u>	<u>(9,487)</u>
Total expenditures	<u>110,039,803</u>	<u>118,980,397</u>	<u>112,617,367</u>	<u>6,363,030</u>
Excess (deficiency) of revenues over (under) expenditures	<u>229,610</u>	<u>(1,991,756)</u>	<u>3,638,101</u>	<u>5,629,857</u>
Other financing sources (uses):				
Operating transfers in	373,788	372,249	596,786	224,537
Operating transfers out	<u>(3,624,773)</u>	<u>(3,369,030)</u>	<u>(3,378,611)</u>	<u>(9,581)</u>
Total other financing sources (uses)	<u>(3,250,985)</u>	<u>(2,996,781)</u>	<u>(2,781,825)</u>	<u>214,956</u>
Net change in fund balance	(3,021,375)	(4,988,537)	856,276	5,844,813
Fund balance, July 1, 2010	<u>17,005,977</u>	<u>17,005,977</u>	<u>17,005,977</u>	<u>                    </u>
Fund balance, June 30, 2011	<u>\$ 13,984,602</u>	<u>\$ 12,017,440</u>	<u>\$ 17,862,253</u>	<u>\$ 5,844,813</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)**  
**FUNDING PROGRESS**

For the Year Ended June 30, 2011

<b>Schedule of Funding Progress</b>							
<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
6/30/2009	May 1, 2009	\$ -	\$ 16,344,627	\$ 16,344,627	0%	\$ 77,894,196	20.98%
6/30/2010	May 1, 2009	\$ -	\$ 16,344,627	\$ 16,344,627	0%	\$ 77,894,196	20.98%
6/30/2011	May 1, 2011	\$ -	\$ 16,535,848	\$ 16,535,848	0%	\$ 70,124,826	23.58%

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

**BERKELEY UNIFIED SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**1. PURPOSE OF SCHEDULES**

A - Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Trustees to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP.

B - Schedule of Other Postemployment Benefits Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets.

## **SUPPLEMENTARY INFORMATION**

**BERKELEY UNIFIED SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NON-MAJOR FUNDS**

June 30, 2011

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Pupil Trans- portation Equipment Fund</u>	<u>County School Facilities Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
<b>ASSETS</b>								
Cash and investments:								
Cash in County Treasury	\$ 36,289	\$ 547,512	\$ (84,469)		\$ 9,129		\$ 61,364	\$ 569,825
Cash on hand and in banks	137,410	101,958	395,268					634,636
Receivables	497,722	374,109	379,665		16			1,251,512
Due from other funds	340,584	28,449	662,853					1,031,886
Stores inventory			137,027					137,027
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,012,005</u>	<u>\$ 1,052,028</u>	<u>\$ 1,490,344</u>	<u>\$ -</u>	<u>\$ 9,145</u>	<u>\$ -</u>	<u>\$ 61,364</u>	<u>\$ 3,624,886</u>
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Accounts payable	\$ 434,743	\$ 143,323	\$ 47,106					\$ 625,172
Deferred revenue	48,036	429,195						477,231
Due to other funds	<u>138,432</u>	<u>360,590</u>	<u>547,911</u>					<u>1,046,933</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>621,211</u>	<u>933,108</u>	<u>595,017</u>					<u>2,149,336</u>
Fund balances:								
Nonspendable			137,027					137,027
Restricted	<u>390,794</u>	<u>118,920</u>	<u>758,300</u>		<u>\$ 9,145</u>		<u>\$ 61,364</u>	<u>1,338,523</u>
	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>		<u>          </u>	<u>          </u>
Total fund balances	<u>390,794</u>	<u>118,920</u>	<u>895,327</u>		<u>9,145</u>		<u>61,364</u>	<u>1,475,550</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 1,012,005</u>	<u>\$ 1,052,028</u>	<u>\$ 1,490,344</u>	<u>\$ -</u>	<u>\$ 9,145</u>	<u>\$ -</u>	<u>\$ 61,364</u>	<u>\$ 3,624,886</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES**

