

**SANTA BARBARA
SCHOOL DISTRICTS**

AUDIT REPORT

**For the Year Ended
June 30, 2009**



*A Professional
Accountancy Corporation*

**SANTA BARBARA SCHOOL DISTRICTS
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Financial Statements:Ⓢ	
Government-wide Financial Statements	
Statement of Net Assets	16
Statement of Activities	17
General Fund Financial Statements	
Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Proprietary Fund Financial Statements	
Statement of Fund Net Assets	22
Statement of Revenues, Expenditures, and Changes in Fund Net Assets	23
Statement of Cash Flows.....	24
Agency Fund Financial Statements	
Statement of Fiduciary Net AssetsⓈ Agency Funds	25
Notes to Financial Statements.....	26

**SANTA BARBARA SCHOOL DISTRICTS
 AUDIT REPORT
 For the Fiscal Year Ended June 30, 2009
 Table of Contents**

REQUIRED SUPPLEMENTARY INFORMATION SECTION

	<u>Page</u>
Budgetary Comparison Schedule - General Fund.....	59
Schedules of Funding Progress.....	60

SUPPLEMENTARY INFORMATION SECTION

Local Educational Agency Organization Structure.....	61
Schedule of Average Daily Attendance.....	62
Schedule of Instructional Time.....	64
Schedule of Financial Trends and Analysis.....	65
Schedule of Expenditures of Federal Awards.....	66
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	67
Schedule of Charter Schools.....	68
Note to the Supplementary Information.....	69

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited.....	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited.....	72
Fiduciary Funds - Combining Statement of Net Assets - Unaudited.....	73
Consolidation of General Funds - Unaudited.....	74
Note to Supplementary Information - Unaudited.....	75

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	76
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	78
Auditors' Report on State Compliance.....	80

FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results.....	82
Schedule of Audit Findings and Questioned Costs.....	83
Summary Schedule of Prior Audit Findings.....	100



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Santa Barbara School Districts
Santa Barbara, California

INDEPENDENT AUDITORS' REPORT

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, as of and for the fiscal year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Santa Barbara School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara School Districts as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal 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 5, 2009 on our consideration of the Santa Barbara School Districts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 15 and the required supplementary on pages 59 and 60 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting 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 performed for the purpose of forming opinions on the financial statements that collectively comprise Santa Barbara School Districts' basic financial statements. The other 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 States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 general-purpose financial statements taken as a whole.



San Diego, California
December 5, 2009

Management's Discussion and Analysis

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

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, 2009. 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 Secondary School Districts adopted a resolution in accordance with Education Code Section 3510, which declared that the two districts would report as a single district (known as the Santa Barbara School Districts) for financial data in 2004-05 and beyond. This is the fourth year of the combined reporting, although the administration preserves the separateness of the two districts in the financial database. The General Fund balance increased by a net \$2.7 million between July 1, 2008 and June 30, 2009, primarily due to the receipt of federal stimulus funds received in the latter part of the fiscal year.

- Overall government-wide revenues were \$150.7 million. Revenues were \$3.1 million more than expenses.
- The total cost of basic programs was approximately \$147.8 million.
- The District decreased its outstanding long-term debt 2% over the prior year.
- Average daily attendance (ADA) in grades K-12 decreased by 120, or less than 1%.

OVERVIEW OF THE FINANCIAL STATEMENTS

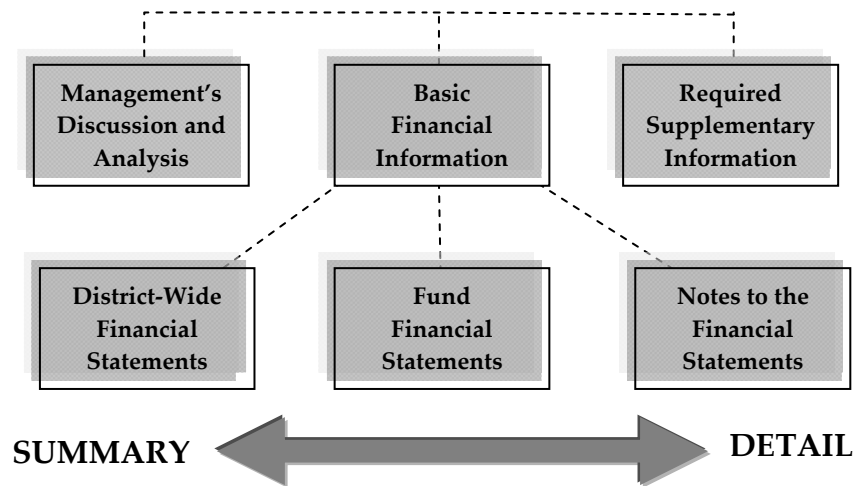
This annual report consists of three parts— management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short- and long-term financial information about the District's self-insurance and warehouse revolving funds.
- *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).

