



**SANTA BARBARA
SCHOOL DISTRICTS**

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

SANTA BARBARA SCHOOL DISTRICTS
OF SANTA BARBARA COUNTY
SANTA BARBARA, CALIFORNIA
AS OF JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Laura Malakoff	President	2008
Ms. Kate Parker	Vice President	2010
Ms. Nancy Harter	Member	2008
Ms. Annette Cordero	Member	2008
Dr. Robert Noël, Ed.D.	Member	2010

ADMINISTRATION

Dr. J. Brian Sarvis, Ed.D.	Superintendent
Mr. Eric D. Smith	Deputy Superintendent for Business and Non-Instructional Operations
Ms. Robin Sawaske	Associate Superintendent of Education
Ms. Shirley Corpuz	Director of Fiscal Services
Dr. Kristine Robertson	Director of Personnel
Ms. Elaine Alvarado	Coordinator of Classified Personnel
Mr. David Hetyonk	Director of Facilities and Operations

SANTA BARBARA SCHOOL DISTRICTS

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Santa Barbara School Districts
Santa Barbara, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara School Districts (the "District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara School Districts, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 52 through 54, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Varrinck Trins Dwyer Co., LLP

Rancho Cucamonga, California
December 15, 2008



Santa Barbara School Districts

This section of Santa Barbara School Districts (SBSD) (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008, with comparative totals for 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The governing board of the Santa Barbara Elementary and High School Districts adopted a resolution in accordance with Education Code Section 35110, which declared that the two districts would report as a single district (known as the Santa Barbara School Districts) for financial data in 2007-08 and beyond. This is the third year of the combined reporting, although the administration preserves the separateness of the two districts in the financial database. The unrestricted General Fund balance increased by a net \$4,768,932 between July 1, 2007 and June 30, 2008.

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*, the Statement of Net Assets and Statement of Activities, which 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.
 - *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. Governmental funds are categorized as "Major Governmental Funds" which for Santa Barbara School Districts includes the General Fund, Charter Schools Fund, Cafeteria Fund, Building Fund, Capital Facilities Fund, and Bond Interest and Redemption Fund. The second category of governmental funds are "Non-Major Governmental Funds". For Santa Barbara School Districts these funds consist of the Child Development Fund, Deferred Maintenance Fund, Retiree Benefits Special Reserve Fund, State School Building Lease-Purchase Fund, and the Special Reserve Fund for Capital Outlay Projects.

SANTA BARBARA SCHOOL DISTRICTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- *Proprietary Funds* - services, for which the District charges a fee, are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
- *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 (Associated Student Body).

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

District-Wide Financial Statements

The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Assets* includes *all* of the District's assets and liabilities with the exception of other postemployment benefits. All of the current year's revenues and expenses are accounted for in the *Statement of Activities* regardless of when cash is received or paid.

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

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

In the District-wide financial statements, the District's activities are reported in the following category:

Governmental Activities

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

SANTA BARBARA SCHOOL DISTRICTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were \$107,431,854 for the fiscal year ended June 30, 2008. Of this amount, \$10,548,029 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limit the governing board's ability to use those net assets for day-to-day operations. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets		
Current and other assets	\$ 42,862,793	\$ 51,224,537
Capital assets	168,563,594	156,843,350
Total Assets	<u>211,426,387</u>	<u>208,067,887</u>
Liabilities		
Current liabilities	8,794,968	11,276,435
Long-term obligations	95,199,565	93,043,076
Total Liabilities	<u>103,994,533</u>	<u>104,319,511</u>
Net Assets		
Invested in capital assets, net of related debt	82,559,162	76,979,882
Restricted	14,324,663	22,422,961
Unrestricted	10,548,029	4,345,533
Total Net Assets	<u>\$ 107,431,854</u>	<u>\$ 103,748,376</u>

SANTA BARBARA SCHOOL DISTRICTS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Changes in Net Assets

The District's total revenues were \$154,650,084 and total expenses were \$150,966,606. Table 2 presents total revenues and total expenses for governmental activities by category.

Table 2

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
Program revenues:		
Charges for services and sales	\$ 2,067,615	\$ 2,389,934
Operating grants and contributions	37,027,722	38,413,693
Capital grants and contributions	1,804,521	5,529,447
General revenues:		
State revenue limit sources	25,870,858	27,347,733
Property taxes	82,868,910	79,217,826
Other general revenues	5,010,458	12,258,985
Total Revenues	<u>154,650,084</u>	<u>165,157,618</u>
Expenses		
Instruction-related	98,460,542	97,983,869
Pupil services	13,727,288	13,210,707
Administration	6,438,139	5,700,079
Maintenance and operations	15,499,886	15,185,491
Other	16,840,751	20,361,611
Total Expenses	<u>150,966,606</u>	<u>152,441,757</u>
Change in Net Assets	<u>\$ 3,683,478</u>	<u>\$ 12,715,861</u>

Property taxes and State formula aid accounted for 70 percent of the District's revenue. Another 25 percent came from operating and capital grants and contributions, and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominantly related to educational services of 74 percent, with 10 percent of costs attributable to the maintenance and operations. The remaining expenses are for administration and other.

SANTA BARBARA SCHOOL DISTRICTS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Governmental Activities

Table 3 presents the costs of major District activities: instruction, instruction-related activities, home-to school transportation, other pupil services, general administration, maintenance and operations, ancillary services, community services, enterprise services, interest on long-term obligations, and other outgo. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

The net cost of all *governmental* activities this year was \$110,066,748.

- A portion of the cost \$2,067,615, was financed by the users of the District's programs.
- The Federal and State governments subsidized certain programs with grants and contributions of \$38,832,243.
- \$83,025,181 of the District's costs were financed by District taxpayers.

Table 3

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 83,306,099	\$ 83,618,812	\$ 62,031,392	\$ 57,184,477
Instruction-related activities	15,154,443	14,365,057	11,604,397	10,566,123
Home-to-school transportation	1,839,677	1,729,574	642,137	549,215
Other pupil services	11,887,611	11,481,133	4,943,451	4,340,371
Administration	6,438,139	5,700,079	5,510,431	4,903,891
Maintenance and operations	15,499,886	15,185,491	14,351,594	13,719,403
Ancillary services	1,373,001	1,362,376	943,649	882,599
Community services	5,812,335	5,194,389	392,402	185,282
Enterprise services	3,052,332	3,387,859	3,052,332	3,387,859
Interest on long-term obligations	5,176,111	4,740,276	5,176,111	4,740,276
Other outgo	1,426,972	5,676,711	1,418,852	5,649,187
Total	\$ 150,966,606	\$ 152,441,757	\$ 110,066,748	\$ 106,108,683

SANTA BARBARA SCHOOL DISTRICTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. The main day-to-day operating fund of the District is the General Fund. The monies deposited into the General Fund represent the Federal, State, and local revenues available for the ongoing costs related to instruction, school and district administration, student transportation, and regular maintenance and operations. During 2007-2008, the General Fund had revenues of \$127,139,389 and expenditures of \$124,414,854; the General Fund balance increased \$2,724,535.

Table 4

	Balances and Activity			
	July 1, 2007	Revenues	Expenditures	June 30, 2008
General Fund	\$ 12,157,592	\$ 127,139,389	\$ 124,414,854	\$ 14,882,127
Charter School Fund	590,396	4,033,332	4,124,342	499,386
Cafeteria	(4,953)	4,539,762	4,470,233	64,576
Building Fund	11,675,298	38,829,636	43,130,667	7,374,267
Capital Facilities	5,108,390	901,609	2,457,796	3,552,203
Bond Interest and Redemption Fund	6,894,750	6,485,560	6,793,297	6,587,013
Non-Major Governmental Funds	4,409,369	11,507,811	13,822,468	2,094,712
Total	\$ 40,830,842	\$ 193,437,099	\$ 199,213,657	\$ 35,054,284

General Fund Budgetary Highlights

Over the course of the year, the Board approves three versions of the operating budget. These budget revisions are: Adopted Budget, First Interim, and Second Interim, with the Unaudited Actuals brought forward after the year-end closing is completed.

SANTA BARBARA SCHOOL DISTRICTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2007-2008, the District invested, net of depreciation, \$168,563,594 in a broad range of capital assets, including the ongoing modernization and construction at various sites.

Table 5

	Governmental Activities	
	2008	2007
Land and construction in process	\$ 30,553,160	\$ 95,818,842
Buildings and improvements	136,870,541	59,834,960
Equipment	1,139,893	1,189,548
Total	\$ 168,563,594	\$ 156,843,350

Long-Term Obligations

At year-end, the District had \$95,199,565 in long-term obligations outstanding - an increase of 2.3 percent from last year, as shown in Table 6.

Table 6

	Governmental Activities	
	2008	2007
General obligation bonds (financed with property taxes)	\$ 92,870,000	\$ 91,860,000
Premium on issuance	1,043,971	-
Accumulated vacation - net	1,285,594	1,183,076
Total	\$ 95,199,565	\$ 93,043,076

FACTORS BEARING ON THE DISTRICTS' FUTURE

The enrollment of the Elementary District has a slight increase; however, projections indicate that the High School District will experience significant enrollment decline in the near future.

The District entered into a multi-year agreement with the Santa Barbara Teachers Association, granting salary increases of three percent in fiscal year 2006-07, three percent in fiscal year 2007-08, and three percent plus an additional one percent for salary compaction in fiscal year 2008-09.

In the wake of a \$14.5 billion deficit State budget, the Governor has proposed a series of cuts across all programs, including K-12 education, to close the gap between State revenues and expenditures.

SANTA BARBARA SCHOOL DISTRICTS

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

The Governor's budget estimates that the K-12 statutory cost of living adjustment (COLA) will be at 5.66 percent for the budget year, an increase that would require an additional \$2.4 billion. But due to lack of funding under his reduced Proposition 98 guarantee, the Governor proposes to provide the COLA across all programs, and then apply a deficit factor which would reduce the COLA to .68 percent.

All major categorical education programs will be restored to the 2007-08 funding with a possibility of "sweeping" the ending fund balance to the unrestricted side of the budget to help with the reduction Proposition 98 guarantee. The administration applied no COLA for special education, pupil transportation, and adult education and ROP programs.

The State budget includes no COLA or growth for child development/state pre-school programs. The administration states that, coupled with normal program savings, this action will reduce the number of available slots by 8,000. However, they also state their assumption that "normal attrition" should result in few, if any, currently enrolled children from losing their slot.

In conjunction with the release of the State's fiscal year 2008-09 budget, the Governor also issued a proclamation declaring a fiscal emergency and calling for a special session of the Legislature. This emergency session is being called to directly deal with the current year State budget shortfall, estimated to be at least \$3.3 billion. Under the provisions of Proposition 58, approved by Californians in March 2004, the Governor has the authority to declare a fiscal emergency if he determines that the State faces substantial revenue shortfalls or expenditure increases.

The compounding effect of the multi-year salary agreement with the Santa Barbara Teachers Association, declining enrollment, and a downturn in the State's economic condition will present many challenges for the District in the near future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact Meg Jetté, Director, Fiscal Services, Santa Barbara School Districts, 720 Santa Barbara Street, Santa Barbara, California 93101.

