

BERKELEY UNIFIED SCHOOL DISTRICT
Berkeley, California

FINANCIAL STATEMENTS
June 30, 2014

BERKELEY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances - Governmental Funds - to the Statement of Activities	18
Statement of Net Position - Proprietary Fund - Self-Insurance Fund	19
Statement of Change in Net Position - Proprietary Fund - Self-Insurance Fund	20
Statement of Cash Flows - Proprietary Fund - Self Insurance Fund	21
Statement of Fiduciary Assets and Liabilities - All Agency Funds	22
Notes to Financial Statements	23
Required Supplementary Information:	
General Fund Budgetary Comparison Schedule	43
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	44
Notes to Required Supplementary Information	45

BERKELEY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2014

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
Supplementary Information:	
Combining Balance Sheet - All All Non-Major Funds	46
Combining Statement of Revenues, Expenditures and Change in Fund Balances - All Non-Major Funds	47
Combining Statement of Changes in Assets and Liabilities All Agency Funds	48
Organization	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Schedule of Expenditure of Federal Awards	52
Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements	54
Schedule of Financial Trends and Analysis - Unaudited	55
Schedule of Charter Schools	56
Notes to Supplementary Information	57
Independent Auditor's Report on Compliance with State Laws and Regulations	59
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	63
Findings and Recommendations:	
Schedule of Audit Findings and Questioned Costs	65
Status of Prior Year Findings and Recommendations	70

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise Berkeley Unified School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 3 to 12 and the General Fund Budgetary Comparison Schedule and Schedule of Other Postemployment Benefits (OPEB) Funding Progress on pages 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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 schedule of expenditure of federal awards as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditure of federal awards and other supplementary information as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Financial Trends and Analysis, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and other supplementary information as listed in the table of contents, except for the Schedule of Financial Trends and Analysis, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Financial Trends and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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


Crowe Horwath LLP

BERKELEY UNIFIED SCHOOL DISTRICT

2020 Bonar Street, Berkeley, California 94702

www.berkeley.k12.ca.us



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 Position and the Statement of Activities, which begin on page 15. 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 17.

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-term* 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 explain and support 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.

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
<i>Scope</i>	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
<i>Required financial statements</i>	<ul style="list-style-type: none"> • statement of net position 	<ul style="list-style-type: none"> • balance sheet 	<ul style="list-style-type: none"> • statement of net position 	<ul style="list-style-type: none"> • statement of fiduciary net position
	<ul style="list-style-type: none"> • statement of activities 	<ul style="list-style-type: none"> • statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> • statement of revenues, expenses & change in fund net position • statement of cash flows 	<ul style="list-style-type: none"> • statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	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
<i>Type of asset/liability information</i>	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 non-financial assets, though they can
<i>Type of inflow/outflow information</i>	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

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 Position reports the difference between the District's assets and liabilities and can be used to measure the District's financial health or position.

Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating. 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.

At year end, the District had an 8% increase in its net position over the prior year, increasing from \$102.9 million to \$111 million.

Statement of Net Position

ASSETS	Governmental Activities		Percentage Change 2013-14
	2013	2014	
Current and other assets	131,023,662	92,370,207	
Capital assets	<u>264,781,809</u>	<u>294,743,136</u>	
Total assets	<u>395,805,471</u>	<u>387,113,343</u>	-2%
DEFERD OUTFLOWS			
Deferred loss from refunding of debt	<u>2,302,970</u>	<u>2,086,997</u>	-9%
LIABILITIES			
Long-term debt outstanding	264,979,405	252,997,449	
Other liabilities	<u>30,271,651</u>	<u>25,181,213</u>	
Total liabilities	<u>295,251,056</u>	<u>278,178,662</u>	-6%
NET POSITION			
Invested in capital assets, net of related debt	66,079,440	48,066,183	
Restricted	28,852,869	57,733,399	
Unrestricted	<u>7,925,081</u>	<u>5,222,096</u>	
Total net position	<u>102,857,390</u>	<u>111,021,678</u>	8%

All current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and the state aid formula finance most of these activities

Statement of Activities

	<u>2013</u>	<u>2014</u>
REVENUES		
Program Revenues:		
Charges for Services	886,826	710,076
Operating Grants	29,630,303	28,373,385
Capital Grants and Contributions	5,332,153	559,607
General Revenues		
Property Taxes	79,690,513	83,596,543
Federal and State Aid	36,209,909	41,471,482
Other	<u>5,108,806</u>	<u>2,557,949</u>
Total Revenues	<u>156,858,510</u>	<u>157,269,042</u>
EXPENSES		
Instruction	81,151,895	82,751,816
Instruction Related Services	16,927,380	16,317,120
Pupil Services	12,816,556	13,095,589
Ancillary Services	248,440	236,170
Community Services	173,804	184,178
General Administration	10,777,451	10,737,939
Plant Services	14,700,249	15,401,396
Enterprise Services	2,216,740	128,458
Interest	10,028,852	9,968,246
Other and Other Outgo	<u>(9,434)</u>	<u>283,842</u>
Total Expenses	<u>149,031,933</u>	<u>149,104,754</u>
Increase in Net Assets	7,826,577	8,164,288
Cumulative effect of change in accounting principle	(2,357,382)	
Net Assets - Beginning	<u>97,388,195</u>	<u>102,857,390</u>
Net Assets - Ending	<u>102,857,390</u>	<u>111,021,678</u>

Capital Assets

At year-end, the District's capital assets had an increase of \$29.9 million over the prior year. This represents an 11.3% increase over last year's total capital assets, and was primarily due to completion of construction projects in progress.

The following table summarizes the District's capital assets, net of accumulated depreciation:

	<u>2013</u>	<u>2014</u>	Percentage Change <u>2013-2014</u>
Land	6,908,949	6,908,949	
Improvement of sites	4,800,737	10,420,135	
Buildings	198,651,001	221,027,506	
Equipment	1,304,211	1,072,404	
Work in Process	<u>53,116,911</u>	<u>55,314,142</u>	
 Total	 <u>\$ 264,781,809</u>	 <u>\$ 294,743,136</u>	 11.3%

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 increase in the value of Buildings and Improvement of Sites was primarily due to completion of the West Campus Classrooms and the Derby Field. Once these projects are completed, these costs are transferred to Improvement of Sites or Building assets.

District Indebtedness

At year-end, the District has \$253 million of long-term debt. Of that, \$240.9 million is General Obligation Bonds secured by property tax increases voted on by local residents. General Obligation Bonds are a long term obligation issued in order to borrow up-front funds for bond measures until property tax proceeds are received from Berkeley residents. In FY 2013-14, there were \$11.7 million of General Obligation Bonds redeemed.

	Governmental Activities		Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Compensated absences	1,417,913	1,172,453	
General obligation bonds	252,619,222	240,944,222	
Premiums on General Obligation Bonds	8,350,265	7,819,728	
Post-employment medical benefits	<u>2,592,005</u>	<u>3,061,046</u>	
 Total	 <u>\$ 264,979,405</u>	 <u>\$ 252,997,449</u>	 -4.5%

Post-Employment Medical Benefits represent the annual unfunded portion that has not yet been reserved for future payments. The accumulated liability balance of \$3.1 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.

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 (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as 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 Transportation 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 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 the District is fiscally solvent and has met the 3% reserve required by the State of California. The State of California requires all districts reserve 3% of their total expenditures (including transfers out) for economic uncertainties. The District's 3% state reserve requirement of \$3.7 million is partially maintained in the Special Reserve Fund which is reported with the General Fund. As of June 30, 2014, the District ended the year with \$4.5 million in excess of the 3% state reserve requirement in its Unrestricted General fund, after assigning \$1.3 million for salary increases and carryovers.

The State revenue incorporated in the District's financials is based on the Governor's new funding formula for school districts. Governor Brown proposed a Local Control Funding Formula (LCFF) to address the inequitable distribution of resources and ensure student needs drive the allocation of resources. The LCFF replaces revenue limits and most categorical program funding, and restores the significant funding reductions (deficit factor) made to general purpose school funding over the last five years.

The following table summarizes General Fund financial statements:

	General Fund		Percentage
	<u>2013</u>	<u>2014</u>	<u>Change</u> <u>2013-2014</u>
Total Revenues	115,269,280	124,255,374	7.8%
Total Expenditures	118,784,176	120,387,939	1.4%
Other financing sources	<u>96,676</u>	<u>(3,305,777)</u>	<u>-3519.4%</u>
Change in fund balance	<u>\$ (3,418,220)</u>	<u>\$ 561,658</u>	<u>-116.4%</u>

The surplus in FY 2013-14 represents the net impact of additional funding received as a result of the State's new LCFF, partially offset by increased expenditures salaries and wages due to negotiated increases. The significant increase in other financing sources is also as a result of the LCFF, since contributions to programs that is now included in the LCFF, are now regarded as a contribution. In addition, transfers out from the Revenue Limit, are now shown as a transfer or a contribution. In FY 2013-14, contributions to the Adult Education Program and Cafeteria Fund are reflected as other financing sources.