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

The financial statements also include notes that explain some of the information in the statements and provides more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Santa Barbara School Districts' Annual Financial Report



SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

Figure A-2 summarizes the major features of the District's financial statements, including a portion of the District's activities they cover and the types of information they contain.

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

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses; self-insurance fund	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> Statement of Net Assets Statement of Activities 	<ul style="list-style-type: none"> Balance Sheet Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> Statement of Net Assets Statement of Revenues, Expenses & Changes in Fund Net Assets Statement of Cash Flows 	<ul style="list-style-type: none"> Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payments due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide 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. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

The District's activities are represented in the district-wide financial statements.

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

Fund Financial Statements

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

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

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- *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.
 - We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities. The District currently has two types of internal service funds – the self-insurance fund and the warehouse revolving fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets as of June 30, 2009 were \$110.4 million reflecting an increase of 3% since June 30, 2008. Of this amount, \$8.5 million 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 (See Table A-1) and change in net assets (See Table A-2) of the District's governmental activities.

Table A-1
Santa Barbara School Districts' Net Assets

	Governmental Activities		Total
	2008	2009	Percentage
			Change
			2008-09
Current and other assets	\$ 42,712,793	\$ 40,162,105	-6%
Non-current and other assets	150,000	150,000	0%
Capital assets	168,563,594	172,286,104	2%
Total assets	211,426,387	212,598,209	1%
Current liabilities	11,499,968	12,353,503	7%
Long-term liabilities	92,494,565	89,867,108	-3%
Total liabilities	103,994,533	102,220,611	-2%
Total net assets	\$ 107,431,854	\$ 110,377,598	3%

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE,(continued)

Changes in net assets. The District's total revenues decreased 3% to \$150.7 million (see Table A-2). Property taxes and state formula aid accounted for most of the District's revenue, contributing about 67% of every dollar raised. (See Figure A-2.) Another 33% came from state and federal aid for specific programs, and the remainder from miscellaneous sources and fees charged for services.

The total cost of all programs and services decreased 2% to \$147.8 million. The District's expenses are predominantly related to educating and caring for students (73%). (See Figure A-3) The purely administrative activities of the District accounted for 7% of total costs.

Total revenues surpassed expenses by \$2.9 million.

Table A-2
Changes in Santa Barbara School Districts' Net Assets

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2008</u>	<u>2009</u>	<u>Percentage</u> <u>Change</u> <u>2008-09</u>
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 2,067,615	\$ 2,160,972	5%
Operating grants and contributions	37,027,722	38,182,516	3%
Capital grants and contributions	1,804,521	1,041,289	-42%
<i>General revenues</i>			
Property taxes and state aid	108,739,768	101,255,831	-7%
Other revenues	5,010,458	8,077,695	61%
Total revenues	<u>154,650,084</u>	<u>150,718,303</u>	-3%
Expenses:			
Instruction-related	98,460,542	93,087,730	-5%
Student support services	13,727,288	14,359,845	5%
Maintenance & operations	6,438,139	14,160,037	120%
Administration	15,499,886	10,732,613	-31%
Other expenses	16,840,751	15,432,334	-8%
Total expenses	<u>150,966,606</u>	<u>147,772,559</u>	-2%
Increase in net assets	<u>\$ 3,683,478</u>	<u>\$ 2,945,744</u>	-20%

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE, (continued)

Governmental Activities

Table A-2 presents the expenses of the major District activities: instruction and instruction related; student support services; general administration; maintenance, operations and facility acquisition; and miscellaneous other. Table A-3 shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The Statement of Activities categorizes the activities presented in Table A-2 by revenue source:

- The cost of all *governmental* activities this year was \$147.8 million.
- The amount of \$2.2 million was paid by the users of the District's programs.
- The federal and state governments subsidized programs with grants and contributions totaling \$38.2 million.
- Capital grants and contributions further add \$1.0 million toward the cost of all activities.
- District's net costs (\$106.4 million), were paid for by District taxpayers and the taxpayers of California.
- Local and miscellaneous revenues account for \$8.1 million.
- Net assets increased \$2.9 million.