**ALL NON-MAJOR FUNDS**

For the Year Ended June 30, 2011

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Pupil Trans- portation Equipment Fund</u>	<u>County School Facilities Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
Revenues:								
Revenue limit			\$ 812,482					\$ 812,482
Federal sources	\$ 704,754	\$ 896,164	1,970,269					3,571,187
Other state sources		2,863,101	153,199					3,016,300
Other local sources	<u>519,875</u>	<u>380,738</u>	<u>533,677</u>	<u>\$ 541</u>	<u>\$ 1,067</u>	<u>\$ 969</u>		<u>1,436,867</u>
Total revenues	<u>1,224,629</u>	<u>4,140,003</u>	<u>3,469,627</u>	<u>541</u>	<u>1,067</u>	<u>969</u>		<u>8,836,836</u>
Expenditures:								
Certificated salaries	1,977,696	1,556,832						3,534,528
Classified salaries	625,634	1,391,820	1,350,887					3,368,341
Employee benefits	643,807	1,062,364	508,260					2,214,431
Books and supplies	365,670	85,312	1,439,629					1,890,611
Contract services and operating expenditures	274,294	488,919	(316,371)					446,842
Capital outlay		<u>108,785</u>	<u>84,632</u>	<u>417,972</u>		<u>(1,000)</u>		<u>610,389</u>
Total expenditures	<u>3,887,101</u>	<u>4,694,032</u>	<u>3,067,037</u>	<u>417,972</u>		<u>(1,000)</u>		<u>12,065,142</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,662,472)</u>	<u>(554,029)</u>	<u>402,590</u>	<u>(417,431)</u>	<u>1,067</u>	<u>1,969</u>		<u>(3,228,306)</u>
Other financing sources (uses):								
Operating transfers in	3,074,659	33,495		26,961				3,135,115
Operating transfers out	<u>(138,432)</u>	<u>(275,054)</u>	<u>(183,300)</u>			<u>(263,734)</u>		<u>(860,520)</u>
Total other financing sources (uses)	<u>2,936,227</u>	<u>(241,559)</u>	<u>(183,300)</u>	<u>26,961</u>		<u>(263,734)</u>		<u>2,274,595</u>
Net change in fund balances	273,755	(795,588)	219,290	(390,470)	1,067	(261,765)		(953,711)
Fund balances, July 1, 2010	<u>117,039</u>	<u>914,508</u>	<u>676,037</u>	<u>390,470</u>	<u>8,078</u>	<u>261,765</u>	<u>\$ 61,364</u>	<u>2,429,261</u>
Fund balances, June 30, 2011	<u>\$ 390,794</u>	<u>\$ 118,920</u>	<u>\$ 895,327</u>	<u>\$ -</u>	<u>\$ 9,145</u>	<u>\$ -</u>	<u>\$ 61,364</u>	<u>\$ 1,475,550</u>

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

**BERKELEY UNIFIED SCHOOL DISTRICT**

**ORGANIZATION**

**June 30, 2011**

Berkeley Unified School District was established in 1879 and is comprised of an area of approximately 19 square miles located in Alameda County. The District was unified in 1936 with the combining of the elementary and high school districts then in existence in the area of the current district boundaries. There were no changes in the District's boundaries in the current year. The District is currently operating eleven elementary schools and three intermediate schools, one high school, one continuation school, and an independent study program. In addition, the District operates an adult school program.

**GOVERNING BOARD**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Beatriz Leyva-Cutler	President	2012
John T. Swlawsky	Vice President	2012
Leah Wilson	Director	2014
Karen Hemphill	Director	2014
Josh Daniels	Director	2014