SANTA BARBARA SCHOOL DISTRICTS

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 30,833,993
Receivables	11,327,972
Prepaid expenditures	100,000
Deferred charges	298,231
Stores inventories	152,597
Note receivable	150,000
Capital assets	
Land and construction in process	30,553,160
Other capital assets	177,892,172
Less: Accumulated depreciation	(39,881,738)
Total Capital Assets	<u>168,563,594</u>
Total Assets	<u>211,426,387</u>
LIABILITIES	
Accounts payable	5,860,108
Interest payable	2,522,541
Deferred revenue	242,611
Claims liability	169,708
Long-Term Obligations	
Current portion of long-term obligations	2,705,000
Noncurrent portion of long-term obligations	92,494,565
Total Long-term obligations	<u>95,199,565</u>
Total Liabilities	<u>103,994,533</u>
NET ASSETS	
Invested in capital assets, net of related debt	82,559,162
Restricted for:	
Debt service	4,064,472
Capital projects	3,914,941
Educational programs	4,584,586
Other activities	1,760,664
Unrestricted	10,548,029
Total Net Assets	<u>\$ 107,431,854</u>

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

SANTA BARBARA SCHOOL DISTRICTS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 83,306,099	\$ 116,605	\$ 19,353,581	\$ 1,804,521
Instruction-related activities:				
Supervision of instruction	4,477,591	47,919	2,852,793	-
Instructional library, media and technology	1,571,188	3,279	224,661	-
School site administration	9,105,664	6,276	415,118	-
Pupil services:				
Home-to-school transportation	1,839,677	117,844	1,079,696	-
Food services	4,367,550	1,233,573	2,824,905	-
All other pupil services	7,520,061	119	2,885,563	-
General administration:				
Data processing	1,106,778	-	-	-
All other general administration	5,331,361	76,232	851,476	-
Maintenance and operations	15,499,886	35,003	1,113,289	-
Ancillary services	1,373,001	45,567	383,785	-
Community services	5,812,335	385,198	5,034,735	-
Enterprise services	3,052,332	-	-	-
Interest on long-term obligations	5,176,111	-	-	-
Other outgo	1,426,972	-	8,120	-
Total Governmental Activities	\$ 150,966,606	\$ 2,067,615	\$ 37,027,722	\$ 1,804,521

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Transfers between agencies
- Miscellaneous

Subtotal, General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

**Net (Expenses)
Revenues and
Changes in Net Assets**

**Governmental
Activities**

\$	(62,031,392)
	(1,576,879)
	(1,343,248)
	(8,684,270)
	(642,137)
	(309,072)
	(4,634,379)
	(1,106,778)
	(4,403,653)
	(14,351,594)
	(943,649)
	(392,402)
	(3,052,332)
	(5,176,111)
	(1,418,852)
	<u>(110,066,748)</u>
	76,575,515
	6,293,395
	156,271
	25,870,858
	2,234,569
	207,744
	2,411,874
	<u>113,750,226</u>
	3,683,478
	103,748,376
\$	<u><u>107,431,854</u></u>

SANTA BARBARA SCHOOL DISTRICTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008**

	General Fund	Charter Schools Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 8,884,327	\$ 537,642	\$ 13,732
Receivables	8,967,852	252,600	874,539
Due from other funds	2,668,927	394,350	466,774
Prepaid expenditures	100,000	-	-
Stores inventories	-	-	54,502
Total Assets	\$ 20,621,106	\$ 1,184,592	\$ 1,409,547
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,659,316	\$ 88,425	\$ 121,709
Due to other funds	1,848,923	584,921	1,223,262
Deferred revenue	230,740	11,860	-
Total Liabilities	5,738,979	685,206	1,344,971
FUND BALANCES			
Reserved for:			
Revolving cash	9,000	-	-
Stores inventories	-	-	54,502
Prepaid expenditures	100,000	-	-
Legally restricted balances	4,584,586	-	-
Unreserved:			
Designated	4,502,243	-	-
Undesignated, reported in:			
General Fund	5,686,298	-	-
Special revenue funds	-	499,386	10,074
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total Fund Balance	14,882,127	499,386	64,576
Total Liabilities and Fund Balances	\$ 20,621,106	\$ 1,184,592	\$ 1,409,547

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

Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 7,909,539	\$ 4,385,417	\$ 6,521,494	\$ 1,840,264	\$ 30,092,415
294,621	39,119	65,519	564,912	11,059,162
30,145	-	-	812,591	4,372,787
-	-	-	-	100,000
-	-	-	-	54,502
<u>\$ 8,234,305</u>	<u>\$ 4,424,536</u>	<u>\$ 6,587,013</u>	<u>\$ 3,217,767</u>	<u>\$ 45,678,866</u>
\$ 623,186	\$ 837,911	\$ -	\$ 183,967	\$ 5,514,514
236,852	34,422	-	939,077	4,867,457
-	-	-	11	242,611
<u>860,038</u>	<u>872,333</u>	<u>-</u>	<u>1,123,055</u>	<u>10,624,582</u>
-	-	-	-	9,000
-	-	-	-	54,502
-	-	-	-	100,000
-	-	-	-	4,584,586
-	-	-	-	4,502,243
-	-	-	-	5,686,298
-	-	-	941,656	1,451,116
-	-	6,587,013	-	6,587,013
7,374,267	3,552,203	-	1,153,056	12,079,526
<u>7,374,267</u>	<u>3,552,203</u>	<u>6,587,013</u>	<u>2,094,712</u>	<u>35,054,284</u>
<u>\$ 8,234,305</u>	<u>\$ 4,424,536</u>	<u>\$ 6,587,013</u>	<u>\$ 3,217,767</u>	<u>\$ 45,678,866</u>

SANTA BARBARA SCHOOL DISTRICTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balance - Governmental Funds	\$ 35,054,284
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 208,445,332
Accumulated depreciation is	<u>(39,881,738)</u>
Net Capital Assets	168,563,594
Long-term notes receivable do not meet the availability criteria under modified accrual basis and are deferred in the funds.	150,000
In governmental funds, bond premiums are recognized as revenues in the period they are received. In the government-wide statements, bond premiums are amortized over the life of the debt. Unamortized bond premiums included in long-term obligations on the statement of net assets are:	(1,043,971)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide financial statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in deferred charges on the statement of net assets are:	298,231
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.	(2,522,541)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. Internal service fund net assets are:	1,087,851
Long-term obligations at year-end consist of:	
General obligation bonds	(92,870,000)
Compensated absences	<u>(1,285,594)</u>
Total Long-Term Obligations	<u>(94,155,594)</u>
Total Net Assets - Governmental Activities	<u>\$ 107,431,854</u>

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

SANTA BARBARA SCHOOL DISTRICTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund	Charter Schools Fund	Cafeteria Fund
REVENUES			
Revenue limit sources	\$ 88,319,868	\$ 2,822,828	\$ -
Federal sources	7,766,928	96,805	2,549,800
Other State sources	24,251,333	867,550	210,841
Other local sources	6,801,260	246,149	1,407,121
Total Revenues	127,139,389	4,033,332	4,167,762
EXPENDITURES			
Current			
Instruction	77,979,813	2,931,139	-
Instruction-related activities:			
Supervision of instruction	4,612,443	1,889	-
Instructional library, media and technology	1,567,472	-	-
School site administration	8,569,543	515,706	-
Pupil services:			
Home-to-school transportation	1,839,677	-	-
Food services	17,519	-	4,252,150
All other pupil services	7,495,372	17,388	-
Administration:			
Data processing	1,106,965	-	-
All other administration	4,431,737	455,524	194,428
Plant services	13,038,134	133,564	23,655
Facility acquisition and construction	203,646	-	-
Ancillary services	1,372,831	-	-
Community services	935,571	69,132	-
Enterprise services	-	-	-
Other outgo	115,134	-	-
Debt service			
Principal	-	-	-
Interest and other	110,787	-	-
Total Expenditures	123,396,644	4,124,342	4,470,233
Excess (Deficiency) of Revenues Over Expenditures	3,742,745	(91,010)	(302,471)
Other Financing Sources (Uses)			
Transfers in	-	-	372,000
Other sources	-	-	-
Transfers out	(1,018,210)	-	-
Other uses	-	-	-
Net Financing Sources (Uses)	(1,018,210)	-	372,000
NET CHANGE IN FUND BALANCES	2,724,535	(91,010)	69,529
Fund Balance - Beginning	12,157,592	590,396	(4,953)
Fund Balance - Ending	\$ 14,882,127	\$ 499,386	\$ 64,576

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

Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 91,142,696
-	-	-	428,565	10,842,098
-	-	38,117	6,173,804	31,541,645
816,051	901,609	6,447,443	4,309,232	20,928,865
<u>816,051</u>	<u>901,609</u>	<u>6,485,560</u>	<u>10,911,601</u>	<u>154,455,304</u>
-	-	-	-	80,910,952
-	-	-	-	4,614,332
-	-	-	-	1,567,472
-	-	-	-	9,085,249
-	-	-	-	1,839,677
-	-	-	84,344	4,354,013
-	-	-	-	7,512,760
-	-	-	-	1,106,965
-	56,508	-	204,795	5,342,992
(198,899)	-	-	2,206,348	15,202,802
8,169,114	2,401,288	-	3,486,874	14,260,922
-	-	-	-	1,372,831
-	-	-	4,787,775	5,792,478
-	-	-	3,052,332	3,052,332
-	-	-	-	115,134
-	-	2,370,000	-	2,370,000
313,614	-	4,423,297	-	4,847,698
<u>8,283,829</u>	<u>2,457,796</u>	<u>6,793,297</u>	<u>13,822,468</u>	<u>163,348,609</u>
<u>(7,467,778)</u>	<u>(1,556,187)</u>	<u>(307,737)</u>	<u>(2,910,867)</u>	<u>(8,893,305)</u>
-	-	-	596,210	968,210
38,013,585	-	-	-	38,013,585
-	-	-	-	(1,018,210)
<u>(34,846,838)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34,846,838)</u>
<u>3,166,747</u>	<u>-</u>	<u>-</u>	<u>596,210</u>	<u>3,116,747</u>
<u>(4,301,031)</u>	<u>(1,556,187)</u>	<u>(307,737)</u>	<u>(2,314,657)</u>	<u>(5,776,558)</u>
<u>11,675,298</u>	<u>5,108,390</u>	<u>6,894,750</u>	<u>4,409,369</u>	<u>40,830,842</u>
<u>\$ 7,374,267</u>	<u>\$ 3,552,203</u>	<u>\$ 6,587,013</u>	<u>\$ 2,094,712</u>	<u>\$ 35,054,284</u>

SANTA BARBARA SCHOOL DISTRICTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds \$ (5,776,558)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlay	\$ 15,543,931	
Depreciation expense	<u>(3,823,687)</u>	11,720,244

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation earned was more than amounts used by \$102,518. (102,518)

In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period is: 150,000

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the statement of net assets and does not affect the statement of activities:
 Refunding general obligation bonds (36,915,000)

Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these related items:

Premium on issuance	(1,043,971)	
Cost of issuance	<u>298,231</u>	
Combined adjustment		(745,740)

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

SANTA BARBARA SCHOOL DISTRICTS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2008

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities:

 General obligation bonds \$ 35,905,000

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the general obligation bonds. (681,258)

An internal service fund is used by the District's management to charge the costs of the property and liability insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