Cost of General Fund Operations (Funds 01-08)

At year-end, the District's cost of operations was \$120.4 million. Total District expenditures were \$1.6 million more than the previous year due to increased spending in certificated salaries and contract services and operating expenditures.

	General Fund		Percentage
	<u>2013</u>	<u>2014</u>	<u>Change</u> <u>2013-2014</u>
Certificated salaries	51,751,040	53,661,372	3.7%
Classified salaries	22,609,775	22,136,863	-2.1%
Employee benefits	21,959,753	21,033,653	-4.2%
Books and supplies	3,762,230	3,981,281	5.8%
Contract services and operating expenditures	18,460,371	19,445,206	5.3%
Capital outlay	219,954	118,770	-46.0%
Other outgo	<u>21,053</u>	<u>10,794</u>	<u>100.0%</u>
Total	<u>\$ 118,784,176</u>	<u>\$ 120,387,939</u>	<u>1.4%</u>

Budget to Actual Analysis – General Fund (Funds 01-08)

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 <u>2014</u>	Actual <u>2014</u>	Percentage Variance
Revenues			
Local Control Funding Formula	69,067,988	69,922,040	
Federal Revenues	4,178,069	3,817,062	
State Revenues	7,562,289	7,365,391	
Local Revenues	<u>42,794,753</u>	<u>43,150,881</u>	
Total Revenues	<u>\$ 123,603,099</u>	<u>\$ 124,255,374</u>	0.53%
Expenditures			
Salaries & Benefits	99,058,844	96,831,888	
Books & Supplies	3,790,422	3,981,281	
Services & Other Operating	19,736,140	19,445,206	
Capital Outlay Other Outgo	<u>288,965</u>	<u>129,564</u>	
Total Expenditures	<u>\$ 122,874,371</u>	<u>\$ 120,387,939</u>	2.02%

Revenues were \$.7 million more than budgeted, due in part, to addition gap funding received under the LCFF. Total expenditures were \$2.5 million less than budgeted due partly to unexpended program funding that was assigned in ending fund balance. In addition, there was also salary savings due to budgeted negotiated salary increases that were paid in the following year.

Cost of General Fund Operations (Fund 01 - Unrestricted)

At year-end, the District's cost of operations in the Unrestricted General Fund 01 was \$73.1 million. Total District expenditures were \$6.2 million more than the previous year primarily due to increase in salaries and benefits as a result of a 3.53% certificated salary increase FY 2013-14. A summary of the cost of operations is as follows:

	Fund 01- Unrestricted General Fund		Percentage Change
	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>
Certificated salaries	37,539,925	39,722,442	5.8%
Classified salaries	8,793,100	10,910,795	24.1%
Employee benefits	12,625,577	13,346,583	5.7%
Books and supplies	1,367,354	1,793,938	31.2%
Contract services and operating expenditures	6,392,311	7,274,044	13.8%
Capital outlay	<u>165,925</u>	<u>23,648</u>	-85.7%
Total	<u>\$ 66,884,192</u>	<u>\$ 73,071,450</u>	9.3%

Budget to Actual Analysis – Unrestricted General Fund (Fund 01)

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 <u>2014</u>	Actual <u>2014</u>	Percentage Variance
Revenues			
LCFF Funding	67,993,321	69,439,595	
State Revenues	1,758,445	1,874,161	
Local Revenues	<u>1,664,731</u>	<u>1,937,287</u>	
Total Revenues	<u>\$ 71,416,497</u>	<u>\$ 73,251,043</u>	2.6%
Expenditures			
Salaries & Benefits	64,377,629	63,979,820	
Books & Supplies	2,232,465	1,793,938	
Services & Other Operating	7,580,311	7,274,044	
Capital Outlay	<u>24,769</u>	<u>23,648</u>	
Total Expenditures	<u>\$ 74,215,174</u>	<u>\$ 73,071,450</u>	1.5%

Total actual revenues received were \$1.9 million higher than budgeted revenues, partially due to the receipt of LCFF funding and additional reimbursements received by the district. Total expenditures were \$1.1 million less than budgeted due to savings generated from budget reductions and unexpended funds. Unexpended funds were assigned in the fund balance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

As of October 31, 2014, the District's Unrestricted General Fund has a projected ending fund balance of \$4.7 million in excess of the 3% State reserve requirement, and is deficit spending by \$1 million. The fund balance increased by \$.5 million since Budget Adoption, due in part to the increase in State funding due to increased ADA.

We calculated unrestricted state funding using Department of Finance (DOF) assumptions in the Fiscal Crisis and Management Assistant team (FCMAT) Local Control Funding Formula (LCFF) calculator. The technical details of how to calculate LCFF entitlements are becoming routine with the benefit of a full year of implementation, the California Department of Education's (CDE) 2013-14 P-2 certification, and continued refinements to the FCMAT LCFF calculator.

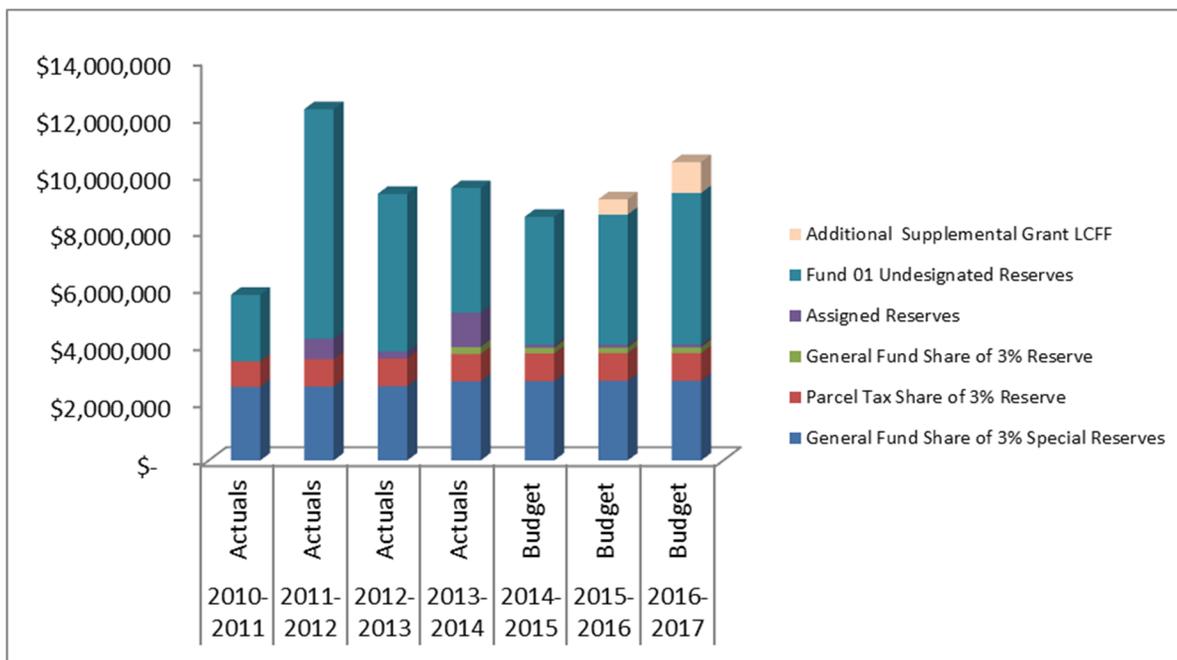
What is the local funding formula (LCFF)? Beginning in FY 2013-14, the State legislature passed Governor Brown's new funding formula entitled the Local Control Funding Formula (LCFF). The LCFF is intended to provide a funding mechanism that is simple and transparent, while allowing districts flexibility in resource allocation to address the inequitable distribution of resources, and ensure student needs drive the allocation of resources. While the LCFF is simple in concept, it is complex in application. It replaces the prior revenue limit formula and most categorical program funding, and over time restores the significant funding reductions made to general purpose school funding over the last five years. The funding formula will be implemented over an eight year period. Over eight years, the State hopes to have enough new money to restore all state funding cuts made since 2007-08 and completely fill the gap in our funding. Each year the State will pass the budget and fund a percentage of the gap in funding.

At First Interim, State Budget actions caused a substantial drop in the DOF forecast of FY 2015-16 LCFF gap closure. The gap closure was revised from 30.39% to 20.68%, nearly a ten percentage point fall, equivalent to a decline of 32% in funding available for LCFF implementation. Before it is final, the forecast could change again based on the Governor's January 2015 Budget introduction, and subsequent action by the Legislature. The District's gap in funding over the eight year period began at a total of \$15,360,442. In FY 2013-14, 11.78 % of the gap was funded and this year another 29.56% of the remaining gap will be funded. It is not known how much of the gap will actually be funded until the final State Budget. Staff's budget assumptions used to determine the gap funding for FY 2015-16 and FY 2016-17 was determined by an average percentage between

14.29% for FY 2015-16 which is the average percentage between School Services gap percentage of 7.9% and the DOF's percentage of 20.68%. The District is using 16.84% for FY 2016-17 which is the average percentage between School Services gap percentage of 8.2% and DOF's percentage of 25.48%. The final State Budget may fund the gap percentage higher or lower than the District's somewhat middle ground percentage.