**ADMINISTRATION**

William Huyett  
Superintendent

Javetta Cleveland, CPA  
Deputy Superintendent, Business

Neil Smith  
Assistant Superintendent, Educational Services

Delia Ruiz  
Assistant Superintendent, Human Resources

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**

For the Year Ended June 30, 2011

	<u>Original Second Period Report</u>	<u>Revised Second Period Report *</u>	<u>Audited Second Period Report **</u>	<u>Annual Report</u>
Elementary:				
Kindergarten	632	632	632	633
First through Third	1,997	1,997	1,997	1,996
Fourth through Sixth	1,764	1,764	1,763	1,764
Seventh and Eighth	1,196	1,196	1,196	1,200
Home and Hospital	2	2	2	3
Special Education	<u>67</u>	<u>73</u>	<u>73</u>	<u>71</u>
Subtotal Elementary	<u>5,658</u>	<u>5,664</u>	<u>5,663</u>	<u>5,667</u>
Secondary:				
Regular Classes	3,073	3,073	3,044	3,043
Special Education	89	89	89	86
Compulsory Continuation Education	95	95	95	85
Home and Hospital	<u>12</u>	<u>12</u>	<u>12</u>	<u>11</u>
Subtotal Secondary	<u>3,269</u>	<u>3,269</u>	<u>3,240</u>	<u>3,225</u>
District Totals	<u><u>8,927</u></u>	<u><u>8,933</u></u>	<u><u>8,903</u></u>	<u><u>8,892</u></u>

\* Reflects revisions made by the District in August 2011.

\*\* Reflects the effect of Finding 2011-01.

See accompanying notes to  
supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME**

**For the Year Ended June 30, 2011**

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2010-11 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	28,875	46,560	180	In Compliance
Grade 1	50,400	42,875	50,970	180	In Compliance
Grade 2	50,400	42,875	50,970	180	In Compliance
Grade 3	50,400	42,875	50,970	180	In Compliance
Grade 4	54,000	46,905	54,590	180	In Compliance
Grade 5	54,000	46,905	54,590	180	In Compliance
Grade 6	54,000	46,905	54,323	180	In Compliance
Grade 7	54,000	46,905	54,323	180	In Compliance
Grade 8	54,000	46,905	54,323	180	In Compliance
Grade 9	64,800	54,560	65,219	180	In Compliance
Grade 10	64,800	54,560	65,219	180	In Compliance
Grade 11	64,800	54,560	65,219	180	In Compliance
Grade 12	64,800	54,560	65,219	180	In Compliance

See accompanying notes to  
supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**

For the Year Ended June 30, 2011

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	NCLB: Title I Cluster:		
84.010	NCLB: Title I, Part A, Basic Grants	14329	\$ 946,016
84.389	NCLB: ARRA Part A, Basic Grants		
	Low Income and Neglected	15005	349,985
84.010	NCLB: Title I, Part A, Program Improvement LEA Corrective Action	14955	<u>94</u>
	Subtotal NCLB: Title I Cluster		<u>1,296,095</u>
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B	13379	1,337,034
84.173	Special Education: IDEA Preschool Grants, Part B, Sec. 619	13430	32,016
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B	13682	54,047
84.027	Special Education: IDEA Local Assistance, Part B, Section 611, Private School ISPs	10115	4,401
84.027	Special Education: IDEA Local Assistance, Part B, Early Intervening Services	10119	252,153
84.391	Special Education: ARRA IDEA Part B, Section 611, Basic Local Assistance	15003	676,156
84.391	Special Education: ARRA IDEA Part B, Local Assistance Early Intervening Services	10124	126,529
84.391	Special Education: ARRA IDEA Part B, Section 611, Preschool Local Entitlement	15002	28,012
84.392	Special Education: ARRA IDEA Part B, Section 619, Preschool Grants	15000	<u>21,164</u>
	Subtotal Special Education Cluster		<u>2,531,512</u>
84.386	NCLB: Title II Part D, Education Technology, Competitive Grants	15019	22,558
84.318	NCLB: Title II Part D, Education Technology, Formula Grant	14334	6,836
84.365	NCLB: Title III, Immigrant Education Program	14346	129,637
84.365	NCLB: Title III, Immigrant Education Program	15146	54,331
84.287	NCLB: Title IV, Part B, 21st Century Community Centers-Core	14349	341,733
84.181	SE: IDEA Early Intervention Grants, Part C	23761	12,752
84.048	Vocational & Applied Technology, Secondary	14894	46,850

(Continued)

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
(Continued)  
**For the Year Ended June 30, 2011**