129,308

Change in Net Assets of Governmental Activities

\$ 3,683,478

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

SANTA BARBARA SCHOOL DISTRICTS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Governmental Activities</u>		
	<u>Internal Service Funds</u>		
	<u>Self- Insurance</u>	<u>Warehouse Revolving</u>	<u>Total</u>
ASSETS			
Current Assets			
Deposits and investments	\$ 656,127	\$ 85,451	\$ 741,578
Receivables	268,521	289	268,810
Due from other funds	486,997	7,871	494,868
Stores inventories	-	98,095	98,095
Total Current Assets	<u>1,411,645</u>	<u>191,706</u>	<u>1,603,351</u>
LIABILITIES			
Current Liabilities			
Accounts payable	226,297	119,297	345,594
Due to other funds	55	143	198
Total Current Liabilities	<u>226,352</u>	<u>119,440</u>	<u>345,792</u>
Noncurrent Liabilities			
Claim liabilities	<u>169,708</u>	-	<u>169,708</u>
NET ASSETS			
Unrestricted	<u>1,015,585</u>	<u>72,266</u>	<u>1,087,851</u>
Total Net Assets	<u>\$ 1,015,585</u>	<u>\$ 72,266</u>	<u>\$ 1,087,851</u>

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

SANTA BARBARA SCHOOL DISTRICTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008**

	Governmental Activities		Total
	Internal Service Funds		
	Self- Insurance	Warehouse Revolving	
OPERATING REVENUES			
Charges to other funds and miscellaneous revenues	\$ 1,948,304	\$ -	\$ 1,948,304
OPERATING EXPENSES			
Professional and contract services	1,912,206	-	1,912,206
Supplies and materials	1,570	-	1,570
Total Operating Expenses	1,913,776	-	1,913,776
Operating Income	34,528	-	34,528
NONOPERATING REVENUES			
Interest income	44,780	-	44,780
Income Before Capital Contributions and Transfers	79,308	-	79,308
Transfers in	50,000	-	50,000
Transfers out	-	-	-
Change in Net Assets	129,308	-	129,308
Total Net Assets - Beginning	886,277	72,266	958,543
Total Net Assets - Ending	\$ 1,015,585	\$ 72,266	\$ 1,087,851

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

SANTA BARBARA SCHOOL DISTRICTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Governmental Activities</u>		
	<u>Internal Service Funds</u>		
	<u>Self- Insurance</u>	<u>Warehouse Revolving</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from user charges	\$ 1,597,090	\$ 20,792	\$ 1,617,882
Cash payments for insurance claims and other operating expenses	<u>(2,535,592)</u>	<u>(71,178)</u>	<u>(2,606,770)</u>
Net Cash Used for Operating Activities	<u>(938,502)</u>	<u>(50,386)</u>	<u>(988,888)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Net Cash Provided from Noncapital Financing Activities	<u>50,000</u>	<u>-</u>	<u>50,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>44,780</u>	<u>-</u>	<u>44,780</u>
Net Cash Provided from Investing Activities	<u>44,780</u>	<u>-</u>	<u>44,780</u>
Net decrease in cash and cash equivalents	<u>(843,722)</u>	<u>(50,386)</u>	<u>(894,108)</u>
Cash and cash equivalents - Beginning	<u>1,499,849</u>	<u>135,837</u>	<u>1,635,686</u>
Cash and cash equivalents - Ending	<u>\$ 656,127</u>	<u>\$ 85,451</u>	<u>\$ 741,578</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating income	\$ 34,528	\$ -	\$ 34,528
Adjustments to reconcile operating income to net cash used by operating activities:			
Changes in assets and liabilities:			
Receivables	(84,217)	1,364	(82,853)
Due from other funds	(266,997)	33,270	(233,727)
Stores Inventories	-	(13,842)	(13,842)
Accrued liabilities	(473,712)	(71,321)	(545,033)
Due to other funds	(139,945)	143	(139,802)
Claims liabilities	<u>(8,159)</u>	<u>-</u>	<u>(8,159)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (938,502)</u>	<u>\$ (50,386)</u>	<u>\$ (988,888)</u>

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

SANTA BARBARA SCHOOL DISTRICTS

**FIDICIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 957,836</u>
LIABILITIES	
Due to student groups	<u>\$ 957,836</u>

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

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Barbara School Districts (the "District") was organized under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates eight elementary schools, two charter schools, one alternative school, one community academy, 15 children's after school child care centers, four junior high schools, three high schools, one continuation school, and one community day school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Santa Barbara School Districts, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District.

Other Related Entities

Charter Schools The District has approved charters for Peabody Charter School, Cesar Chavez Charter School, and Santa Barbara Charter School pursuant to *Education Code* Section 47605. Peabody Charter School is governed by an independent Governing Council and operated by staff at the school site; its financial activities are not included. The Cesar Chavez and Santa Barbara Charter Schools are operated by the District, and its financial activities are presented in the Charter School special revenue fund. Cesar Chavez and Santa Barbara Charter Schools are operated by staff at the charter schools and considered blended component units of the District. The District receives revenue on behalf of the Peabody, Cesar Chavez and Santa Barbara Charter Schools, which it passes on to the Charters.

Public Entity Risk Pool The District is associated with two public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 16 to the financial statements. These organizations are:

- Self Insured Schools of California (SISC I)
- Southern California Regional Liability Excess Fund (So Cal ReLiEF)

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Charter Schools Fund This fund may be used by authorizing districts to account separately for the activities of district-operated charter schools that would otherwise be reported in the authorizing District's General Fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Retiree Benefits Special Reserve Fund The Retiree Benefits Special Reserve Fund is used to account for funds set aside for board designated employee retirement costs.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

State School Building Lease-Purchase Fund The State School Building Lease Purchase Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

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

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates two internal service funds, a property and liability and dental benefits self-insurance program and a warehouse revolving.

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each governmental program, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

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

Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2008, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statement of net assets. The valuation basis for capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets, except for the net residual amounts, which are presented as internal balances.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the fund financial statements when due.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Fund Balance Reservations and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods.

Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$14,324,663 of restricted net assets.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are provisions for insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Estimates

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

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Barbara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

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

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

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

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

In May 2007, GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as RSI by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 30,833,993
Fiduciary funds	957,836
Total Deposits and Investments	<u>\$ 31,791,829</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 981,462
Cash in revolving	124,000
Investments	30,686,367
Total Deposits and Investments	<u>\$ 31,791,829</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Fair Value	Weighted Average Maturity in Days
County Pool	\$ 27,780,654	646
Money Market Mutual Funds	2,935,989	1
Total	\$ 30,716,643	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool and money market mutual funds are not required to be rated, nor have they been rated as of June 30, 2008.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's bank balance of \$634,036 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund
Federal Government						
Categorical aid	\$2,325,017	\$ 32,358	\$ 730,466	\$ -	\$ -	\$ -
State Government						
Apportionment	692,628	-	-	-	-	-
Categorical aid	2,882,091	78,149	57,086	-	-	-
Lottery	914,166	38,351	-	-	-	-
Local Government						
Interest	279,183	6,648	-	47,167	38,613	49,177
Other Local Sources	1,874,767	97,094	86,987	247,454	506	16,342
Total	<u>\$8,967,852</u>	<u>\$ 252,600</u>	<u>\$ 874,539</u>	<u>\$ 294,621</u>	<u>\$ 39,119</u>	<u>\$ 65,519</u>

	Non-Major Governmental Funds	Internal Service Funds	Total Governmental Activities
Federal Government			
Categorical aid	\$ 7,781	\$ -	\$ 3,095,622
State Government			
Apportionment	-	-	692,628
Categorical aid	198,852	-	3,216,178
Lottery	-	-	952,517
Local Government			
Interest	18,747	6,693	446,228
Other Local Sources	339,532	262,117	2,924,799
Total	<u>\$ 564,912</u>	<u>\$ 268,810</u>	<u>\$11,327,972</u>

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 1,537,176	\$ -	\$ -	\$ 1,537,176
Construction in process	94,281,666	15,217,074	80,482,756	29,015,984
Total Capital Assets Not Being Depreciated	<u>95,818,842</u>	<u>15,217,074</u>	<u>80,482,756</u>	<u>30,553,160</u>
Capital Assets Being Depreciated				
Land improvements	1,873,217	-	-	1,873,217
Buildings and improvements	90,983,455	80,482,756	-	171,466,211
Furniture and equipment	4,225,887	326,857	-	4,552,744
Total Capital Assets Being Depreciated	<u>97,082,559</u>	<u>80,809,613</u>	<u>-</u>	<u>177,892,172</u>
Less Accumulated Depreciation				
Land improvements	1,717,422	23,516	-	1,740,938
Buildings and improvements	31,304,290	3,423,659	-	34,727,949
Furniture and equipment	3,036,339	376,512	-	3,412,851
Total Accumulated Depreciation	<u>36,058,051</u>	<u>3,823,687</u>	<u>-</u>	<u>39,881,738</u>
Governmental Activities Capital Assets, Net	<u>\$ 156,843,350</u>	<u>\$ 92,203,000</u>	<u>\$ 80,482,756</u>	<u>\$ 168,563,594</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 3,441,318
Plant services	382,369
Total Depreciation Expenses Governmental Activities	<u>\$ 3,823,687</u>

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, between major and non-major governmental funds and internal service funds are as follows:

Due To	Due From			
	General Fund	Charter School Fund	Cafeteria Fund	Building Fund
General Fund	\$ -	\$ 582,226	\$ 1,223,262	\$ 867
Charter School Fund	394,207	-	-	-
Cafeteria Fund	386,632	78	-	-
Building Fund	-	-	-	-
Non-Major Governmental Funds	577,020	-	-	235,078
Internal Service Fund	491,064	2,617	-	907
Total	\$ 1,848,923	\$ 584,921	\$ 1,223,262	\$ 236,852

Due To	Capital Facilities Fund	Non-Major Governmental Funds	Internal Service Fund	Total
	General Fund	\$ 5,919	\$ 856,653	\$ -
Charter School Fund	-	-	143	394,350
Cafeteria Fund	-	80,064	-	466,774
Building Fund	27,926	2,219	-	30,145
Non-Major Governmental Funds	438	-	55	812,591
Internal Service Fund	139	141	-	494,868
Total	\$ 34,422	\$ 939,077	\$ 198	\$ 4,867,655

- The General Fund owed the Charter Fund for property taxes. \$ 245,823
- The General Fund owed the Cafeteria Fund to cover the operating deficit. 372,000
- The General Fund owed the Deferred Maintenance Fund for required match. 576,690
- The General Fund owed the Self Insurance Fund for contribution. 483,323
- The Charter Fund owed the General Fund for administrative fees and special education encroachment. 582,226
- The Cafeteria Fund owed the General Fund for indirect cost reimbursement, PERS reduction, and to repay the temporary loan. 1,223,262
- The Deferred Maintenance Fund owed the General Fund. 603,000
- The Building Fund owed the Deferred Maintenance Fund to repay prior year costs. 235,078

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

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

Transfers Out	<u>Transfers In</u>
	General Fund
Cafeteria Fund	\$ 372,000
Non-Major Governmental Funds	596,210
Internal Service Fund	50,000
Total	<u>\$ 1,018,210</u>
The General Fund transferred to the Cafeteria Fund to cover the operating deficit.	\$ 372,000
The General Fund transferred to the Deferred Maintenance Fund for District match.	596,210
The General Fund transferred to the Self Insurance Fund to cover costs.	50,000
Total	<u>\$ 1,018,210</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
Vendor payables	\$ 3,094,903	\$ 75,640	\$ 121,709	\$ 36,101	\$ 79,537
State apportionment	344,464	6,442	-	-	-
Salaries and benefits	219,949	6,343	-	-	-
Construction	-	-	-	587,085	758,374
Total	<u>\$ 3,659,316</u>	<u>\$ 88,425</u>	<u>\$ 121,709</u>	<u>\$ 623,186</u>	<u>\$ 837,911</u>
	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities		
Vendor payables	\$ 74,364	\$ 345,594	\$ 3,827,848		
State apportionment	-	-	350,906		
Salaries and benefits	74,439	-	300,731		
Construction	35,164	-	1,380,623		
Total	<u>\$ 183,967</u>	<u>\$ 345,594</u>	<u>\$ 5,860,108</u>		

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Charter School Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 159,434	\$ 9,360	\$ -	\$ 168,794
State categorical aid	71,306	2,500	11	73,817
Total	<u>\$ 230,740</u>	<u>\$ 11,860</u>	<u>\$ 11</u>	<u>\$ 242,611</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2007, the District issued \$11,720,000 Tax and Revenue Anticipation Notes bearing interest at 3.62 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2008. By May 2008, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes and related accrued interest and cash held in trust are not included in these financial statements.