Based on the District's Multi-year Projections, the District's Unrestricted General Fund is projected to have an ending fund balance of \$5.3 million for FY 2015-16 and \$6.7 million for FY 2016-17. However, if programs and staffing being funded by one-time expenditures in the amount of \$.9 million are continued from FY 2014-15 to the subsequent fiscal year, the ending fund balance for FY 2015-16 and FY 2016-17 will be \$4.4 million and \$4.9 million, respectively. A portion of this ending fund balance represents the annual increase in supplemental grant funding generated based on targeted students that has not yet been included in the expenditure budget in the Multi-year Projections. The additional supplemental grant funding of \$.5 million for FY 2015-16 and cumulative \$1 million for FY 2016-17 is set aside and designated as a part of the ending fund balance along with other designations for each respective fiscal year leaving undesignated fund balance of \$4.6 million and \$5.7 million, respectively. The supplemental grant funds will be expended in accordance with the LCAP that is required by the new funding formula.

Keep in mind, the District has not negotiated salaries for all unions for FY 2015-16 and subsequent years or budgeted for the Classification Study. In addition, the Board has a priority to increase and improve services for Career Technical Education (CTE), and to address funding for the District's Regional Occupation Program (ROP).



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and investments (Note 2)	\$ 78,031,949
Receivables	14,246,373
Stores inventory	91,885
Non-depreciable capital assets (Note 4)	62,223,091
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>232,520,045</u>
Total assets	<u>387,113,343</u>
DEFERRED OUTFLOWS	
Deferred loss from refunding of debt	<u>2,086,997</u>
LIABILITIES	
Accounts payable	20,514,648
Unpaid claims and claim adjustment expenses (Note 9)	3,411,463
Unearned revenue	1,255,102
Long-term liabilities (Note 5):	
Due within one year	12,329,222
Due after one year	<u>240,668,227</u>
Total liabilities	<u>278,178,662</u>
NET POSITION	
Net investment in capital assets	48,066,183
Restricted (Note 6)	57,733,399
Unrestricted	<u>5,222,096</u>
Total net position	<u>\$ 111,021,678</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
					<u>Governmental Activities</u>
Governmental activities:					
Instruction	\$ 82,751,816	\$ 235,338	\$ 15,726,406	\$ 559,607	\$ (66,230,465)
Instruction-related services:					
Supervision of instruction	7,226,663	29,098	2,445,334	-	(4,752,231)
Instructional library, media and technology	1,937,626	-	2,729	-	(1,934,897)
School site administration	7,152,831	-	18,755	-	(7,134,076)
Pupil services:					
Home-to-school transportation	3,508,890	-	24,198	-	(3,484,692)
Food services	3,564,532	380,658	2,344,591	-	(839,283)
All other pupil services	6,022,167	-	996,459	-	(5,025,708)
General administration:					
Data processing	1,530,131	-	5,172	-	(1,524,959)
All other general administration	9,207,808	45,255	1,137,781	-	(8,024,772)
Plant services	15,401,396	18,232	315,203	-	(15,067,961)
Ancillary services	236,170	-	5,165	-	(231,005)
Community services	184,178	-	16,216	-	(167,962)
Enterprise services	128,458	-	-	-	(128,458)
Interest on long-term liabilities	9,968,246	-	-	-	(9,968,246)
Other outgo	<u>283,842</u>	<u>1,495</u>	<u>5,335,376</u>	<u>-</u>	<u>5,053,029</u>
Total governmental activities	<u>\$ 149,104,754</u>	<u>\$ 710,076</u>	<u>\$ 28,373,385</u>	<u>\$ 559,607</u>	<u>(119,461,686)</u>
General revenues:					
Taxes and subventions:					
Taxes levied for general purposes					30,324,720
Taxes levied for debt service					22,280,368
Taxes levied for other specific purposes					30,991,455
Federal and state aid not restricted to specific purposes					41,471,482
Interest and investment earnings					181,624
Interagency revenues					318,792
Miscellaneous					<u>2,057,533</u>
Total general revenues					<u>127,625,974</u>
Change in net position					8,164,288
Net position, July 1, 2013					<u>102,857,390</u>
Net position, June 30, 2014					<u>\$ 111,021,678</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	<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>
ASSETS					
Cash and investments:					
Cash in County Treasury	\$ 17,038,778	\$ 35,025,448	\$ 18,002,989	\$ 1,366,197	\$ 71,433,412
Cash on hand and in banks	43,592	-	-	245,358	288,950
Cash in revolving fund	100,000	-	-	-	100,000
Receivables	13,019,583	29,756	12,396	1,180,182	14,241,917
Due from other funds	647,068	-	-	720	647,788
Stores inventory	-	-	-	91,885	91,885
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 30,849,021</u>	<u>\$ 35,055,204</u>	<u>\$ 18,015,385</u>	<u>\$ 2,884,342</u>	<u>\$ 86,803,952</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,864,669	\$ 2,978,779	\$ -	\$ 373,764	\$ 16,217,212
Unearned revenue	793,603	-	-	461,499	1,255,102
Due to other funds	720	-	-	647,068	647,788
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>13,658,992</u>	<u>2,978,779</u>	<u>-</u>	<u>1,482,331</u>	<u>18,120,102</u>
Fund balances:					
Nonspendable	100,000	-	-	91,885	191,885
Restricted	4,050,847	32,076,425	18,015,385	1,310,126	55,452,783
Assigned	4,825,877	-	-	-	4,825,877
Unassigned	8,213,305	-	-	-	8,213,305
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>17,190,029</u>	<u>32,076,425</u>	<u>18,015,385</u>	<u>1,402,011</u>	<u>68,683,850</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 30,849,021</u>	<u>\$ 35,055,204</u>	<u>\$ 18,015,385</u>	<u>\$ 2,884,342</u>	<u>\$ 86,803,952</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

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

June 30, 2014

Total fund balances - Governmental Funds		\$ 68,683,850
Amounts reported for governmental activities in the statement of net position 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 \$404,413,607 and the accumulated depreciation is \$109,670,471 (Note 4).		
		294,743,136
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, 2014 consisted of (Note 5):		
General Obligation Bonds	\$ (240,944,222)	
Premiums on General Obligation Bonds	(7,819,728)	
Other postemployment benefits (Note 8)	(3,061,046)	
Compensated absences	<u>(1,172,453)</u>	
		(252,997,449)
Losses on the refunding of debt are recognized as expenditure in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding debt.		
		2,086,997
The Self-Insurance Fund is used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the Self-Insurance Fund is presumed to operate for the benefit of governmental activities, assets and liabilities of the Self-Insurance Fund are reported with governmental activities in the statement of net position.		
		2,188,731
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>(3,683,587)</u>
Total net position - governmental activities		<u>\$ 111,021,678</u>

See accompanying notes to financial statements.

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

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2014

	<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>
Revenues:					
Local Control Funding Formula (LCFF):					
State apportionment	\$ 41,354,237	\$ -	\$ -	\$ -	\$ 41,354,237
Local sources	<u>28,567,803</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,567,803</u>
Total LCFF	<u>69,922,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,922,040</u>
Federal sources	3,817,062	-	1,087,232	4,020,451	8,924,745
Other state sources	7,365,391	-	183,924	3,960,102	11,509,417
Other local sources	<u>43,150,881</u>	<u>112,345</u>	<u>22,122,622</u>	<u>1,526,995</u>	<u>66,912,843</u>
Total revenues	<u>124,255,374</u>	<u>112,345</u>	<u>23,393,778</u>	<u>9,507,548</u>	<u>157,269,045</u>
Expenditures:					
Certificated salaries	53,661,372	-	-	4,084,095	57,745,467
Classified salaries	22,136,863	242,590	-	3,510,445	25,889,898
Employee benefits	21,033,653	76,466	-	2,156,305	23,266,424
Books and supplies	3,981,281	886,494	-	1,929,047	6,796,822
Contract services and operating expenditures	19,445,206	245,929	-	337,281	20,028,416
Capital outlay	118,770	34,744,616	-	-	34,863,386
Other outgo	10,794	-	-	-	10,794
Debt service:					
Principal retirement	-	-	11,675,000	-	11,675,000
Interest	<u>-</u>	<u>-</u>	<u>9,968,246</u>	<u>-</u>	<u>9,968,246</u>
Total expenditures	<u>120,387,939</u>	<u>36,196,095</u>	<u>21,643,246</u>	<u>12,017,173</u>	<u>190,244,453</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,867,435</u>	<u>(36,083,750)</u>	<u>1,750,532</u>	<u>(2,509,625)</u>	<u>(32,975,408)</u>
Other financing sources (uses):					
Operating transfers in	681,356	5,896,978	-	3,743,637	10,321,971
Operating transfers out	<u>(3,987,133)</u>	<u>-</u>	<u>-</u>	<u>(6,578,334)</u>	<u>(10,565,467)</u>
Total other financing sources (uses)	<u>(3,305,777)</u>	<u>5,896,978</u>	<u>-</u>	<u>(2,834,697)</u>	<u>(243,496)</u>
Net change in fund balances	561,658	(30,186,772)	1,750,532	(5,344,322)	(33,218,904)
Fund balances, July 1, 2013	<u>16,628,371</u>	<u>62,263,197</u>	<u>16,264,853</u>	<u>6,746,333</u>	<u>101,902,754</u>
Fund balances, June 30, 2014	<u>\$ 17,190,029</u>	<u>\$ 32,076,425</u>	<u>\$ 18,015,385</u>	<u>\$ 1,402,011</u>	<u>\$ 68,683,850</u>