<b>Federal Catalog Number</b>	<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.002	AE: Adult Secondary Education	13978	\$ 17,747
84.002A	AE: Adult Basic Education & ESL	14508	381,651
84.002A	AE: English Literacy & Civics Education	14109	177,709
84.126A	Department of Rehabilitation: Workability II, Transition Partnership	10006	158,591
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	293,459
	Children Assistance Grants	14332	41,125
84.387	NCLB: ARRA Title X, McKinney-Vento Homeless Assistance	15007	19,481
84.184E	Readiness and Emergency Management for Schools	N/A	122,585
84.215L	Smaller Learning Communities	N/A	548,292
84.394	ARRA: State Fiscal Stabilization Fund	25008	<u>3,274,360</u>
	Total U.S. Department of Education		<u>9,477,304</u>
<u>U.S. Department of Health and Human Services - Passed through California Department of Education</u>			
93.596	Child Development: Federal General Child Care, & Development	13609	636,107
93.778	Department of Health Care Services: Medi-Cal Billing Option	10013	<u>6,681</u>
	Total U.S. Department of Health and Human Services		<u>642,788</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.558	Child Nutrition: Child Care Food Program	13393	260,057
10.553	Child Nutrition: National School Lunch	13390	1,885,637
10.579	Child Nutrition: Equipment Assistance Grants	14906	<u>84,632</u>
	Total U.S. Department of Agriculture		<u>2,230,326</u>
	Total Federal		<u>\$ 12,350,418</u>

See accompanying notes to supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT**  
**WITH AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2011**

There were no adjustments proposed to any funds of the District.

See accompanying notes to  
supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS**

**For the Year Ended June 30, 2011**

	<u>(Budget)</u> <u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b><u>General Fund</u></b>				
Revenues and other financing sources	\$ 114,449,721	\$ 116,852,254	\$ 113,823,582	\$ 111,688,556
Expenditures	113,037,952	112,617,367	108,594,121	112,418,251
Other uses and transfers out	<u>3,581,701</u>	<u>3,378,611</u>	<u>3,855,309</u>	<u>585,955</u>
Total outgo	<u>116,619,653</u>	<u>115,995,978</u>	<u>112,449,430</u>	<u>113,004,206</u>
Change in fund balance	<u>\$ (2,169,932)</u>	<u>\$ 856,276</u>	<u>\$ 1,374,152</u>	<u>\$ (1,315,650)</u>
Ending fund balance	<u>\$ 15,692,321</u>	<u>\$ 17,862,253</u>	<u>\$ 17,005,977</u>	<u>\$ 15,631,825</u>
Available reserves	<u>\$ 12,893,004</u>	<u>\$ 9,596,554</u>	<u>\$ 5,013,851</u>	<u>\$ 5,819,277</u>
Designated for economic uncertainties	<u>\$ 2,581,762</u>	<u>\$ 3,463,976</u>	<u>\$ 2,513,367</u>	<u>\$ 2,495,018</u>
Undesignated fund balance	<u>\$ 10,311,242</u>	<u>\$ 6,132,578</u>	<u>\$ 2,500,484</u>	<u>\$ 3,324,259</u>
Available reserves as a percentage of total outgo	<u>11.1%</u>	<u>8.3%</u>	<u>4.5%</u>	<u>5.1%</u>
<b><u>All Funds</u></b>				
Total long-term liabilities	<u>\$ 230,816,715</u>	<u>\$ 241,536,715</u>	<u>\$ 216,696,199</u>	<u>\$ 227,141,291</u>
Average daily attendance at P-2	<u>8,846</u>	<u>8,933</u>	<u>8,681</u>	<u>8,454</u>

The General Fund fund balance has increased by \$914,778 over the past three fiscal years. The District projects a decrease of \$2,169,932 for the year ending June 30, 2012. For a district this size, the State of California recommends available reserves of at least 3% of total General Fund expenditures, transfers out, and other uses be maintained. For the year ended June 30, 2011, the District has met this requirement. For purposes of the calculation of the available reserves, the District includes the ending fund balance of the Special Reserve for Other Than Capital Projects Fund as designated for economic uncertainties.

The District has incurred operating surpluses in two of the past three years, but anticipates incurring an operating deficit during the 2011-2012 fiscal year.