On June 24, 2008, the District issued \$12,000,000 Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes were issued to supplement cash flows. Interest and principal are due and payable on June 30, 2009. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2009, until 100 percent of principal and interest due is on account in May 2009.

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

	Outstanding July 1, 2007	Additions	Deletions	Outstanding June 30, 2008
2007-08 3.62% TRANS	\$ -	\$ 11,720,000	\$ -	\$ 11,720,000
2008-09 3.00% TRANS	-	12,000,000	-	12,000,000
Total	<u>\$ -</u>	<u>\$ 23,720,000</u>	<u>\$ -</u>	<u>\$ 23,720,000</u>

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	\$ 91,860,000	\$ 36,915,000	\$ 35,905,000	\$ 92,870,000	\$ 2,705,000
Premium on issuance	-	1,098,585	54,614	1,043,971	-
Accumulated vacation - net	1,183,076	102,518	-	1,285,594	-
	<u>\$ 93,043,076</u>	<u>\$ 38,116,103</u>	<u>\$ 35,959,614</u>	<u>\$ 95,199,565</u>	<u>\$ 2,705,000</u>

- Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues.
- Payments for compensated absences are typically liquidated in the fund in which the employee was paid.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2007	Additions	Redeemed	Outstanding June 30, 2008
8/01/1998	8/01/2028	4.75% - 7.75%	\$15,000,000	\$12,950,000	\$ -	\$12,590,000	\$ 360,000
7/01/2000	8/01/2030	5.25% - 5.625%	25,000,000	22,840,000	-	21,785,000	1,055,000
8/05/2004	8/01/2029	1.75% - 4.89%	21,000,000	20,450,000	-	565,000	19,885,000
10/20/2004	8/01/2029	1.92% - 4.60%	10,000,000	10,000,000	-	265,000	9,735,000
11/09/2004	8/01/2026	1.75% - 4.65%	5,435,000	5,035,000	-	170,000	4,865,000
9/28/2005	8/01/2030	2.69% - 4.55%	21,000,000	20,585,000	-	530,000	20,055,000
7/18/2007	8/01/2024	4.00% - 5.00%	13,265,000	-	13,265,000	-	13,265,000
7/18/2007	8/01/2028	4.00% - 5.00%	23,650,000	-	23,650,000	-	23,650,000
				<u>\$91,860,000</u>	<u>\$36,915,000</u>	<u>\$35,905,000</u>	<u>\$ 92,870,000</u>

1998, Series A

In August 1998, the District received the proceeds of its 1998 Election Series A Bonds, which totaled \$15,000,000. Proceeds from the bonds will be used for the purpose of financing the addition and modernization of school facilities. The bonds were issued in denominations of \$5,000 each, and were dated August 1, 1998. Interest at rates varying from 4.75 percent to 7.75 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$360,000.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

2000, Series A

In July 2000, the District received the proceeds of its 2000 Election Series A Bonds, which totaled \$25,000,000. Proceeds from the bonds will be used for the purpose of financing the addition and modernization of school facilities. The bonds were issued in denominations of \$5,000 each, and were dated July 1, 2000. Interest at rates varying from 5.25 percent to 5.625 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$1,055,000.

2000, Series B

In August 2004, the District received the proceeds of its 2000 Election Series B Bonds, which totaled \$21,000,000. Proceeds from the bonds will be used for the purpose of financing the addition and modernization of school facilities. The bonds were issued in denominations of \$5,000 each and were dated August 5, 2004. Interest at rates varying from 1.75 percent to 4.89 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$19,885,000.

1998, Series B

In October 2004, the District received the proceeds of its 1998 Election Series B Bonds, which totaled \$10,000,000. Proceeds from the bonds will be used for the purpose of financing the addition and modernization of school facilities. The bonds were issued in denominations of \$5,000 each, and were dated October 20, 2004. Interest at rates varying from 1.92 percent to 4.60 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$9,735,000.

2004, Series A Refunding

In November 2004, the District received the proceeds of its 2004 Series A Refunding Bonds, which totaled \$5,435,000. Proceeds from the bonds will be used for the purpose of refunding in full the District's 1995 Series A and 1995 Series B Bonds. The bonds were issued in denominations of \$5,000 each, and were dated November 9, 2004. Interest at rates varying from 1.75 percent to 4.65 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$4,865,000.

2000, Series C

In September 2005, the District received the proceeds of its 2000 Election Series C Bonds, which totaled \$21,000,000. Proceeds from the bonds will be used for the purpose of financing the addition and modernization of school facilities. The bonds were issued in denominations of \$5,000 each and were dated September 28, 2005. Interest at rates varying from 2.69 percent to 4.55 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$20,055,000.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

2007, Series A Refunding

In July 2007, the District received the proceeds of its 2007 Series A Refunding Bonds, which totaled \$13,265,000. Proceeds from the bonds will be used for the purpose of refunding a portion of the District's 1998 Series A Bonds. The bonds were issued in denominations of \$5,000 each, and were dated July 18, 2007. Interest at rates varying from 4.00 percent to 5.00 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$13,265,000.

2007, Series B Refunding

In July 2007, the District received the proceeds of its 2007 Series B Refunding Bonds, which totaled \$23,650,000. Proceeds from the bonds will be used for the purpose of refunding a portion of the District's 2000 Series A Bonds. The bonds were issued in denominations of \$5,000 each, and were dated July 18, 2007. Interest at rates varying from 4.00 percent to 5.00 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2008, the principal balance outstanding was \$23,650,000.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2009	\$ 2,705,000	\$ 6,010,218	\$ 8,715,218
2010	2,870,000	5,298,324	8,168,324
2011	3,005,000	3,998,431	7,003,431
2012	3,130,000	3,885,106	7,015,106
2013	3,270,000	3,760,706	7,030,706
2014-2018	18,875,000	16,567,772	35,442,772
2019-2023	24,355,000	11,526,613	35,881,613
2024-2028	24,920,000	5,409,925	30,329,925
2029-2031	9,740,000	624,738	10,364,738
Total	<u>\$ 92,870,000</u>	<u>\$ 57,081,833</u>	<u>\$ 149,951,833</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$1,285,594.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Charter School Fund	Cafeteria Fund	Building Fund	Capital Facilities Fund
Reserved					
Revolving cash	\$ 9,000	\$ -	\$ -	\$ -	\$ -
Stores inventories	-	-	54,502	-	-
Prepaid expenditures	100,000	-	-	-	-
Restricted programs	4,584,586	-	-	-	-
Total Reserved	<u>4,693,586</u>	<u>-</u>	<u>54,502</u>	<u>-</u>	<u>-</u>
Unreserved					
Designated					
Economic uncertainties	3,642,303	-	-	-	-
Other designation	859,940	-	-	-	-
Total Designated	<u>4,502,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undesignated	5,686,298	499,386	10,074	7,374,267	3,552,203
Total Unreserved	<u>10,188,541</u>	<u>499,386</u>	<u>10,074</u>	<u>7,374,267</u>	<u>3,552,203</u>
Total	<u>\$ 14,882,127</u>	<u>\$ 499,386</u>	<u>\$ 64,576</u>	<u>\$ 7,374,267</u>	<u>\$ 3,552,203</u>

	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved			
Revolving cash	\$ -	\$ -	\$ 9,000
Stores inventories	-	-	54,502
Prepaid expenditures	-	-	100,000
Restricted programs	-	-	4,584,586
Total Reserved	<u>-</u>	<u>-</u>	<u>4,748,088</u>
Unreserved			
Designated			
Economic uncertainties	-	-	3,642,303
Other designation	-	-	859,940
Total Designated	<u>-</u>	<u>-</u>	<u>4,502,243</u>
Undesignated	6,587,013	2,094,712	25,803,953
Total Unreserved	<u>6,587,013</u>	<u>2,094,712</u>	<u>30,306,196</u>
Total	<u>\$ 6,587,013</u>	<u>\$ 2,094,712</u>	<u>\$ 35,054,284</u>

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2008, the following District fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Charter School Fund	<u>\$ 4,005,290</u>	<u>\$ 4,124,342</u>	<u>\$ 119,052</u>
Cafeteria Fund	<u>\$ 4,342,434</u>	<u>\$ 4,470,233</u>	<u>\$ 127,799</u>

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District has entered into contracts to provide employee benefit coverage for eligible retired employees for various terms. Currently, 475 employees and spouse/family meet the requirements. Current year benefits paid for these employees was approximately \$789,544. This amount represents the liability for currently retired employees and does not include an amount for active employees who may be eligible in the future.

NOTE 13 - RISK MANAGEMENT - CLAIMS

Description

The District's risk management activities are recorded in the General Fund. Employee life, health and worker's compensation, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Self-Insured Schools of California (SISC I) and So Cal RELIEF public entity risk pool (JPA's) and purchases excess liability coverage through the JPA. Refer to Note 16 for additional information regarding the JPA. Dental benefits and the property and liability program, for which the District retains the risk of loss, are administered through the Self-Insurance Fund. Excess property and liability coverage is obtained through So Cal ReLiEF.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

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.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 following represent the changes in approximate aggregate liabilities for the District from July 1, 2006 to June 30, 2008:

	<u>Property and Liability</u>
Liability Balance, July 1, 2006	\$ 150,000
Claims and changes in estimates	2,815,124
Claims payments	<u>(2,787,257)</u>
Liability Balance, June 30, 2007	\$ 177,867
Claims and changes in estimates	1,904,047
Claims payments	<u>(1,912,206)</u>
Liability Balance, June 30, 2008	\$ 169,708
Assets available to pay claims at June 30, 2008	<u><u>\$ 1,411,645</u></u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the California State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008, was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$5,163,894, \$5,116,080, and \$4,866,671, respectively, and equal 100 percent of the required contributions for each year.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

CalPERS

Plan Description

The District contributes to 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 California Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$1,919,077, \$1,787,513, and \$1,642,293, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use Social Security as its alternative plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,022,558 (4.517 percent of salaries subject to CalSTRS). No contributions were made for PERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2008.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2008.