See accompanying notes to 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, 2014

Net change in fund balances - Total Governmental Funds	\$ (33,218,904)
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 position (Note 4).	36,305,256
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(6,343,929)
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 position (Note 5).	11,675,000
In governmental funds, premiums on the issuance of debt is recognized as revenue. In government-wide statements, premiums are reported as adjustments to the related debt (Note 5).	530,537
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 (Notes 5 and 8).	(223,581)
Losses on the refunding of debt are recognized as expenditure in the period they are incurred. In the government-wide statements, they are categorized as deferred outflows and are amortized over the shortened life of the refunded or refunding debt.	(215,973)
Unmatured interest is not recognized until it is due and, therefore, is not accrued as a payable in governmental funds.	329,563
The Self-Insurance Fund is used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because the Self-Insurance Fund is presumed to operate for the benefit of governmental activities, Self-Insurance Fund activities are reported with governmental activities in the statement of activities.	<u>(673,681)</u>
Change in net position of governmental activities	<u>\$ 8,164,288</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND

June 30, 2014

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 5,959,587
Cash with Fiscal Agent	250,000
Receivables	<u>4,456</u>
Total current assets	<u>6,214,043</u>

LIABILITIES

Accounts payable	613,849
Self-insurance claims liabilities	<u>3,411,463</u>
Total current liabilities	<u>4,025,312</u>

NET POSITION

Restricted	<u><u>\$ 2,188,731</u></u>
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See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN NET POSITION - PROPRIETARY FUND
SELF-INSURANCE FUND
For the Year Ended June 30, 2014

Operating revenues:		
In-district contributions	\$	1,781,077
Other local		<u>40</u>
Total operating revenues		<u>1,781,117</u>
Operating expenses:		
Classified salaries		166,945
Employee benefits		59,393
Books and supplies		47,724
Claims expense		<u>2,438,013</u>
Total operating expenses		<u>2,712,075</u>
Operating loss		<u>(930,958)</u>
Non-operating income:		
Interest income		13,781
Transfers from other funds		<u>243,496</u>
Total non-operating income		<u>257,277</u>
Change in net position		(673,681)
Net position, July 1, 2013		<u>2,862,412</u>
Net position, June 30, 2014	\$	<u><u>2,188,731</u></u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND

For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from user charges	\$ 2,280,854
Cash paid to employees for services	(226,338)
Cash paid for insurance claims	(2,438,013)
Cash paid for books and supplies	<u>(47,724)</u>
Net cash used in operating activities	(431,221)
Cash flows provided by non-capital financing activities:	
Transfer from other funds	243,496
Cash flows provided by investing activities:	
Interest income	<u>13,781</u>
Change in cash and investments	(173,944)
Cash and investments, July 1, 2013	<u>6,383,531</u>
Cash and investments, June 30, 2014	<u>\$ 6,209,587</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (930,958)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Increase in receivables	(642)
Increase in accounts payable	<u>500,379</u>
Total adjustments	<u>499,737</u>
Net cash used in operating activities	<u>\$ (431,221)</u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
ALL AGENCY FUNDS
June 30, 2014

	Warrant Pass Through <u>Fund</u>	Student Body <u>Funds</u>
ASSETS		
Cash and investments (Note 2):		
Cash in County Treasury	\$ 2,453,061	\$ -
Cash on hand and in banks	<u>-</u>	<u>358,429</u>
Total assets	<u><u>\$ 2,453,061</u></u>	<u><u>\$ 358,429</u></u>
LIABILITIES		
Due to statutory agencies	\$ 2,453,061	\$ -
Due to student groups	<u>-</u>	<u>358,429</u>
Total liabilities	<u><u>\$ 2,453,061</u></u>	<u><u>\$ 358,429</u></u>

See accompanying notes to financial statements.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO 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 Position 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 Assets and Liabilities.

The Statement of Net Position 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.

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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, 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.

A - Major Funds

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. The activity of the Special Reserve for Other than Capital Outlay Fund is included with the General Fund, for financial reporting purposes.

2 - Building Fund:

The Building Fund is used to account for resources used for the acquisition of capital facilities by the District.

3 - Bond Interest and Redemption Fund:

The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

B - Other Funds

1 - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This includes the Adult Education, Child Development, Cafeteria and Pupil Transportation Equipment Funds.

2 - The County School Facilities Fund is used to account for resources used for new school facilities construction, modernization projects, facility hardship grants, and for acquisition of capital facilities of the District.

3 - The Tax Override Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

5 - Agency Funds are Fiduciary Funds which 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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

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 proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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.

Receivables

Receivables are made up principally of amounts due from the State of California for Local Control Funding Formula and Categorical programs. The District has determined that no allowance for doubtful accounts was needed as of June 30, 2014.

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 position.

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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Amortization for the year ended June 30, 2014 totaled \$215,973.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item of this type.

Compensated Absences

Compensated absences in the amount of \$1,172,453 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.

Unearned 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 unearned revenue until earned.

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.

Restricted Net Position

Restrictions of the ending net position indicate the portions of net position not appropriate for expenditure or amounts legally segregated for a specific future use. The restriction for unspent categorical program revenues represents the portion of net position restricted to specific program expenditures. The restrictions for special revenues, capital projects and debt repayment represents the portion of net position restricted for special purposes, capital projects and the retirement of debt. The restriction for self insurance represents the portion of net position which will be used for payment of workers compensation claims. It is the District's policy to first use restricted net position when allowable expenditures are incurred.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

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 and stores inventory.

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 position as reported in the government-wide 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, 2014, 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, 2014, 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 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, 2014, 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 Position 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 FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

New Accounting Pronouncements

In March 2012 GASB issued Statement No. 66, Technical Corrections – 2013, an amendment of GASB Statements No. 10 and No. 61. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 64, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements. This Statement amends Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, by removing the provision that limits fund based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, Districts should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, Accounting for Operating Leases with Scheduled Rent Increases, and result in guidance that is consistent with the requirements in Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

In June 2012 GASB issued Statement No. 67, Financial Reporting for Pension Plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement was adopted for the District's fiscal year ended June 30, 2014, with no material impact on the District.

In June 2012 GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement is effective for the District's fiscal year ending June 30, 2015. Management has not determined what impact this GASB statement will have on its financial statements, however it is expected to be significant.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In November 2013 GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68 and are effective for the District's fiscal year ending June 30, 2015. Management has not determined what impact this GASB statement will have on its financial statements.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2014 consisted of the following:

	Governmental Activities			Fiduciary Activities
	Governmental Funds	Proprietary Fund	Total	
Pooled funds:				
Cash in County Treasury	\$ 71,433,412	\$ 5,959,587	\$ 77,392,999	\$ 2,453,061
Deposits:				
Cash in revolving fund	100,000	-	100,000	-
Cash on hand and in banks	288,950	-	288,950	358,429
Cash with Fiscal Agent	-	250,000	250,000	-
Total cash and investments	<u>\$ 71,822,362</u>	<u>\$ 6,209,587</u>	<u>\$ 78,031,949</u>	<u>\$ 2,811,490</u>

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, 2014, the Alameda County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Deposits - Custodial Credit Risk

The District limits custodial credit risk by ensuring uninsured balances are collateralized by the respective financial institution. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2014, the carrying amount of the District's accounts was \$747,379 and the bank balance was \$1,923,440. \$541,633 of the bank balance was FDIC insured and \$1,381,807 remained uninsured but fully collateralized.