Total long-term liabilities have increased by \$14,395,424 over the past two years.

Average daily attendance has increased by 479 over the past two years. The District anticipates a decrease of 87 ADA during the fiscal year ending June 30, 2012.

See accompanying notes to  
supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS**

**For the Year Ended June 30, 2011**

**Charter Schools Chartered by District**

**Included in District  
Financial Statements, or  
Separate Report**

Currently, there are no charter schools operating under the District.

See accompanying notes to  
supplementary information.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**

**1. PURPOSE OF SCHEDULES**

A - Schedule of Average Daily Attendance

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

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 requirements, and is presented on the modified accrual basis of accounting.

The following schedule provides a reconciliation between revenues reported on the Statement of Revenues, Expenditures and Change in Fund Balances and the related expenditures reported on the Schedule of Expenditure of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2011.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 10,045,168
Add: State Fiscal Stabilization Funds spent from prior year awards	84.394	2,343,277
Less: Medi-Cal Billing Funds not spent	93.778	<u>(38,027)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 12,350,418</u>

**BERKELEY UNIFIED SCHOOL DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION**

(Continued)

**1. PURPOSE OF SCHEDULES (Continued)**

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

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

E - Schedule of Financial Trends and Analysis

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2011-2012 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

**2. EARLY RETIREMENT INCENTIVE PROGRAM**

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2011, the District did not adopt such a program.

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Trustees  
Berkeley Unified School District  
Berkeley, California

We have audited the compliance of Berkeley Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the state laws and regulations listed below for the year ended June 30, 2011. Compliance with the requirements of state laws and regulations 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 the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state laws and regulations listed below 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.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Regular and Special Day Classes	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	No, see below
Instructional Materials:		
General requirements	8	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	No, see below
Public Hearing Requirements - Receipt of Funds	1	Yes
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Yes

**INDEPENDENT AUDITORS' REPORT  
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contemporaneous Records of Attendance, for charter schools	1	No, see below
Mode of Instruction, for charter schools	1	No, see below
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	No, see below
Annual Instructional Minutes - Classroom-Based, for charter schools	3	No, see below

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Early Retirement Incentive Program because the District did not offer this program in the current year.

The 2010-2011 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2011. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2010-2011 Audit Guide relating to the comparison of tested data from the 2010-2011 fiscal year to the 2010-2011 School Accountability Report Cards.

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and has more than one school serving K-3.

The District does not have any charter schools, therefore we did not perform any of the procedures required by Article 4 of the Audit Guide.

As described in Finding 2011-02 in the accompanying Schedule of Audit Findings and Questioned Costs, Berkeley Unified School District did not comply with requirements regarding Attendance procedures. Compliance with such requirements is necessary, in our opinion, for Berkeley Unified School District to comply with state laws and regulations applicable to Attendance Accounting and Reporting.

In our opinion, except for the noncompliance with Attendance procedures identified in the Schedule of Audit Findings and Questioned Costs as Finding 2011-02, Berkeley Unified School District complied with the state laws and regulations referred to above for the year ended June 30, 2011. Further based on our examination, for items not tested, nothing came to our attention to indicate that Berkeley Unified School District had not complied with state laws and regulations.

Berkeley Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

**INDEPENDENT AUDITORS' REPORT**  
**ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

This report is intended solely for the information of the Board of Trustees, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties.



Crowe Horwath LLP

Sacramento, California  
December 13, 2011

**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***

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Board of Trustees  
Berkeley Unified School District  
Berkeley, California

We have audited the financial statements of Berkeley Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. 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

Management of Berkeley Unified School District is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Berkeley Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Berkeley Unified School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, 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. However we identified certain matters involving internal control that we have communicated to management in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2011-01.

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*.

**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**

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(Continued)

Berkeley Unified School District's response to the finding identified in our audit is included in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the District's response and, accordingly, express no opinion on it.

This report is intended solely for the information of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and 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.