SANTA BARBARA SCHOOL DISTRICTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	<u>Remaining Construction Commitments</u>	<u>Expected Date of Completion</u>
Adams Elementary ADA Portable Restroom Modifications	\$ 57,993	09/27/08
Adams Elementary ADA Upgrades	57,414	09/27/08
Adams Elementary Paving	17,250	08/18/08
Franklin Elementary Modernization	284,782	09/12/08
Franklin Elementary Children Center ADA Upgrades	34,563	09/08/08
McKinley Painting	64,712	09/05/08
Monroe Elementary Exterior Painting	2,600	08/18/08
Roosevelt Elementary ADA Upgrades	18,801	08/30/08
Washington Elementary ADA Upgrades	193,433	09/28/08
Washington Elementary Interim Classroom Relocations	12,654	08/18/08
Washington Elementary Demolition of Portable Buildings	31,950	08/08/08
La Cumbre Junior High Portable Classroom Buildings	19,880	08/29/08
Santa Barbara Junior High Accessible Entry Ramp	54,960	08/21/08
Dos Pueblos High ADA Phase II	64,667	07/18/08
Dos Pueblos High New Theatre Building	4,237	08/30/08
Dos Pueblos High Riparian Habitat Restoration	4,430	08/30/08
La Cuesta Continuation High Modernization	575,202	02/20/09
San Marcos High Bleacher Repair	15,539	08/22/08
San Marcos High Gymnasium Renovations	32,998	09/26/08
San Marcos High Library ADA Improvements	12,606	08/15/08
San Marcos High Modernization Phase I	299,025	12/28/08
San Marcos High Swimming Pool and Gymnasium Renovations	242,870	09/09/08
Santa Barbara High ADA Access	186,294	12/19/08
Santa Barbara High ADA Improvements	32,201	09/12/08
Santa Barbara High Main Building Waterproofing	379,304	02/23/09
Santa Barbara High Modernization Phase II	216,035	01/02/09
E-Rate Projects	680,861	09/30/09
	<u><u>\$ 3,597,261</u></u>	

SANTA BARBARA SCHOOL DISTRICTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Self Insured Schools of California (SISC I) and the Southern California Regional Liability Excess Fund (So Cal ReLiEF) public entity risk pools. The District pays an annual premium to each entity for its workers' compensation and property liability coverage. The relationships between the District and the JPA's are such that the JPA's are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements.

NOTE 17 - SINGLE DISTRICT RESOLUTION

The Governing Board of the Santa Barbara Elementary District and the Santa Barbara High School District adopted a resolution pursuant to Education Code Section 35110 allowing the elementary and high school districts to be deemed a single school district for all purposes, including, but not limited to, budget and personnel matters, and the governing board shall be deemed to be the governing board of a single school district. The school districts shall continue to be treated as separate school districts for purposes of computing State apportionments and allowances, and allocations of local property tax revenue. The school districts shall also continue to hold title to the property of each district separately and any indebtedness for the property shall remain in the indebtedness of each separate district.

NOTE 18 – NOTE RECEIVABLE

On April 3, 2008, the Districts received a promissory note in the principal amount of \$150,000. The Promisor (a District employee), for value received, agrees to pay the principal amount of \$150,000 plus interest, earned at the public funds rate in the Santa Barbara County Treasurer's Investment Pool. The principal and accrued interest shall be due and payable within six months of the last day of the Promisor's 39-month term of employment with the Districts. If the Promisor's employment with the Districts terminates before the 39-month term of employment, the Promisor must repay the unpaid principal balance and accrued interest within six months of the termination date. Principal and accrued interest at June 30, 2008 is approximately \$151,222.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA BARBARA SCHOOL DISTRICTS

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 88,560,754	\$ 88,103,045	\$ 88,319,868	\$ 216,823
Federal sources	7,349,690	7,225,116	7,766,928	541,812
Other State sources	19,845,097	19,933,070	24,251,333	4,318,263
Other local sources	3,499,275	4,864,171	6,801,260	1,937,089
Total Revenues ¹	119,254,816	120,125,402	127,139,389	7,013,987
EXPENDITURES				
Current				
Instruction	72,813,827	78,374,624	77,979,813	394,811
Instruction-related activities:				
Supervision of instruction	4,165,004	4,766,039	4,612,443	153,596
Instructional library, media, and technology	1,415,416	1,497,780	1,567,472	(69,692)
School site administration	7,738,237	8,418,260	8,569,543	(151,283)
Pupil services:				
Home-to-school transportation	1,803,392	1,719,080	1,839,677	(120,597)
Food services	17,173	325	17,519	(17,194)
All other pupil services	7,347,538	7,515,562	7,495,372	20,190
Administration:				
Data processing	993,548	1,192,711	1,106,965	85,746
All other administration	3,977,671	4,361,752	4,431,737	(69,985)
Plant services	12,103,027	12,607,498	13,038,134	(430,636)
Facility acquisition and construction	189,040	464,547	203,646	260,901
Ancillary services	931,710	1,230,664	1,372,831	(142,167)
Community services	738,481	948,078	935,571	12,507
Other outgo	150,000	119,790	115,134	4,656
Debt service				
Interest	61,609	110,787	110,787	-
Total Expenditures ¹	114,445,673	123,327,497	123,396,644	(69,147)
Excess (Deficiency) of Revenues Over Expenditures	4,809,143	(3,202,095)	3,742,745	6,944,840
Other Financing Sources (Uses)				
Transfers in	500	-	-	-
Transfers out	(591,067)	(1,003,183)	(1,018,210)	(15,027)
Net Financing Sources (Uses)	(590,567)	(1,003,183)	(1,018,210)	(15,027)
NET CHANGE IN FUND BALANCES	4,218,576	(4,205,278)	2,724,535	6,929,813
Fund Balance - Beginning	12,157,592	12,157,592	12,157,592	-
Fund Balance - Ending	\$ 16,376,168	\$ 7,952,314	\$ 14,882,127	\$ 6,929,813

¹ On behalf payments of \$3,022,558 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

SANTA BARBARA SCHOOL DISTRICTS

**CHARTER SCHOOL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final to Actual	
	(GAAP Basis)				(GAAP Basis)
	Original	Final			
REVENUES					
Revenue limit sources	\$ 2,914,297	\$ 2,934,964	\$ 2,822,828	\$ (112,136)	
Federal sources	127,983	110,182	96,805	(13,377)	
Other State sources	666,608	767,850	867,550	99,700	
Other local sources	185,350	191,094	246,149	55,055	
Total Revenues	3,894,238	4,004,090	4,033,332	29,242	
EXPENDITURES					
Current					
Instruction	2,535,551	2,800,990	2,931,139	(130,149)	
Instruction-related activities:					
Supervision of instruction	1,886	27,016	1,889	25,127	
Instructional library, media, and technology	-	1,500	-	1,500	
School site administration	514,788	476,025	515,706	(39,681)	
Pupil services:					
All other pupil services	28,161	24,170	17,388	6,782	
Administration:					
All other administration	370,539	372,135	455,524	(83,389)	
Plant services	236,299	186,213	133,564	52,649	
Facility acquisition and construction	-	28,550	-	28,550	
Community services	81,404	88,691	69,132	19,559	
Enterprise services	500	-	-	-	
Total Expenditures	3,769,128	4,005,290	4,124,342	(119,052)	
Excess (Deficiency) of Revenues Over Expenditures	125,110	(1,200)	(91,010)	(89,810)	
Other Financing Sources (Uses)					
Transfers in	1,657	-	-	-	
NET CHANGE IN FUND BALANCES	126,767	(1,200)	(91,010)	(89,810)	
Fund Balance - Beginning	590,396	590,396	590,396	-	
Fund Balance - Ending	\$ 717,163	\$ 589,196	\$ 499,386	\$ (89,810)	

SANTA BARBARA SCHOOL DISTRICTS

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2008**

	Budgeted Amounts		Actual	Variances - Positive (Negative)	
	(GAAP Basis)				(GAAP Basis)
	Original	Final			
REVENUES					
Federal sources	\$ 2,239,400	\$ 2,685,760	\$ 2,549,800	\$ (135,960)	
Other State sources	163,600	233,980	210,841	(23,139)	
Other local sources	1,773,743	1,422,747	1,407,121	(15,626)	
Total Revenues	4,176,743	4,342,487	4,167,762	(174,725)	
EXPENDITURES					
Current					
Pupil services:					
Food services	4,057,210	4,142,934	4,252,150	(109,216)	
Administration:					
All other administration	177,730	177,466	194,428	(16,962)	
Plant services	10,500	22,034	23,655	(1,621)	
Total Expenditures	4,245,440	4,342,434	4,470,233	(127,799)	
Excess (Deficiency) of Revenues Over Expenditures	(68,697)	53	(302,471)	(302,524)	
Other Financing Sources (Uses)					
Transfers in	12,720	322,257	372,000	49,743	
NET CHANGE IN FUND BALANCES	(55,977)	322,310	69,529	(252,781)	
Fund Balance - Beginning	(4,953)	(4,953)	(4,953)	-	
Fund Balance - Ending	\$ (60,930)	\$ 317,357	\$ 64,576	\$ (252,781)	

SUPPLEMENTARY INFORMATION

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act of 2001 (PL 107-110)			
Title I Part A - Basic Grants Low Incidence	84.010	13797	\$ 2,219,622
Title I Part A - Program Improvement District Intervention	84.010	14581	45,000
Title II Part A - Improving Teacher Quality	84.367	14341	616,370
Title II Part A - Principal Training	84.367	14344	3,000
Title III - Limited English Proficiency	84.365	10084	339,554
Title III - Immigrant Education Program	84.365	14346	54,501
Title IV Part A - Safe and Drug Free Schools and Communities, Formula Grant	84.186	14347	60,475
Alcohol Abuse Reduction Grant	84.184A	14311	616,624
Title V - Innovative Strategies	84.298A	14354	11,583
Vocational Education Act - Carl D. Perkins Secondary Education	84.048	13924	139,144
Passed through Santa Barbara County SELPA:			
Individuals with Disabilities Education Act			
Local Assistance	84.027	13379	2,940,789
Department of Rehabilitation: Workability II	84.158	10006	235,576
Subtotal			<u>7,282,238</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	13,395
Passed through CDE:			
National School Lunch Program	10.555	13396	1,787,639
Especially Needy Breakfast	10.553	13526	531,864
Meal Supplements	10.555	13755	34,843
Food Distribution	10.555	13389	195,453
Subtotal			<u>2,563,194</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medi-Cal Billing Option	93.778	10013	44,602
Medi-Cal Administrative Activities	93.778	10060	508,823
Child Development - Quality Improvement	93.575	13979	4,722
Child Development - School-Age Child Care Resource Contracts	93.575	13979	1,866
Child Development - Infant/Toddler Child Care Resource Contracts	93.575	13942	6,337
Child Development - Federal Child Care	93.596	13609	415,640
Subtotal			<u>981,990</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Hazard Mitigation Grant	97.039	10041	14,676
Total Federal Programs			<u>\$ 10,842,098</u>

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

ORGANIZATION

The Santa Barbara School Districts (the "District") was formed on June 6, 1866, and consists of an area comprising approximately 133.59 square miles. The District operates eight elementary schools, three charter schools (one discretely presented as a component unit), one alternative school, one community academy, 15 children's after school child care centers, four junior high schools, three high schools, one continuation school, and one community day school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Laura Malakoff	President	2008
Ms. Kate Parker	Vice President	2010
Ms. Nancy Harter	Member	2008
Ms. Annette Cordero	Member	2008
Dr. Robert Noël, Ed.D.	Member	2010

ADMINISTRATION

Dr. J. Brian Sarvis, Ed.D.	Superintendent
Mr. Eric D. Smith	Deputy Superintendent for Business and Non-Instructional Operations
Ms. Robin Sawaske	Associate Superintendent of Education
Ms. Shirley Corpuz	Director of Fiscal Services
Dr. Kristine Robertson	Director of Personnel
Ms. Elaine Alvarado	Coordinator of Classified Personnel
Mr. David Hetynk	Director of Facilities and Operations

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	Second Period Report (Amended)	Annual Report
ELEMENTARY		
Kindergarten	617	618
First through third	1,826	1,829
Fourth through sixth	1,708	1,712
Seventh and eighth	2,822	2,814
Home and hospital	3	4
Special education	192	193
Community day school	14	16
Total Elementary	7,182	7,186
SECONDARY		
Regular classes	6,067	6,010
Continuation education	198	198
Home and hospital	14	17
Special education	251	247
Total Secondary	6,530	6,472
Grand Total	13,712	13,658