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, 2014, 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, 2014, 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.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Receivables/Payables

Interfund receivable and payable balances at June 30, 2014 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Fund:		
General	\$ 647,068	\$ 720
Non-Major Funds:		
Adult Education	-	162,060
Child Development	-	305,843
Cafeteria	<u>720</u>	<u>179,165</u>
Totals	<u>\$ 647,788</u>	<u>\$ 647,788</u>

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 2013-2014 fiscal year were as follows:

Transfer from the General Fund to the Adult Education Fund for support.	\$ 2,723,819
Transfer from the General Fund to the Child Development Fund for support.	306,000
Transfer from the General Fund to the Cafeteria Fund for Meals for the needy due to LCFF.	713,818
Transfer from the General Fund to the Self Insurance Fund for indirect cost support.	243,496
Transfer from the Adult Education Fund to the General Fund for indirect cost support.	154,141
Transfer from the Child Development Fund to the General Fund for indirect cost support.	304,745
Transfer from the Cafeteria Fund to the General Fund for indirect cost support.	222,470
Transfer from the County School Facilities Fund to the Building Fund for indirect cost support.	<u>5,896,978</u>
	<u>\$ 10,565,467</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2014, is shown below:

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Transfers</u>	Balance June 30, <u>2014</u>
Non-depreciable:				
Land	\$ 6,908,949	\$ -	\$ -	\$ 6,908,949
Work-in-process	53,116,911	36,081,154	(33,883,923)	55,314,142
Depreciable:				
Improvement of sites	10,970,594	-	6,112,953	17,083,547
Buildings	286,718,420	-	27,770,970	314,489,390
Equipment	<u>10,393,477</u>	<u>224,102</u>	<u>-</u>	<u>10,617,579</u>
Totals, at cost	<u>368,108,351</u>	<u>36,305,256</u>	<u>-</u>	<u>404,413,607</u>
Less accumulated depreciation:				
Improvement of sites	(6,169,857)	(493,555)	-	(6,663,412)
Buildings	(88,067,419)	(5,394,465)	-	(93,461,884)
Equipment	<u>(9,089,266)</u>	<u>(455,909)</u>	<u>-</u>	<u>(9,545,175)</u>
Total accumulated depreciation	<u>(103,326,542)</u>	<u>(6,343,929)</u>	<u>-</u>	<u>(109,670,471)</u>
Capital assets, net	<u>\$ 264,781,809</u>	<u>\$ 29,961,327</u>	<u>\$ -</u>	<u>\$ 294,743,136</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 3,764,913
Instructional supervision and administration	304,498
Instructional library, media and technology	89,957
School site administration	359,742
Home-to-school transportation	182,123
Food services	162,712
All other pupil services	229,125
Ancillary services	11,529
Community services	9,948
Enterprise activities	124,085
All other general administration	372,060
Centralized data processing	60,332
Plant services	<u>672,905</u>
Total depreciation expense	<u>\$ 6,343,929</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM LIABILITIES

General Obligation Bonds

In May 2005, the District issued 2005 General Obligation Refunding Bonds, totaling \$19,090,000, for the purpose of refunding the District's 1992 General Obligation Bonds, Series I. The 2005 General Obligation Refunding Bonds bear interest at rates ranging from 3.00% to 4.25% and are scheduled to mature through August 1, 2024.

In July 2005, the District issued General Obligation Bonds, Election of 2000, Series 2005 totaling \$24,500,000, for the purpose of financing projects to repair, upgrade and add new classrooms. The Series 2005 General Obligation Bonds bear interest at rates ranging from 3.35% to 7.00% and are scheduled to mature through August 1, 2029.

In June 2007, the District issued General Obligation Bonds, Election of 2000, Series 2007 totaling \$24,500,000, for the purpose of financing projects to repair, upgrade and add new classrooms. The Series 2007 General Obligation Bonds bear interest at rates ranging from 4.75% to 5.00% and are scheduled to mature through August 1, 2031.

In July 2008, the District issued 2008 General Obligation Refunding Bonds, totaling \$43,300,000, for the purpose of refunding the District's 1992 General Obligation Bonds, Series G and H, and General Obligation Bonds, Election of 2000, Series 2001. The 2008 General Obligation Refunding Bonds bear interest at rates ranging from 3.00% to 4.60% and are scheduled to mature through August 1, 2024.

In May 2009, the District issued 2009 General Obligation Bonds totaling \$17,774,222, for the purpose of financing renovations and modernization projects of school facilities. The 2009 General Obligation Bonds bear interest at rates ranging from 3.375% to 5.00% and are scheduled to mature through August 1, 2033.

In November 2009, the District issued 2009 General Obligation Refunding Bonds, totaling \$25,440,000, for the purpose of refunding the District's 1998 General Obligation Refunding Bonds. The 2009 General Obligation Refunding Bonds bear interest at rates ranging from 2.00% to 5.00% and are scheduled to mature through August 1, 2020.

In May 2011, the District issued General Obligation Bonds, Election of 2010, Series A and General Obligation Bonds, Election of 2010, Series B totaling \$25,000,000 and \$10,000,000, respectively, for the purpose of financing renovations and modernization projects of school facilities. The 2010 Series A General Obligation Bonds bear interest at rates ranging from 3.50% to 5.00% and are scheduled to mature through May 1, 2026. The 2010 Series B General Obligation Bonds bear interest at rates ranging from 5.00% to 5.375% and are scheduled to mature through August 1, 2035.

In September 2011, the District issued 2011 General Obligation Refunding Bonds, totaling \$55,625,000, for the purpose of refunding the District's General Obligation Bonds, Election of 2000, Series 2003 and the District's 2004 General Obligation Refunding Bonds. The 2011 General Obligation Refunding Bonds bear interest at rates ranging from 2.00% to 5.00% and are scheduled to mature through August 1, 2027.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

In February 2013, the District issued 2013 General Obligation Refunding Bonds, Series A, totaling \$19,590,000. The proceeds of the Bonds were used to refund a portion of the outstanding balance of the Election of 2000, Series 2005 General Obligation Bonds. The 2013 General Obligation Refunding Bonds, Series A bear interest at rates ranging from 2.00% to 4.00% and are scheduled to mature through August 1, 2029. As of June 30, 2013, \$19,830,000 of the Election of 2000, Series 2005 General Obligation Bonds outstanding are considered defeased.

In May 2013, the District issued General Obligation Bonds, Election of 2010, Series C totaling \$40,000,000 for the purpose of financing renovations and modernization projects of school facilities. The 2010 Series C General Obligation Bonds bear interest at rates ranging from 3.00% to 4.125% and are scheduled to mature through August 1, 2052.

In June 2013, the District issued 2013 General Obligation Refunding Bonds, Series B, totaling \$13,000,000. The proceeds of the Bonds were used to refund a portion of the outstanding balance of the 2005 General Obligation Refunding Bonds. The 2013 General Obligation Refunding Bonds, Series B bear interest at rates ranging from 3.00% to 5.00% and are scheduled to mature through August 1, 2024.

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

Issue Date	Original Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Bonds Issued	Bonds Redeemed	Bonds Outstanding June 30, 2014
05/19/05	08/01/24	3.00 - 4.25%	\$ 19,090,000	\$ 975,000	\$ -	\$ 975,000	\$ -
07/28/05	08/01/29	3.35 - 7.00%	24,500,000	880,000	-	880,000	-
06/28/07	08/01/31	4.75 - 5.00%	24,500,000	21,820,000	-	755,000	21,065,000
07/30/08	08/01/24	3.00 - 4.60%	43,300,000	33,830,000	-	2,505,000	31,325,000
05/26/09	08/01/33	3.375 - 5.00%	17,774,222	17,774,222	-	-	17,774,222
11/10/09	08/01/20	2.00 - 5.00%	25,440,000	18,590,000	-	2,315,000	16,275,000
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 - 5.375%	10,000,000	10,000,000	-	-	10,000,000
09/29/11	08/01/27	2.00 - 5.00%	55,625,000	51,160,000	-	3,975,000	47,185,000
02/05/13	08/01/29	2.00 - 4.00%	19,590,000	19,590,000	-	-	19,590,000
05/13/13	08/01/52	3.00 - 4.12%	40,000,000	40,000,000	-	-	40,000,000
06/27/13	08/01/24	3.75 - 4.25%	13,000,000	13,000,000	-	270,000	12,730,000
			<u>\$ 317,819,222</u>	<u>\$ 252,619,222</u>	<u>\$ -</u>	<u>\$ 11,675,000</u>	<u>\$ 240,944,222</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

5. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds mature as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 12,329,222	\$ 9,473,158	\$ 21,802,380
2016	11,920,000	9,008,941	20,928,941
2017	13,025,000	8,530,887	21,555,887
2018	14,555,000	8,410,399	22,965,399
2019	14,725,000	7,814,828	22,539,828
2020-2024	70,930,000	29,524,616	100,454,616
2025-2029	44,435,000	17,037,350	61,472,350
2030-2034	23,290,000	10,025,822	33,315,822
2035-2039	9,020,000	6,330,525	15,350,525
2040-2044	7,725,000	4,739,109	12,464,109
2045-2049	9,585,000	2,963,709	12,548,709
2050-2053	<u>9,405,000</u>	<u>798,291</u>	<u>10,203,291</u>
	<u>\$ 240,944,222</u>	<u>\$ 114,657,635</u>	<u>\$ 355,601,857</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2014, is shown below:

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance June 30, <u>2014</u>	Amounts Due Within <u>One Year</u>
General Obligation Bonds	\$ 252,619,222	\$ -	\$ 11,675,000	\$ 240,944,222	\$ 12,329,222
Premiums on General Obligation Bonds	8,350,265	-	530,537	7,819,728	-
Other postemployment benefits (Note 8)	2,592,005	2,562,805	2,093,764	3,061,046	-
Compensated absences	<u>1,417,913</u>	<u>-</u>	<u>245,460</u>	<u>1,172,453</u>	<u>-</u>
	<u>\$ 264,979,405</u>	<u>\$ 2,562,805</u>	<u>\$ 14,544,761</u>	<u>\$ 252,997,449</u>	<u>\$ 12,329,222</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 FINANCIAL STATEMENTS

(Continued)

6. NET POSITION / FUND BALANCES

The restricted net position as of June 30, 2014 consisted of the following:

	<u>Governmental Activities</u>
Restricted for:	
Unspent categorical program revenues	\$ 4,050,847
Special revenue	1,339,068
Capital projects	32,078,004
Debt service	18,076,749
Self-insurance	<u>2,188,731</u>
	<u>\$ 57,733,399</u>

Fund balances, by category, at June 30, 2014 consisted of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>All Non-Major Funds</u>	<u>Total</u>
Nonspendable:					
Revolving cash fund	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Stores inventory	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,885</u>	<u>91,885</u>
Subtotal nonspendable	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>91,885</u>	<u>191,885</u>
Restricted:					
Unspent categorical revenues	4,050,847	-	-	-	4,050,847
Special revenue	-	-	-	1,247,183	1,247,183
Capital projects	-	32,076,425	-	1,579	32,078,004
Debt service	<u>-</u>	<u>-</u>	<u>18,015,385</u>	<u>61,364</u>	<u>18,076,749</u>
Subtotal restricted	<u>4,050,847</u>	<u>32,076,425</u>	<u>18,015,385</u>	<u>1,310,126</u>	<u>55,452,783</u>
Assigned:					
Parcel tax revenues	3,630,589	-	-	-	3,630,589
BCCE Negotiations	454,800	-	-	-	454,800
EIA Replacement Funds	677,574	-	-	-	677,574
Instructional Materials	45,828	-	-	-	45,828
Career Technical Ed.	<u>17,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,086</u>
Subtotal assigned	<u>4,825,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,825,877</u>
Unassigned:					
Designated for economic uncertainty	2,763,124	-	-	-	2,763,124
Undesignated	<u>5,450,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,450,181</u>
Subtotal unassigned	<u>8,213,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,213,305</u>
Total fund balances	<u>\$ 17,190,029</u>	<u>\$ 32,076,425</u>	<u>\$ 18,015,385</u>	<u>\$ 1,402,011</u>	<u>\$ 68,683,850</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. EMPLOYEE RETIREMENT SYSTEMS (Continued)

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 7.0% 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 2013-2014 was 11.442% 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, 2012, 2013 and 2014 were \$2,374,100, \$2,554,529 and \$2,585,220, 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.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-2014 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, 2012, 2013 and 2014 were \$4,064,138, \$4,158,702 and \$4,503,362, respectively, and equal 100% of the required contributions for each year. On June 24, 2014 the Governor signed Assembly Bill 1469 which will increase the member contribution to 19.1% over the next seven years.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 retirees and their beneficiaries currently receiving benefits, and 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, 2014, the District contributed \$2,093,764 to the plan.

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	\$ 2,446,593
Interest on net OPEB obligation	123,120
Adjustment to annual required contribution	<u>(6,908)</u>
Annual OPEB cost (expense)	2,562,805
Contributions made	<u>(2,093,764)</u>
Increase in net OPEB obligation	469,041
Net OPEB obligation - beginning of year	<u>2,592,005</u>
Net OPEB obligation - end of year	<u>\$ 3,061,046</u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy (Continued)

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, 2014 and preceding two years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 2,439,943	81.5%	\$ 2,180,150
June 30, 2013	\$ 2,458,967	83.3%	\$ 2,592,005
June 30, 2014	\$ 2,562,805	81.7%	\$ 3,061,046

As of June 1, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$16.4 million. The covered payroll (annual payroll of active employees covered by the Plan) was \$82.3 million, and the ratio of the UAAL to the covered payroll was 19.9 percent. The OPEB plan is currently operated as a pay-as-you-go plan.

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 as Required Supplementary Information, 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 June 1, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.75 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, an annual healthcare cost trend rate of 4 percent, and a payroll increase of 2.75 percent, annually. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was 29 years.

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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, 2014:

	<u>Self Insurance Programs</u>
Liability balance, June 30, 2012	\$ <u>3,411,463</u>
Claims and changes in estimates	1,801,507
Claims payments	<u>(1,801,507)</u>
Liability balance, June 30, 2013	3,411,463
Claims and changes in estimates	2,438,013
Claims payments	<u>(2,438,013)</u>
Liability balance, June 30, 2014	\$ <u><u>3,411,463</u></u>

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The following is a summary of financial information for SELF at June 30, 2014 (in thousands):

Total assets	\$	162,746
Total liabilities	\$	118,853
Net position	\$	43,893
Total revenues	\$	11,812
Total expenses	\$	4,199

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 management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the financial position or results of operations of the District.

REQUIRED SUPPLEMENTARY INFORMATION

BERKELEY UNIFIED SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2014

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Local Control Funding Formula:				
State apportionment	\$ 24,644,834	\$ 40,697,295	\$ 41,354,237	\$ 656,942
Local sources	<u>27,140,694</u>	<u>28,370,693</u>	<u>28,567,803</u>	<u>197,110</u>
Total LCFF	<u>51,785,528</u>	<u>69,067,988</u>	<u>69,922,040</u>	<u>854,052</u>
Federal sources	4,788,141	4,178,069	3,817,062	(361,007)
Other state sources	19,998,981	7,562,289	7,365,391	(196,898)
Other local sources	<u>40,921,726</u>	<u>42,794,753</u>	<u>43,150,881</u>	<u>356,128</u>
Total revenues	<u>117,494,376</u>	<u>123,603,099</u>	<u>124,255,374</u>	<u>652,275</u>
Expenditures:				
Certificated salaries	51,751,040	53,661,372	53,661,372	-
Classified salaries	22,609,775	22,136,863	22,136,863	-
Employee benefits	21,959,752	21,033,653	21,033,653	-
Books and supplies	3,762,231	3,981,281	3,981,281	-
Contract services and operating expenditures	18,460,372	19,445,206	19,445,206	-
Capital outlay	219,954	118,770	118,770	-
Other outgo	<u>(643,041)</u>	<u>10,794</u>	<u>10,794</u>	<u>-</u>
Total expenditures	<u>118,120,083</u>	<u>120,387,939</u>	<u>120,387,939</u>	<u>-</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(625,707)</u>	<u>3,215,160</u>	<u>3,867,435</u>	<u>652,275</u>
Other financing sources (uses):				
Operating transfers in	-	681,356	681,356	-
Operating transfers out	<u>(580,468)</u>	<u>-</u>	<u>(3,987,133)</u>	<u>(3,987,133)</u>
Total other financing sources (uses)	<u>(580,468)</u>	<u>681,356</u>	<u>(3,305,777)</u>	<u>(3,987,133)</u>
Net change in fund balance	(1,206,175)	3,896,516	561,658	(3,334,858)
Fund balance, July 1, 2013	<u>16,628,371</u>	<u>16,628,371</u>	<u>16,628,371</u>	<u>-</u>
Fund balance, June 30, 2014	<u>\$ 15,422,196</u>	<u>\$ 20,524,887</u>	<u>\$ 17,190,029</u>	<u>\$ (3,334,858)</u>

See notes to required supplementary information.

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

For the Year Ended June 30, 2014

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
May 1, 2009	\$ -	\$ 16,344,627	\$ 16,344,627	0%	\$ 77,894,196	20.9%
May 1, 2011	\$ -	\$ 16,535,848	\$ 16,535,848	0%	\$ 70,124,826	23.6%
June 1, 2013	\$ -	\$ 16,396,275	\$ 16,396,275	0%	\$ 82,302,521	19.9%

Only three years of actuarial valuation data is provided because the District has only had three valuations performed.

See notes to required supplementary information.

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, 2014

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Pupil Trans- portation Equipment Fund</u>	<u>County School Facilities Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
ASSETS							
Cash and investments:							
Cash in County Treasury	\$ 374,320	\$ 696,130	\$ 223,583	\$ 9,222	\$ 1,578	\$ 61,364	\$ 1,366,197
Cash on hand and in banks	139,400	28,480	77,478	-	-	-	245,358
Receivables	741,583	53,578	385,013	7	1	-	1,180,182
Due from other funds	-	-	720	-	-	-	720
Stores inventory	-	-	91,885	-	-	-	91,885
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,255,303</u>	<u>\$ 778,188</u>	<u>\$ 778,679</u>	<u>\$ 9,229</u>	<u>\$ 1,579</u>	<u>\$ 61,364</u>	<u>\$ 2,884,342</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 220,053	\$ 99,837	\$ 53,874	\$ -	\$ -	\$ -	\$ 373,764
Unearned revenue	212,168	249,331	-	-	-	-	461,499
Due to other funds	<u>162,060</u>	<u>305,843</u>	<u>179,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>647,068</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>594,281</u>	<u>655,011</u>	<u>233,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,482,331</u>
Fund balances:							
Nonspendable	-	-	91,885	-	-	-	91,885
Restricted	<u>661,022</u>	<u>123,177</u>	<u>453,755</u>	<u>9,229</u>	<u>1,579</u>	<u>61,364</u>	<u>1,310,126</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>661,022</u>	<u>123,177</u>	<u>545,640</u>	<u>9,229</u>	<u>1,579</u>	<u>61,364</u>	<u>1,402,011</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,255,303</u>	<u>\$ 778,188</u>	<u>\$ 778,679</u>	<u>\$ 9,229</u>	<u>\$ 1,579</u>	<u>\$ 61,364</u>	<u>\$ 2,884,342</u>