  
Crowe Horwath LLP

Sacramento, California  
December 13, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Board of Trustees  
Berkeley Unified School District  
Berkeley, California

Compliance

We have audited Berkeley Unified School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Berkeley Unified School District's major federal programs for the year ended June 30, 2011. Berkeley Unified School District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Audit 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. 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 on Berkeley Unified School District's compliance with those requirements.

In our opinion, Berkeley Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Berkeley Unified School District's internal control over compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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(Continued)

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 of the Board of Trustees, management, the California Department of Education, the California State Controller's Office and 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.

  
Crowe Horwath LLP

Sacramento, California  
December 13, 2011

## **FINDINGS AND RECOMMENDATIONS**

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weakness(es)? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements  
 noted? \_\_\_\_\_ Yes  X  No

**FEDERAL AWARDS**

Internal control over major programs:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weakness(es)? \_\_\_\_\_ Yes  X  None reported

Type of auditors' report issued on compliance for  
 major programs: Unqualified

Any audit findings disclosed that are required to be  
 reported in accordance with Circular A-133,  
 Section .510(a)? \_\_\_\_\_ Yes  X  No

Identification of major programs:

_____ CFDA Number(s) _____	_____ Name of Federal Program or Cluster _____
84.010, 84.389	Title I, Part A Cluster (including ARRA)
84.027, 84.027A, 84.173, 84.391, 84.392	Special Education Cluster (including ARRA)
84.215L	Smaller Learning Communities
93.596	Child Development Federal Cluster
84.394	ARRA: State Fiscal Stabilization Fund

Dollar threshold used to distinguish between Type A  
 and Type B programs: \$ 370,513

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

**STATE AWARDS**

Internal control over state programs:  
 Material weakness(es) identified? \_\_\_\_\_ Yes  X  No  
 Significant deficiency(ies) identified not considered  
 to be material weaknesses? \_\_\_\_\_ Yes  X  None reported

Type of auditors' report issued on compliance for  
 state programs: Qualified

**BERKELEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

(Continued)

**Year Ended June 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2011-01 DEFICIENCY - ASSOCIATED STUDENT BODY (30000)**

Criteria

Internal Controls – Safeguarding of Assets

Condition

At Martin Luther King Middle School:

- Cash is not counted when turned into the Vice Principal, and there is no receipt of the money.
- The receipt of cash is not posted and there is not a detailed list of what the deposit contains.
- No Student Council / Leadership Class minutes are maintained to record the approval of Purchases with, or Disbursements of ASB Funds.
- No Student Council / Leadership Class minutes are maintained to record the approval of revenue producing activities.
- Individual fund balances are not easily determined as no reconciliation process is performed.
- There are no bank account reconciliations over ASB money being performed.

Effect

There exists a risk that ASB funds could potentially be misappropriated.

Cause

District-established internal control procedures have not been followed.

Fiscal Impact

Not determinable.

Recommendation

Individual school sites should perform timely reconciliations over the bank accounts which should be signed by the preparer and signed by a second individual. Cash should be counted in dual custody and evidenced by the signatures of Vice Principal and Student Council advisor when turned in. Deposits should be accompanied by a detailed listing of their contents and a receipt should be issued upon collection. Individual club funds should be tracked separately to prevent expenditures in excess of funds available for a particular activity. Student Council / Leadership Class should keep minutes of their meetings to track approval of Purchases, Disbursements, and Revenue Producing activities.

**BERKELEY UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
(Continued)  
**Year Ended June 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**  
(Continued)

**2011-01 DEFICIENCY - ASSOCIATED STUDENT BODY (30000) (Continued)**

Corrective Action Plan

District management will discuss internal control over student body accounting with site personnel and work to ensure that appropriate controls are implemented for the site.

**BERKELEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

(Continued)

**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**BERKELEY UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

(Continued)

**Year Ended June 30, 2011**

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

**2011-02 STATE COMPLIANCE - ATTENDANCE (10000)**

Criteria

Attendance Accounting and Reporting in California Public Schools, Title 5, CCR, Sections 401 and 421 (b), and Education Code Section 44809 – Each LEA must develop and maintain accurate and adequate records to support the attendance reported to the State.

Condition

At John Muir Elementary, one student was improperly counted as present for a total of one day. At Berkeley High School, one student was improperly counted as present for a total of three days.