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

CHARTER SCHOOL

Santa Barbara Charter (Elem)

Kindergarten	23	23
Grades 1 - 3	101	102
Grades 4 - 6	64	64
Total	<u>188</u>	<u>189</u>

Santa Barbara Charter (Elem) - Classroom-based

Kindergarten	19	19
Grades 1 - 3	75	76
Grades 4 - 6	44	44
Total	<u>138</u>	<u>139</u>

Cesar Estrada Chavez Dual Language Immersion Charter

Kindergarten	39	39
Grades 1 - 3	115	114
Grades 4 - 6	78	77
Total	<u>232</u>	<u>230</u>

Cesar Estrada Chavez Dual Language Immersion Charter - Classroom-based

Kindergarten	39	39
Grades 1 - 3	115	114
Grades 4 - 6	78	77
Total	<u>232</u>	<u>230</u>

Santa Barbara Charter (Middle)

Grades 4 - 6	27	27
Grades 7 - 8	54	53
Total	<u>81</u>	<u>80</u>

Santa Barbara Charter (Middle) - Classroom-based

Grades 4 - 6	21	21
Grades 7 - 8	38	37
Total	<u>59</u>	<u>58</u>

Hours of
Attendance

SUPPLEMENTAL INSTRUCTIONAL HOURS

Elementary	213,630
High school	131,987
Charter school - Cesar Estrada Chavez Dual Language Immersion Charter	1,179
Total Hours	<u>346,796</u>

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2008**

Grade Level	1982-83	1986-87	2007-08	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	35,000	36,000	36,935	180	N/A	Complied
Grades 1 - 3	49,000	50,400				
Grade 1			51,280	180	N/A	Complied
Grade 2			51,280	180	N/A	Complied
Grade 3			51,280	180	N/A	Complied
Grades 4 - 6	49,875	54,000				
Grade 4			54,450	180	N/A	Complied
Grade 5			54,450	180	N/A	Complied
Grade 6			54,450	180	N/A	Complied
Grades 7 - 8	50,535	54,000				
Grade 7			56,110	180	N/A	Complied
Grade 8			56,110	180	N/A	Complied
Grades 9 - 12	65,200	64,800				
Grade 9			65,435	180	N/A	Complied
Grade 10			65,435	180	N/A	Complied
Grade 11			65,435	180	N/A	Complied
Grade 12			65,435	180	N/A	Complied

Santa Barbara Charter School

Grade Level	1982-83	1986-87	2007-08	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	*	36,000	45,615	180	N/A	Complied
Grades 1 - 3	*	50,400				
Grade 1			54,280	180	N/A	Complied
Grade 2			54,280	180	N/A	Complied
Grade 3			54,280	180	N/A	Complied
Grades 4 - 6	*	54,000				
Grade 4			54,280	180	N/A	Complied
Grade 5			54,280	180	N/A	Complied
Grade 6			55,319	180	N/A	Complied
Grades 7 - 8	*	54,000				
Grade 7			55,319	180	N/A	Complied
Grade 8			55,319	180	N/A	Complied

*Charter did not operate in 1982-83.

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF INSTRUCTIONAL TIME (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

Cesar Estrada Chavez Dual Language Immersion Charter School

<u>Grade Level</u>	1982-83	1986-87	2007-08	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	*	36,000	55,200	180	N/A	Complied
Grades 1 - 3	*	50,400				
Grade 1			53,840	180	N/A	Complied
Grade 2			53,840	180	N/A	Complied
Grade 3			53,840	180	N/A	Complied
Grades 4 - 6	*	54,000				
Grade 4			56,310	180	N/A	Complied
Grade 5			56,310	180	N/A	Complied
Grade 6			56,310	180	N/A	Complied

*Charter did not operate in 1982-83.

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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

	<u>General Fund</u>	<u>Building Fund</u>
FUND BALANCE		
Balance, June 30, 2008, Unaudited Actuals	\$ 15,280,477	\$ 4,239,379
Increase in:		
Cash with fiscal agent	-	2,935,989
Decrease in:		
Accounts receivable	(398,350)	-
Accounts payable	-	198,899
Balance, June 30, 2008, Audited Financial Statement	<u>\$ 14,882,127</u>	<u>\$ 7,374,267</u>

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	(Budget)			
	2009 ¹	2008	2007	2006
GENERAL FUND				
Revenues	\$117,298,314	\$127,139,389	\$133,870,865	\$121,789,972
Other sources and transfers in	-	-	43,769	229,500
Total Revenues and Other Sources	<u>117,298,314</u>	<u>127,139,389</u>	<u>133,914,634</u>	<u>122,019,472</u>
Expenditures	116,013,458	123,396,644	126,745,615	120,582,465
Other uses and transfers out	969,132	1,018,210	1,161,585	737,488
Total Expenditures and Other Uses	<u>116,982,590</u>	<u>124,414,854</u>	<u>127,907,200</u>	<u>121,319,953</u>
INCREASE (DECREASE)				
IN FUND BALANCE	<u>\$ 315,724</u>	<u>\$ 2,724,535</u>	<u>\$ 6,007,434</u>	<u>\$ 699,519</u>
ENDING FUND BALANCE	<u>\$ 15,197,851</u>	<u>\$ 14,882,127</u>	<u>\$ 12,157,592</u>	<u>\$ 6,150,158</u>
AVAILABLE RESERVES ²	<u>\$ 10,762,909</u>	<u>\$ 9,328,601</u>	<u>\$ 4,923,652</u>	<u>\$ 2,875,725</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>9.20%</u>	<u>7.68%</u>	<u>3.94%</u>	<u>2.43%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 95,199,565</u>	<u>\$ 93,043,076</u>	<u>\$ 94,796,313</u>
AVERAGE DAILY ATTENDANCE AT P-2 ⁴	<u>13,361</u>	<u>13,712</u>	<u>13,960</u>	<u>14,333</u>

The General Fund balance has increased by \$8,731,969 over the past two years. The fiscal year 2008-09 budget projects a further increase of \$315,724 (2.1 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years and anticipates incurring an operating surplus during the 2008-09 fiscal year. Total long-term obligations have increased by \$403,252 over the past two years.

Average daily attendance has decreased by 621 over the past two years. Additional decline of 351 ADA is anticipated during fiscal year 2008-09.

¹ Budget 2009 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ On behalf payments of \$3,022,558, \$2,946,027, and \$2,769,886 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2008, 2007, and 2006, respectively.

⁴ Excludes Charter ADA.

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

EXCESS SICK LEAVE JUNE 30, 2008

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

Santa Barbara School Districts provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Assistant Superintendents

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Name of Charter Schools</u>	<u>Included in Audit Report</u>
Peabody Charter School	No
Cesar Chavez Charter School	Yes
Santa Barbara Charter Elementary School	Yes
Santa Barbara Charter Middle School	Yes

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which 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.

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 46200 through 46206.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Excess Sick Leave

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

SANTA BARBARA SCHOOL DISTRICTS

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District and displays information for each Charter School on whether or not the Charter School is included in the District audit.

SUPPLEMENTARY INFORMATION - UNAUDITED

SANTA BARBARA SCHOOL DISTRICTS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2008**

	Child Development Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund
ASSETS			
Deposits and investments	\$ 247,996	\$ 687,161	\$ 13,808
Receivables	289,432	6,665	260,298
Due from other funds	-	811,968	185
Total Assets	\$ 537,428	\$ 1,505,794	\$ 274,291
LIABILITIES AND FUND BALANCES			
FUND BALANCES			
Liabilities:			
Accounts payable	\$ 137,180	\$ 35,164	\$ 11,598
Due to other funds	324,352	604,859	7,647
Deferred revenue	11	-	-
Total Liabilities	461,543	640,023	19,245
Fund Balances:			
Unreserved:			
Undesignated, reported in:			
Special revenue funds	75,885	865,771	255,046
Capital projects funds	-	-	-
Total Fund Balances	75,885	865,771	255,046
Total Liabilities and Fund Balances	\$ 537,428	\$ 1,505,794	\$ 274,291

See accompanying note to supplementary information - unaudited.

State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ 30,766	\$ 827,719	\$ 32,814	\$ 1,840,264
258	7,983	276	564,912
-	438	-	812,591
<u>\$ 31,024</u>	<u>\$ 836,140</u>	<u>\$ 33,090</u>	<u>\$ 3,217,767</u>
\$ -	\$ 25	\$ -	\$ 183,967
-	2,219	-	939,077
-	-	-	11
<u>-</u>	<u>2,244</u>	<u>-</u>	<u>1,123,055</u>
-	-	-	1,196,702
31,024	833,896	33,090	898,010
<u>31,024</u>	<u>833,896</u>	<u>33,090</u>	<u>2,094,712</u>
<u>\$ 31,024</u>	<u>\$ 836,140</u>	<u>\$ 33,090</u>	<u>\$ 3,217,767</u>

SANTA BARBARA SCHOOL DISTRICTS

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	Child Development Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund
REVENUES			
Federal sources	\$ 428,565	\$ -	\$ -
Other State sources	3,799,897	569,386	-
Other local sources	880,532	44,820	3,286,355
Total Revenues	5,108,994	614,206	3,286,355
EXPENDITURES			
Current			
Pupil services:			
Food services	84,344	-	-
Administration:			
All other administration	204,795	-	-
Plant services	65,979	2,140,369	-
Facility acquisition and construction	-	13,918	-
Community services	4,787,775	-	-
Enterprise services	-	-	3,052,332
Total Expenditures	5,142,893	2,154,287	3,052,332
Excess (Deficiency) of Revenues Over Expenditures	(33,899)	(1,540,081)	234,023
Other Financing Sources			
Transfers in	-	596,210	-
NET CHANGE IN FUND BALANCES	(33,899)	(943,871)	234,023
Fund Balance - Beginning	109,784	1,809,642	21,023
Fund Balance - Ending	\$ 75,885	\$ 865,771	\$ 255,046

See accompanying note to supplementary information - unaudited.

State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 428,565
-	1,804,521	-	6,173,804
1,286	94,836	1,403	4,309,232
<u>1,286</u>	<u>1,899,357</u>	<u>1,403</u>	<u>10,911,601</u>
-	-	-	84,344
-	-	-	204,795
-	-	-	2,206,348
-	3,471,831	1,125	3,486,874
-	-	-	4,787,775
-	-	-	3,052,332
-	<u>3,471,831</u>	<u>1,125</u>	<u>13,822,468</u>
<u>1,286</u>	<u>(1,572,474)</u>	<u>278</u>	<u>(2,910,867)</u>
-	-	-	596,210
<u>1,286</u>	<u>(1,572,474)</u>	<u>278</u>	<u>(2,314,657)</u>
29,738	2,406,370	32,812	4,409,369
<u>\$ 31,024</u>	<u>\$ 833,896</u>	<u>\$ 33,090</u>	<u>\$ 2,094,712</u>

SANTA BARBARA SCHOOL DISTRICTS

**FIDUCIARY FUNDS
COMBINING STATEMENT NET ASSETS - UNAUDITED
JUNE 30, 2008**

	Junior High Schools			
	Goleta Valley	La Colina	La Cumbre	Santa Barbara
ASSETS				
Deposits and investments	\$ 35,884	\$ 58,079	\$ 35,274	\$ 50,999
LIABILITIES				
Due to student groups	\$ 35,884	\$ 58,079	\$ 35,274	\$ 50,999
	High Schools			
	Dos Pueblos	San Marcos	Santa Barbara	Total
ASSETS				
Deposits and investments	\$ 244,256	\$ 246,542	\$ 286,802	\$ 957,836
LIABILITIES				
Due to student groups	\$ 244,256	\$ 246,542	\$ 286,802	\$ 957,836

See accompanying note to supplementary information - unaudited.