BERKELEY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended

	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Pupil Trans- portation Equipment Fund</u>	<u>County School Facilities Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
Revenues:							
Federal sources	\$ 911,863	\$ 988,254	\$ 2,120,334	\$ -	\$ -	\$ -	\$ 4,020,451
Other state sources	-	3,231,055	169,440	-	559,607	-	3,960,102
Other local sources	<u>466,075</u>	<u>634,800</u>	<u>422,897</u>	<u>22</u>	<u>3,201</u>	<u>-</u>	<u>1,526,995</u>
Total revenues	<u>1,377,938</u>	<u>4,854,109</u>	<u>2,712,671</u>	<u>22</u>	<u>562,808</u>	<u>-</u>	<u>9,507,548</u>
Expenditures:							
Certificated salaries	2,116,808	1,967,287	-	-	-	-	4,084,095
Classified salaries	640,326	1,316,404	1,553,715	-	-	-	3,510,445
Employee benefits	587,666	1,002,910	565,729	-	-	-	2,156,305
Books and supplies	366,378	72,424	1,490,245	-	-	-	1,929,047
Contract services and operating expenditures	<u>254,849</u>	<u>460,699</u>	<u>(378,267)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>337,281</u>
Total expenditures	<u>3,966,027</u>	<u>4,819,724</u>	<u>3,231,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,017,173</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(2,588,089)</u>	<u>34,385</u>	<u>(518,751)</u>	<u>22</u>	<u>562,808</u>	<u>-</u>	<u>(2,509,625)</u>
Other financing sources (uses):							
Operating transfers in	2,723,819	306,000	713,818	-	-	-	3,743,637
Operating transfers out	<u>(154,141)</u>	<u>(304,745)</u>	<u>(222,470)</u>	<u>-</u>	<u>(5,896,978)</u>	<u>-</u>	<u>(6,578,334)</u>
Total other financing sources (uses)	<u>2,569,678</u>	<u>1,255</u>	<u>491,348</u>	<u>-</u>	<u>(5,896,978)</u>	<u>-</u>	<u>(2,834,697)</u>
Net change in fund balances	(18,411)	35,640	(27,403)	22	(5,334,170)	-	(5,344,322)
Fund balances, July 1, 2013	<u>679,433</u>	<u>87,537</u>	<u>573,043</u>	<u>9,207</u>	<u>5,335,749</u>	<u>61,364</u>	<u>6,746,333</u>
Fund balances, June 30, 2014	<u>\$ 661,022</u>	<u>\$ 123,177</u>	<u>\$ 545,640</u>	<u>\$ 9,229</u>	<u>\$ 1,579</u>	<u>\$ 61,364</u>	<u>\$ 1,402,011</u>

BERKELEY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended June 30, 2014

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
Student Body Funds				
<u>Berkeley High School</u>				
Assets:				
Cash on hand and in banks	\$ <u>367,999</u>	\$ <u>382,521</u>	\$ <u>429,824</u>	\$ <u>320,696</u>
Liabilities:				
Due to student groups	\$ <u>367,999</u>	\$ <u>382,521</u>	\$ <u>429,824</u>	\$ <u>320,696</u>
<u>Longfellow Middle School</u>				
Assets:				
Cash on hand and in banks	\$ <u>3,739</u>	\$ <u>69,076</u>	\$ <u>65,267</u>	\$ <u>7,548</u>
Liabilities:				
Due to student groups	\$ <u>3,739</u>	\$ <u>69,076</u>	\$ <u>65,267</u>	\$ <u>7,548</u>
<u>Martin Luther King, Jr. Middle School</u>				
Assets:				
Cash on hand and in banks	\$ <u>9,753</u>	\$ <u>21,333</u>	\$ <u>17,700</u>	\$ <u>13,386</u>
Liabilities:				
Due to student groups	\$ <u>9,753</u>	\$ <u>21,333</u>	\$ <u>17,700</u>	\$ <u>13,386</u>
<u>Willard Middle School</u>				
Assets:				
Cash on hand and in banks	\$ <u>16,972</u>	\$ <u>23,342</u>	\$ <u>23,515</u>	\$ <u>16,799</u>
Liabilities:				
Due to student groups	\$ <u>16,972</u>	\$ <u>23,342</u>	\$ <u>23,515</u>	\$ <u>16,799</u>
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ <u>398,463</u>	\$ <u>496,272</u>	\$ <u>536,306</u>	\$ <u>358,429</u>
Liabilities:				
Due to student groups	\$ <u>398,463</u>	\$ <u>496,272</u>	\$ <u>536,306</u>	\$ <u>358,429</u>

BERKELEY UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2014

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>
Karen Hemphill	President	2014
Josh Daniels	Vice President	2014
Beatriz Leyva-Cutler	Director/Clerk	2016
Judy Appel	Director	2016
Julie Sinai	Director	2014

ADMINISTRATION

Donald Evans, Ed. D
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, 2014

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Transitional Kindergarten through Third	2,822	2,821
Fourth through Sixth	2,028	2,026
Seventh and Eighth	1,211	1,213
Special Education	<u>6</u>	<u>10</u>
Subtotal Elementary	<u>6,067</u>	<u>6,070</u>
Secondary:		
Ninth through Twelfth	3,052	3,010
Special Education	<u>14</u>	<u>22</u>
Subtotal Secondary	<u>3,066</u>	<u>3,032</u>
District Totals	<u><u>9,133</u></u>	<u><u>9,102</u></u>

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2014

<u>Grade Level</u>	<u>Statutory Minutes Require- ment</u>	<u>Reduced Minutes Require- ment</u>	<u>2013-2014 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
<u>DISTRICT</u>					
Kindergarten	36,000	35,000	46,560	180	In Compliance
Grade 1	50,400	49,000	50,970	180	In Compliance
Grade 2	50,400	49,000	50,970	180	In Compliance
Grade 3	50,400	49,000	50,970	180	In Compliance
Grade 4	54,000	52,500	54,590	180	In Compliance
Grade 5	54,000	52,500	54,590	180	In Compliance
Grade 6	54,000	52,500	54,687	180	In Compliance
Grade 7	54,000	52,500	54,687	180	In Compliance
Grade 8	54,000	52,500	54,687	180	In Compliance
Grade 9	64,800	63,000	65,700	180	In Compliance
Grade 10	64,800	63,000	65,700	180	In Compliance
Grade 11	64,800	63,000	65,700	180	In Compliance
Grade 12	64,800	63,000	65,700	180	In Compliance

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education</u>			
	Special Education Cluster:		
84.027	Special Education: IDEA Basic Local Assistance Entitlement, Part B	13379	\$ 1,548,452
84.173	Special Education: IDEA Preschool Grants, Part B, Sec. 619	13430	42,247
84.027A	Special Education: IDEA Preschool Local Entitlement, Part B	13682	71,254
84.027	Special Ed: IDEA Mental Health Allocation Plan, Part B, Sec 611	10115	<u>137,625</u>
	Subtotal Special Education Cluster		<u>1,799,578</u>
	NCLB: Title III Programs:		
84.365	NCLB: Title III, Limited English Proficient (LEP)	14346	124,535
84.365A	NCLB: Title III, Immigrant Education Program	15146	<u>50,444</u>
	Subtotal NCLB: Title III Programs		<u>174,979</u>
	Vocational Education Programs:		
84.048	Carl D. Perkins Career and Technical Education: Secondary, Section 131	14894	46,408
84.048	Carl D. Perkins Career and Technical Education: Adult, Section 132	14893	<u>31,675</u>
	Subtotal Vocational Education Programs		<u>78,083</u>
	Adult Education Programs:		
84.002A	AE: Adult Secondary Education	13978	122,811
84.002A	AE: Adult Basic Education & ESL	14508	404,155
84.002A	AE: English Literacy & Civics Education	14109	238,269
84.002	AE: State Leadership Projects (Section 223)	13970	<u>11,100</u>
	Subtotal Adult Education Programs		<u>776,335</u>

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2014

<u>Federal Catalog Number</u>	<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education - Passed through California Department of Education (Continued)</u>			
84.010	NCLB: Title I, Part A, Basic Grants Low Income and Neglected	14329	\$ 860,877
84.158	Department of Rehabilitation: Workability II, Transitions Partnership Program	10006	194,827
84.287	NCLB: Title IV, Part B, 21st Century Community Centers-Core	14349	294,039
84.181	SE: IDEA Early Intervention Grants, Part C	23761	3,049
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	<u>419,987</u>
	Total U.S. Department of Education		<u>4,601,754</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	737,970
93.778	Department of Health Care Services: Medi-Cal Billing Option	10013	<u>11,960</u>
	Total U.S. Department of Health and Human Services		<u>749,930</u>
<u>U.S. Department of Agriculture - Passed through California Department of Education</u>			
10.558	Child Nutrition: CACFP Claims - Centers and Family Day Care	13393	250,284
10.555	Child Nutrition: School Programs	14906	<u>2,120,334</u>
	Total U.S. Department of Agriculture		<u>2,370,618</u>
	Total Federal Programs		<u>\$ 7,722,302</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, 2014