Effect

The extrapolated effect of this finding for both schools is an overstatement of 29.18 ADA.

Cause

At John Muir Elementary, one student had an absent verification via the call log; however, this student was marked present in the sites' detailed attendance report. At Berkeley High School, the one attendance finding was uncovered due to an email from a parent that stated that the student was absent for a particular day marked present in the system.

Fiscal Impact

The extrapolated effect of the error at both schools is a total overstatement of 29.18 ADA representing approximately \$191,972 in apportionment.

Recommendation

We recommend that the district revise and resubmit the Second Period of Attendance, removing the disallowed ADA. We recommend that the site secretaries at John Muir Elementary and Berkeley High School verify that the students are properly marked absent in the system against the note and or call log.

Corrective Action Plan

The District will revise and resubmit the Second Period Report of Attendance.

**STATUS OF PRIOR YEAR  
FINDINGS AND RECOMMENDATIONS**

**BERKELEY UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**Year Ended June 30, 2011**

	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2010-1</p> <p>Purchase orders for construction contracts were established as liabilities in the Building Fund, with subsequent payments applied against the purchase order balance, resulting in an overstatement of accounts payable.</p> <p>The District should only use valid invoices received from vendors to establish accounts payables balances. The District should also review all purchase orders throughout the year, and specifically at year end to determine the status of projects and to verify receipt of all applicable invoices.</p>	<p>Implemented.</p>	
<p>2010-2</p> <p>At Berkeley High School:</p> <ul style="list-style-type: none"> <li>• Bank reconciliations have no evidence of review.</li> </ul> <p>At Longfellow Middle School:</p> <ul style="list-style-type: none"> <li>• Cash is not counted when turned into the school secretary and there is no evidence of a written receipt.</li> <li>• Deposits are not made in a timely manner.</li> <li>• Funds for individual activities are not tracked separately.</li> <li>• There are no bank account reconciliations over ASB money being performed.</li> </ul> <p>The schools should perform timely reconciliations which should be reviewed and approved by the school principal.</p> <p>Cash should be counted in dual custody when turned in to the secretary and receipts should be completed upon the collection of cash. Individual funds should be tracked separately in order to prevent expenditures in excess of funds available for a particular activity.</p>	<p>Partially implemented.</p>	<p>Refer to current year Finding 2011-01.</p>

**BERKELEY UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

(Continued)

**Year Ended June 30, 2011**

<b>Finding/Recommendation</b>	<b>Current Status</b>	<b>District Explanation If Not Implemented</b>
<p>2010-3</p> <p>Semi-annual time certifications were not performed for certain Federally Funded employees. Certifications were not performed for all selected employees for the Child Care program. For the Special Education programs, certifications were not performed for four employees out of six selected for testing.</p> <p>All federally-funded employees should perform the semi-annual time certifications.</p>	<p>Implemented.</p>	
<p>2010-4</p> <p>At John Muir Elementary, six students were improperly counted as present for a total of eight days. Also, there was no evidence of a call log and attendance notes were not being kept. At Rosa Parks Elementary, three students were improperly counted as present for a total of three days.</p> <p>The District should revise and resubmit the Second Period and Annual Reports of Attendance, removing the disallowed ADA. The site secretary at John Muir should verify that students are properly marked absent in the attendance system once the absence is verified upon receipt of a note. She should also keep a phone record of the parents who call in absences. The school secretary at Rosa Parks should verify that the correct code is being used. Also, the District should revisit the proper attendance procedures with the attendance clerk/school secretary of Rosa Parks and John Muir.</p>	<p>Not implemented</p>	<p>Refer to current year Finding 2011-02.</p>

**BERKELEY UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

(Continued)

**Year Ended June 30, 2011**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
2010-5  The District prepared the calculation indicating that the District was in compliance with the required ratio; however, there was no review by a supervisor or manager to ensure that it was in compliance. Staff could not provide assurance that the calculation was performed properly and traced to supporting documentation.  The District should maintain contemporaneous schedules to support the Administrator to Teacher ratio calculation.	Implemented	