SANTA BARBARA SCHOOL DISTRICTS

**CONSOLIDATION OF GENERAL FUNDS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2008**

	General Fund		
	Elementary District	High School District	Combined
REVENUES			
Revenue limit sources	\$ 23,944,520	\$ 64,375,348	\$ 88,319,868
Federal sources	2,988,653	4,778,275	7,766,928
Other State sources	11,123,053	13,128,280	24,251,333
Other local sources	3,205,081	3,596,179	6,801,260
Total Revenues	41,261,307	85,878,082	127,139,389
EXPENDITURES			
Current			
Instruction	28,935,373	49,044,440	77,979,813
Instruction-related activities:			
Supervision of instruction	2,068,572	2,543,871	4,612,443
Instructional library, media and technology	369,326	1,198,146	1,567,472
School site administration	2,313,427	6,256,116	8,569,543
Pupil services:			
Home-to-school transportation	907,843	931,834	1,839,677
Food services	1,777	15,742	17,519
All other pupil services	1,384,297	6,111,075	7,495,372
Administration:			
Data processing	175,291	931,674	1,106,965
All other administration	727,326	3,704,411	4,431,737
Plant services	3,707,489	9,330,645	13,038,134
Facility acquisition and construction	134,030	69,616	203,646
Ancillary services	105,740	1,267,091	1,372,831
Community services	243,833	691,738	935,571
Other outgo	-	115,134	115,134
Debt service			
Interest and other	39,998	70,789	110,787
Total Expenditures	41,114,322	82,282,322	123,396,644
Excess of Revenues Over Expenditures	146,985	3,595,760	3,742,745
Other Financing Sources (Uses)			
Transfers out	(544,445)	(473,765)	(1,018,210)
NET CHANGE IN FUND BALANCES	(397,460)	3,121,995	2,724,535
Fund Balance - Beginning	3,421,111	8,736,481	12,157,592
Fund Balance - Ending	\$ 3,023,651	\$ 11,858,476	\$ 14,882,127

See accompanying note to supplementary information - unaudited.

SANTA BARBARA SCHOOL DISTRICTS

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited

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

Fiduciary Funds - Combining Statement of Net Assets - Unaudited

The Fiduciary Funds - Combining Statement of Net Assets is included to provide Associated Student Body information by school site.

Consolidation of General Funds - Unaudited

The Consolidation of General Funds is included to provide information as required by the Single District Resolution (*Education Code* Section 35111).

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Santa Barbara School Districts
Santa Barbara, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara School Districts as of and for the year ended June 30, 2008, which collectively comprise Santa Barbara School Districts' basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Santa Barbara School Districts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santa Barbara School Districts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santa Barbara School Districts' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting; 2008-1 and 2008-2.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

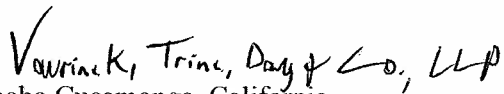
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Barbara School Districts' 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*.

We noted certain matters that we reported to management of Santa Barbara School Districts in a separate letter dated December 15, 2008.

Santa Barbara School Districts' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Santa Barbara School Districts' responses and, accordingly, express no opinion.

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


Rancho Cucamonga, California
December 15, 2008



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

Governing Board
Santa Barbara School Districts
Santa Barbara, California

Compliance

We have audited the compliance of Santa Barbara School Districts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Santa Barbara School Districts' major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Santa Barbara School Districts' management. Our responsibility is to express an opinion on Santa Barbara School Districts' compliance based on our audit.

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

In our opinion, Santa Barbara School Districts complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

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

Vaurine K. Trim, CPA Co., LLP
Rancho Cucamonga, California
December 15, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Santa Barbara School Districts
 Santa Barbara, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara School Districts as of and for the year ended June 30, 2008, and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	No, see below
Morgan-Hart Class Size Reduction	7	Yes
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Yes
	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers		
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Excess sick leave	3	Yes
Notice of right to elect California State Teachers' Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Yes
Determination of funding for non classroom-based instruction	3	Yes
Annual instruction minutes classroom based	3	Yes

We did not perform testing for Community Day School because the ADA was below the required level for testing.

Based on our audit, we found that for the items tested, the Santa Barbara School Districts complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Santa Barbara School Districts had not complied with the laws and regulations, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Our audit does not provide a legal determination on Santa Barbara School Districts' compliance with the State laws and regulations referred to above.

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

Varrin K. Trine, Day & Co., LLP
Rancho Cucamonga, California
December 15, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>84.027</u>	<u>Special Education Local Assistance</u>
<u>10.553, 10.555</u>	<u>National School Lunch Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 325,263</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

SANTA BARBARA SCHOOL DISTRICTS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2008-1 30000

BUDGET MONITORING/DEFICIT FUND BALANCE - CAFETERIA

Finding

The Cafeteria Fund of the District continues to incur operating losses. The District transferred \$372,000 during 2007-08 to cover a portion of the Cafeteria Fund operating deficit.

Recommendation

As the Cafeteria Fund continues to require assistance from the General Fund, measures should be taken immediately to assess the Cafeteria operations and financial condition. The General Fund can no longer support the operating deficits incurred by the Cafeteria Fund while maintaining a sufficient reserve balance.

District Response

Monthly monitoring of the financial operations of the Cafeteria Fund by fiscal services will continue throughout the fiscal year. The 2008-09 General Fund budget anticipates a contribution of approximately \$322,000 to the Cafeteria Fund however; since the participation in the meals for needy program has increased significantly for 2008-09, the fiscal and nutrition departments will discuss how best to disburse these additional funds collected through the revenue limit to reduce the encroachment.

2008-2 30000

FIXED ASSETS

Finding

The District did not maintain detailed fixed asset records for equipment. The District also did not calculate depreciation expense for the year.

SANTA BARBARA SCHOOL DISTRICTS

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

Under generally accepted accounting principles, the District should maintain detailed fixed asset records that will allow the calculation of annual depreciation and preparation of the government-wide financial statements.

District Response

The Districts' technology department along with a CECC contractor will implement a fixed asset module to its 2000 Financial System by January 31, 2009. This program will not only work in conjunction with the purchasing module, which will automatically update the fixed asset module, but will calculate annual depreciation, retain location of such assets, retire assets, and provide numerous reports. Therefore, the district does not anticipate further problems regarding fixed assets.

SANTA BARBARA SCHOOL DISTRICTS

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

SANTA BARBARA SCHOOL DISTRICTS

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Materials

2008-3 70000

Criteria or Specific Requirements

The District must hold public hearings per California *Education Code* Section 60119 on or before the eighth week from the first day pupils attended school for that year to determine through a resolution whether each pupil in each school had, or would have by the end of that fiscal year, sufficient textbooks or other instructional materials in each subject.

Condition

- The District did not conduct their public hearings on or before the eighth week from the first day pupils attended school for that year.
- The Elementary District started school on August 27th and held their public hearing on October 23rd (9 weeks).
- The High School District started school on August 27th and held their public hearing on December 11th (16 weeks).

Questioned Costs

The District's total questioned costs for 2007-08 is \$960,384. The Elementary District's questioned costs for 2007-08 is \$316,699. The High School District's questioned costs for 2007-08 is \$643,685.

Context

The questioned costs and findings were based on testing of the Instructional Materials Realignment Program.

Effect

It appears that the District is out of compliance with Instructional Materials Realignment Program in regards to their public hearings.

Cause

Per inquiry with the District's personnel, it appears that the public hearings were not done on or before the eighth week from the first day pupils attended school for that year.

SANTA BARBARA SCHOOL DISTRICTS

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Recommendation

The District should do the public hearing on or before the eighth week from the first day pupils attended school for that year.

District Response

Per California *Education Code* 60119 the Districts held its public hearings within the eighth week from the first day pupils attend school for 2008-09. To ensure that these hearings are held within the proper time limit the superintendent's administrative secretary has placed it on the Board agenda as a recurring event for future years.

SANTA BARBARA SCHOOL DISTRICTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2007-1 60000

FINANCIAL CONDITION

Finding

At June 30, 2007, the available reserve for the combined District was 3.94 percent. However, the elementary district available reserve was 2.56 percent, which if reported separately, would be below the State recommended reserve level of three percent. Since the District's governing board took action to adopt a resolution pursuant to Education Code Section 35110 allowing the elementary and high school districts to be deemed a single district for financial reporting purposes, the District is in compliance with the State minimum reserve requirement. However, a recent study performed by an independent consulting firm indicates that the District could face economic hardship in fiscal years 2007-08 and beyond. According to the study, the effect would be an increase in the possibility that the District will be unable to maintain a fund balance reserve of three percent in fiscal years 2008-09 and 2009-10.

Recommendation

The District should continue to evaluate its 2007-08 budget and make the necessary adjustments to ensure that the combined District has available reserves in its General Fund to meet the State recommended three percent reserve level.

Current Status

Implemented

2007-2 30000

BUDGET MONITORING/DEFICIT FUND BALANCE - CAFETERIA

Finding

The Cafeteria Fund of the District continues to incur operating losses. The District transferred \$160,745 during 2006-07 to cover a portion of the Cafeteria Fund operating deficit. At June 30, 2007, the Cafeteria Fund had a deficit fund balance of \$4,953.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Recommendation

As the Cafeteria Fund continues to require assistance from the General Fund, measures should be taken immediately to assess the Cafeteria operations and financial condition. The General Fund can no longer support the operating deficits incurred by the Cafeteria Fund while maintaining a sufficient reserve balance.

Current Status

Partially implemented, see current year finding and recommendation 2008-1.

2007-3 30000

REVOLVING BANK RECONCILIATION

Finding

In reviewing the District's outstanding check listing for the Wellpoint bank reconciliation, we noted that numerous checks were over 12 months old making the probability of them clearing the bank account quite low.

Recommendation

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount cleared should be charged against the appropriate account.

Current Status

Not implemented, see current year management letter comments.

2007-4 30000

REVOLVING FUND RECONCILIATION – SELF INSURANCE

Finding

In reviewing the District's Self Insurance revolving fund reconciliation, we noted that the reconciled balance does not equal the \$115,000 imprest amount recorded on the general ledger. The purpose of performing the monthly reconciliations is to ensure that no errors have occurred in the posting of transactions.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Recommendation

The District should ensure that the reconciled revolving fund equals the imprest balance on a monthly basis. If a difference is found, it must be investigated to determine where the error has occurred.

Current Status

Not implemented, see current year management letter comments.

2007-5 30000

DISTRICT CASH CLEARING

Finding

In reviewing the District's cash collection procedures, the following discrepancies were noted:

1. Cash collections are received on the day of deposit, rather than the day of collection.
2. Only one signature is required when issuing checks out of the cash clearing bank account.

Recommendation

The District should establish a procedure to ensure that when cash or checks are received, a pre-numbered receipt or log is prepared immediately. The log or receipt should contain at a minimum the date of receipt, amount received, and signature of the employee receipting the collection. This will assist the District in ensuring that deposits are forwarded to the County Office in a timely manner and strengthen internal control over the receipt of cash or checks. The District should also implement procedures to ensure that all checks require two signatures before being processed; this ensures that all checks are going through the appropriate levels of review.

Current Status

Partially implemented, see current year management letter comments.