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, 2014

(UNAUDITED)

<u>General Fund</u>	(Budget) <u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues and other financing sources	\$ <u>123,386,995</u>	\$ <u>124,936,730</u>	\$ <u>115,912,322</u>	\$ <u>117,836,521</u>
Expenditures	122,409,586	120,387,939	118,784,176	115,338,693
Other uses and transfers out	<u>3,992,133</u>	<u>3,987,133</u>	<u>546,366</u>	<u>313,496</u>
Total outgo	<u>126,401,719</u>	<u>124,375,072</u>	<u>119,330,542</u>	<u>115,652,189</u>
Change in fund balance	<u>\$ (3,014,724)</u>	<u>\$ 561,658</u>	<u>\$ (3,418,220)</u>	<u>\$ 2,184,332</u>
Ending fund balance	<u>\$ 14,175,305</u>	<u>\$ 17,190,029</u>	<u>\$ 16,628,371</u>	<u>\$ 20,046,591</u>
Available reserves	<u>\$ 5,925,300</u>	<u>\$ 8,213,305</u>	<u>\$ 9,114,651</u>	<u>\$ 12,325,225</u>
Designated for economic uncertainties	<u>\$ -</u>	<u>\$ 2,763,124</u>	<u>\$ 2,622,737</u>	<u>\$ 3,498,651</u>
Undesignated fund balance	<u>\$ 5,925,300</u>	<u>\$ 5,450,181</u>	<u>\$ 6,491,914</u>	<u>\$ 8,826,574</u>
Available reserves as a percentage of total outgo	<u>4.7%</u>	<u>6.6%</u>	<u>7.6%</u>	<u>10.7%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 240,668,227</u>	<u>\$ 252,997,449</u>	<u>\$ 264,979,405</u>	<u>\$ 227,912,655</u>
Average daily attendance at P-2	<u>9,163</u>	<u>9,133</u>	<u>8,926</u>	<u>8,948</u>

The General Fund fund balance has decreased by \$672,230 over the past three fiscal years. The District projects a decrease of \$3,014,724 for the year ending June 30, 2014. 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, 2014, the District has met this requirement. For the purposes of calculating the District's available reserves, the ending fund balance of the Special Reserve for Other Than Capital Projects Fund is included 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 2014-2015 fiscal year.

Total long-term liabilities have increased by \$25,084,794 over the past two years, principally because of the issuance of general obligation bonds.

Average daily attendance has increased by 185 over the past two years. The District anticipates an increase of 30 ADA during the fiscal year ending June 30, 2015.

See accompanying notes to supplementary information.

BERKELEY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2014

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
REALM Charter Middle School	Separate Report
REALM Charter High School	Separate Report

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, 2014.

<u>Description</u>	<u>CFDA Number</u>	<u>Amount</u>
Total Federal revenues, Statement of Revenues, Expenditures and Change in Fund Balances		\$ 8,924,745
Less: Medi-Cal Billing Funds not spent	93.778	(115,211)
Federal interest reimbursement on Build America Bonds	N/A	<u>(1,087,232)</u>
Total Schedule of Expenditure of Federal Awards		<u>\$ 7,722,302</u>

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.

(Continued)

BERKELEY UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

(Continued)

1. PURPOSE OF SCHEDULES (Continued)

E - Schedule of Financial Trends and Analysis (Unaudited)

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2014-2015 fiscal year, as required by the State Controller's Office. The information in this schedule has been derived from audited information.

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, 2014, the District did not adopt such a program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Trustees
 Berkeley Unified School District
 Berkeley, California

Report on Compliance with State Laws and Regulations

We have audited Berkeley Unified School District's compliance 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, 2014.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time	10	Yes
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	Yes
Juvenile Court Schools	8	No, see below
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	Yes
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Yes
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Contemporaneous Records of Attendance, for charter schools	8	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	4	No, see below
Charter School Facility Grant Program	1	No, see below

The District did not offer an Early Retirement Incentive Program in the current year; therefore, we did not perform any procedures related to Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

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.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws and regulations, as listed above.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with state laws and regulations as listed above of Berkeley Unified School District. 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 above occurred. An audit includes examining, on a test basis, evidence about Berkeley Unified School Districts compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with state laws and regulations. However, our audit does not provide a legal determination of Berkeley Unified School District's compliance.

Opinion on Compliance with State Laws and Regulations

In our opinion, Berkeley Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2014. 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 the state laws and regulations.

Purpose of this Report

The purpose of this report on compliance is solely to describe the scope of our testing of compliance and the results of that testing based on the requirements of the *State of California's Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Accordingly, this report is not suitable for any other purpose.


Crowe Horwath LLP

Sacramento, California
December 15, 2014

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

Board of Trustees
Berkeley Unified School District
Berkeley, California

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

Internal Control Over Financial Reporting

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

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

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

We identified a deficiency in internal control that we communicated to management as described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding 2014-001.

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*.

Other Matter

Berkeley Unified School District's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. Berkeley Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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


Crowe Horwath LLP

Sacramento, California
December 15, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Trustees
Berkeley Unified School District
Berkeley, California

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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


Crowe Horwath LLP

Sacramento, California
December 15, 2014

FINDINGS AND RECOMMENDATIONS

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

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 auditor's report issued on compliance for
major programs: Unmodified

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
84.027, 84.027A, 84.173 93.596	Special Education Cluster Child Development: Federal General Child Care, & Development
84.010	NCLB: Title I, Part A, Basic Grants Low Income and Neglected

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? x Yes _____ No

STATE AWARDS

Type of auditor's report issued on compliance for
state programs: Unmodified

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

2014-001 DEFICIENCY - ASSOCIATED STUDENT BODY (ASB) ACCOUNTING (30000)

Criteria

Education Code Section 48930 (and California Department of Education's "Accounting Procedures for Student Organizations Handbook") requires student body organizations to follow the regulations set forth by the Governing Board of the District.

Condition

At Martin Luther King Middle School:

- Receipt/Sub-receipt books for recording ASB receipts are not maintained.
- Receipts are not provided to students upon receipt of payment
- No reconciliation between units sold and dollar amount received is performed to ensure accuracy of reporting/transactions.
- For revenue producing activities, a tally sheet is not maintained on funds collected by the ASB clerk and teachers.
- Monthly Financial statements of account balances are not prepared or reviewed by the principal.
- No signature was noted on the bank reconciliation to indicate review.

Effect

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

Cause

Adequate internal controls procedures have not been implemented and enforced by the District.

Fiscal Impact

None noted.

Recommendation

School sites should implement the proper control procedures in order to protect ASB funds from misappropriation:

- Implement the use of Sub-receipt books, to properly record transactions.
- Provide receipts for payments received from students.
- Maintain tally sheets to reconcile funds collected with units sold upon collection.
- Perform reconciliations when funds are collected from teachers, to ensure funds received are accurate and complete with units sold.
- Compare receipts to tally sheets to track accuracy of transactions.
- District office review requests for revenue-producing activities/field trips.
- Financial statements should be prepared and maintained on a monthly basis and reviewed and approved by the site administrator.
- Sign and date monthly reconciliation/financing reports for the ASB bank account review.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

(Continued)

2014-001 DEFICIENCY - ASSOCIATED STUDENT BODY (ASB) ACCOUNTING (30000) (Continued)

Corrective Action Plan

District management will discuss and reiterate accounting and reporting procedures with site personnel.

BERKELEY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2014

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, 2014

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

BERKELEY UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2014

Finding/Recommendation	Current Status	District Explanation If Not Implemented
<p>2013-01</p> <p>At Longfellow Middle School:</p> <ul style="list-style-type: none"> • Subreceipt books were not maintained to track the initial receipt of cash by the clubs or student groups. • Receipts are not issued by the ASB Accountant upon receiving cash from clubs and/or teachers. The reconciliation between units sold and the dollar amount received to ensure accuracy of the transactions, did not contain approval from either the school site or the District office. • For revenue producing activities, the cash/check tally sheet is not maintained on funds that are collected by the ASB Accountant and/or teachers, thus funds received could be inaccurate or incomplete. • Teachers have the ability to collect funds from students and deposit those funds directly into the bank account without proper review of an ASB Advisor. • The monthly financial statements of account balance balances were not prepared or reviewed by the Principal. • The school site should implement the use of sub-receipt books to properly record transactions and provide receipts for payments received from students. • The ASB Accountant should provide a receipt to the teacher, club, or other party when turning in cash to the ASB Office. The receipt should include a detail of the amount deposited, in addition to the details of the transaction resulting in the deposit. 	<p>Partially implemented.</p>	<p>See current year finding 2014-001.</p>

BERKELEY UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2014

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2013-01 (Continued)		
<ul style="list-style-type: none">• Tally sheets should be maintained by the ASB Accountant to reconcile funds collected with units sold. The reconciliation should also be reviewed and signed by an individual separate from the preparer.• Teachers should only turn in funds generated from ASB Activities to the ASB Accountant, rather than directly to the site bank account.• Financial statements should be prepared and maintained on a monthly basis and reviewed and approved by the Principal.		