2007-6 30000

SELF-INSURANCE INVESTMENTS

Finding

Per review of the District's general ledger, the Self Insurance Fund contained an investment balance of \$10,000 which could not be verified with supporting documentation.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Recommendation

The District should investigate the balance and if supporting documentation can not be obtained they should adjust the amount in their ledgers.

Current Status

Implemented.

2007-7 30000

COMPENSATED ABSENCES

Finding

In our review of compensated absences, we noted there is presently a policy establishing the number of vacation days that can be carried over from year-to-year. In reviewing the vacation carryover balances as of June 30, 2007, we noted 66 employees exceeded the allowable carryover, representing an excess balance of \$180,296.

Recommendation

We recommend the District implement procedures that will ensure all employees adhere to the vacation carryover policy at year end. In addition, we recommend the District consider a policy that will allow for any employee who has excess vacation hours at year end to be paid off so as to carryover no more vacation days than the amount that is allowable.

Current Status

Not implemented, see current year management letter comments.

2007-8 30000

PERSONNEL ACCESS

Finding

During our review of internal controls over the payroll and personnel processes, it was identified that a payroll clerk has unrestricted access to the personnel module within the computer system.

Recommendation

Proper segregation of duties should be maintained between the payroll and personnel functions. The District should ensure that only employees required to have access to modify data within each module be allowed such access.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Current Status

Implemented.

2007-9 30000

ASSOCIATED STUDENT BODY (ASB)

CASH IN COUNTY

Finding

The cash in county held on behalf of the ASBs was not reconciled back to the ASB financial statements and there was a difference of \$5,481 between the county confirmation and the ASB ledgers.

Recommendation

Monthly account reconciliations should be done in order to ensure that the cash balances reported on the books are accurate. The balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are in agreement. Differences between these two amounts could be caused by mispostings to the student body accounts.

Current Status

Not implemented, see current year management letter comments.

2007-10 30000

Dos Pueblos High School

Finding

The following deficiencies were noted:

- Three trust accounts had negative balances.
- Thirteen stale dated checks were noted.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Current Status

Implemented.

2007-11 30000

La Cumbre Junior High School

Finding

The following deficiencies were noted:

- Bank reconciliations were not properly prepared.
- Stale dated deposits and checks were noted.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

Current Status

Partially implemented, see current year management letter comments.

2007-12 30000

Goleta Valley Junior High School

Finding

The following deficiencies were noted:

- Three trust accounts had negative balances.
- Revenue potentials are not being prepared correctly.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

Current Status

Partially implemented, see current year management letter comments.

SANTA BARBARA SCHOOL DISTRICTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

2007-13 30000

San Marcos High School

Finding

The following deficiencies was noted:

- Eleven trust accounts had negative balances.
- Six stale dated checks were noted.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

Current Status

Implemented.

2007-14 30000

SITE CASH

Adams Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Monies were not transmitted to the District on a timely basis.
- Refunds are issued from monies awaiting deposit, leading to deposits that do not agree with receipts.
- The school delivers money to the District Office, but there is no verification back to the school that the money was deposited or the amount of the deposit.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

Current Status

Not implemented, see current year management letter comments.

SANTA BARBARA SCHOOL DISTRICTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

2007-15 30000

Santa Barbara Junior High School

Finding

Deposits are not made timely to the District Office. Only the checks received are deposited, all cash received is kept at the site until the end of the school year, resulting in large amounts of cash being maintained.

Recommendation

All monies collected should be deposited to the District Office intact and in a timely manner. This will strengthen internal controls over cash collections.

Current Status

Not implemented, see current year management letter comments.

2007-16 30000

Franklin Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Receipts are not issued consistently.
- Cash on hand did not reconcile to receipts issued.
- Monies are not transmitted to the District on a timely basis.
- Refunds are issued from monies awaiting deposit, leading to deposits that do not agree to receipts.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

Current Status

Not implemented, see current year management letter comments.

SANTA BARBARA SCHOOL DISTRICTS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

2007-17 30000

Washington Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Monies are not transmitted to the District on a timely basis.
- Cash on hand did not reconcile to receipts issued.
- An unauthorized petty cash fund is maintained.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

Current Status

Not implemented, see current year management letter comments.

Federal Award Findings

2007-18 50000

TITLE I - PART A

Finding

Activities Allowed or Unallowed and Allowable Costs/Cost Principles – 84.010

Questioned Costs: \$5,901

Per review of the expenditures charged to the Title I – Part A "Targeted Assistance" Program, we noted expenditures that were not in compliance with program requirements. These expenditures included \$5,901 to AVID Center for training. These expenditures could not be identified for use only by the eligible students participating in the program.

Recommendation

The District should ensure that all Title I – Part A funds received by schools operating targeted assistance programs be used only to help meet the needs of eligible students.

Current Status

Implemented.

SANTA BARBARA SCHOOL DISTRICTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

State Award Findings

2007-19 70000

INSTRUCTIONAL MATERIALS FUNDING REALIGNMENT PROGRAM (IMFRP)

Finding

We noted \$1,160 in expenditures charged to IMFRP for catering services for a teacher's conference. This expenditure is not within the guidelines established by the State Department of Education.

Recommendation

The District should ensure that all IMFRP funds received are used according the State established guidelines. The expenditures of \$1,160 are non-allowable and should be transferred out of IMFRP.

Current Status

Implemented.



Governing Board
Santa Barbara School Districts
Santa Barbara, California

In planning and performing our audit of the financial statements for the Santa Barbara School Districts, for the year ended June 30, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a matter that is an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2008, on the financial statements of the Santa Barbara School Districts.

REVOLVING BANK RECONCILIATION

Finding

In reviewing the District's outstanding check listing for the Wellpoint bank reconciliation, we noted that numerous checks were over 12 months old making the probability of them clearing the bank account quite low.

Recommendation

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount cleared should be charged against the appropriate account.

District Response

The Accounting Coordinator is working with Wellpoint in resolving this issue and anticipates that all adjustment will be made by June 30, 2009. A procedure has been implemented to ensure no checks will remain outstanding longer than three months.

REVOLVING FUND RECONCILIATION – SELF INSURANCE

Finding

In reviewing the District's Self Insurance revolving fund reconciliation, we noted that the reconciled balance does not equal the \$115,000 imprest amount recorded on the general ledger. The purpose of performing the monthly reconciliations is to ensure that no errors have occurred in the posting of transactions.

Recommendation

The District should ensure that the reconciled revolving fund equals the imprest balance on a monthly basis. If a difference is found, it must be investigated to determine where the error has occurred

District Response

The reconciliation for the self insurance revolving fund has been fully implemented as of July 31, 2008. This fund is currently reconciled each month as of November 30, 2008.

DISTRICT CASH CLEARING

Finding

In reviewing the District's cash collection procedures, it was noted that only one signature is required when issuing checks out of the cash clearing bank account.

Recommendation

The District should implement procedures to ensure that all checks require two signatures before being processed; this ensures that all checks are going through the appropriate levels of review.

District Response

The Director, Fiscal Services has revised all Santa Barbara Bank and Trust clearing accounts to requiring two signatures as of December 1, 2008.

COMPENSATED ABSENCES

Finding

In our review of compensated absences, we noted there is presently a policy establishing the number of vacation days that can be carried over from year-to-year. In reviewing the vacation carryover balances as of June 30, 2008, we noted 60 employees exceeded the allowable carryover, representing an excess balance of \$100,762.

Recommendation

We recommend the District implement procedures that will ensure all employees adhere to the vacation carryover policy at year end. In addition, we recommend the District consider a policy that will allow for any employee who has excess vacation hours at year end to be paid off so as to carryover no more vacation days than the amount that is allowable.

District Response

A letter was sent out to all administrators, secretaries, department heads and supervisors on December 5, 2008, reminding them that each unit employees with permanent status employed on a 12 month basis shall be entitled to accrue earned, but unused vacation not to exceed 28 days by the end of the fiscal year. Each supervisor or manager shall create a plan for vacation utilization by January 31, 2009.

If such a plan does not occur and the employee does not use the excess vacation time the employee will lose it as of June 30, 2009. The districts' classified bargaining unit (CSEA) has informed all affected employees.

ASSOCIATED STUDENT BODY (ASB)

Cash in County

Finding

The cash in county held on behalf of the ASB's was not reconciled back to the ASB financial statements and there was a difference of \$3,620 between the county confirmation and the ASB ledgers.

Recommendation

Monthly account reconciliations should be done in order to ensure that the cash balances reported on the books are accurate. The balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are in agreement. Differences between these two amounts could be caused by mispostings to the student body accounts.

La Cumbre Junior High School

Finding

During our review, it was noted that the June bank reconciliation was not properly prepared; a difference was noted between the bank reconciliation and the ledger balance.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

Goleta Valley Junior High School

Finding

During our review, it was noted that revenue potentials are not being properly prepared. It was also noted that the June bank reconciliation was not properly prepared; a difference was noted between the bank reconciliation and the ledger balance.

Recommendation

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel regarding the above noted deficiencies. A periodic review should be made by the District of the site's progress towards implementing the appropriate procedures.

Santa Barbara High School

Finding

During our review for the month of October's financial statements, the auditor noted that cash on hand of \$2,000 was not documented on the Balance Sheet. In addition, the ASB bookkeeper obtained supplementary cash funds that were not accounted for at the time of the audit due to transactions being performed at the time.

Recommendation

Financial statements maintained by the site ought to include additional monies collected by the ASB bookkeeper. The District should incorporate an established amount for the ASB bookkeeper to maintain at the site and financial statements. The establishment of this procedure will reduce of liability cash maintained by site.

District Response – Associated Student Body (ASB)

ASB continues to be problematic to the District. For the past two years the District has sent principals, secretaries, and district staff to the Santa Barbara County Education Office/FCMAT workshop regarding ASB accounting and will continue to do so. However, next year, 2009, the district will focus on not only sending the high school's personnel but the junior highs and the elementary as well to ensure proper accounting of these ASB funds. At this time, a letter will be sent out to all sites indicating the problems of each site's ASB funds. The fiscal department will also offer training on the proper accounting techniques regarding each site's specific problem.

SITE CASH

Adams Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Monies were not transmitted to the District on a timely basis.
- Refunds are issued from monies awaiting deposit, leading to deposits that do not agree with receipts.
- The school delivers money to the District Office, but there is no verification back to the school that the money was deposited or the amount of the deposit.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

Santa Barbara Junior High School

Finding

Deposits are not made timely to the District Office. Only the checks received are deposited; all cash received is kept at the site until the end of the school year, resulting in large amounts of cash being maintained.

Recommendation

All monies collected should be deposited to the District Office intact and in a timely manner. This will strengthen internal controls over cash collections.

Franklin Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Receipts are not issued consistently.
- Cash on hand did not reconcile to receipts issued.
- Monies are not transmitted to the District on a timely basis.
- Refunds are issued from monies awaiting deposit, leading to deposits that do not agree to receipts.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

Washington Elementary School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Monies are not transmitted to the District on a timely basis.
- Cash on hand did not reconcile to receipts issued.
- An unauthorized petty cash fund is maintained.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits, and refunds.

La Colina Junior High School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Pre-numbered receipts are not being used.
- No proof of deposit to the District is maintained.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections and deposits.

Santa Barbara High School

Finding

The following deficiencies were noted with regard to the internal control over various library fines, textbook fees, and other site cash collections:

- Pre-numbered receipts are not being used.
- Monies are not transmitted to the District on a timely basis.
- Refunds are issued from cash on hand.

Recommendation

The District Office should assist the sites in implementing proper internal controls over cash collections, deposits and refunds.

Vaupinck, Trine, Day & Co., LLP
Rancho Cucamonga, California
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