Table A-3
Net Costs of Santa Barbara Unified School Districts'
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 93,087,730	\$ 73,105,098
Pupil support services	14,359,845	6,502,442
Maintenance and operations	14,160,037	13,282,774
Administration	10,732,613	9,541,510
Other expenses	15,432,334	3,955,958
Total expenses	\$ 147,772,559	\$ 106,387,782

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, the governmental funds reflected a combined fund balance amount of \$32.1 million, compared to last year's fund balance amount of \$35.1 million.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget revisions fall into the categories of Adopted, First Interim, and Second Interim. The major budget amendments from the original to final budget fall into these categories:

- Revenues – increased by \$1.7 million primarily to reflect federal and state budget actions and re-budget carryover funds
- Salaries and benefits costs increased \$2.9 million to reflect a projected increased in other outgo and other operating expenditures

While the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$1.5 million, the actual results for the year show that revenues exceeded expenditures by \$4.0 million, primarily due to the receipt of the American Recovery and Reinvestment Act of 2009, State Fiscal Stabilization Funds. Actual revenues were \$5.5 million more than anticipated, but expenditures were \$23,995 more than budgeted.

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009 the District had invested \$215.9 million in a broad range of capital assets including land improvements, building construction, work in progress, and equipment. (See Table A-4.) This represents a net increase of 4% over last year's amount of \$208.4 million. (More detailed information about capital assets can be found in Note 5 to the financial statements.) The net depreciation expense for the year was \$3.7 million. Additions to capital assets amounted to \$7.5 million.

Table A-4
Santa Barbara School Districts' Capital Assets

	Governmental Activities		Total Percentage
	2008	2009	Change
			2008-09
Land	\$ 1,537,176	\$ 1,537,176	0%
Site improvements	1,873,217	2,126,775	14%
Buildings	171,466,211	189,210,406	10%
Equipment and furniture	4,552,745	4,935,075	8%
Construction in progress	29,015,984	18,105,355	-38%
Total	\$ 208,445,333	\$ 215,914,787	4%

Long-Term Debt

At year-end the District had \$93.2 million in long-term debt, a decrease of 2% from last year, as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.)

Table A-5
Santa Barbara School Districts' Long-Term Debt

	Governmental Activities		Total
	2008	2009	Percentage Change
			2008-09
General obligation bonds	\$ 92,870,000	\$ 90,165,000	-3%
Premium on issuance	1,043,971	989,357	-5%
Compensated absences	1,285,594	1,637,365	27%
Supplementary early retirement plan	-	425,000	100%
Total	\$ 95,199,565	\$ 93,216,722	-2%

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in "solutions" - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation - a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars can be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

SANTA BARBARA SCHOOL DISTRICTS
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Enrollment

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the Santa Barbara School District budget for the 2009-10 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact Meg Jette', Director of Fiscal Services, Santa Barbara School District, 720 Santa Barbara Street, Santa Barbara, California 93101.

Financial Section

SANTA BARBARA SCHOOL DISTRICTS
Statement of Net Assets
June 30, 2009

ASSETS	<u>Governmental</u> <u>Activities</u>
Current assets:	
Cash	\$ 24,899,447
Accounts receivable	14,848,477
Inventories	110,086
Prepaid expenses	304,095
Total current assets	<u>40,162,105</u>
Non-current assets:	
Note receivable	150,000
Capital assets:	
Land	1,537,176
Improvement of sites	2,126,775
Buildings	189,210,406
Furniture and equipment	4,935,075
Construction in progress	18,105,355
Less accumulated depreciation	<u>(43,628,683)</u>
Total capital assets, net of depreciation	<u>172,286,104</u>
Total non-current assets	<u>172,436,104</u>
Total assets	<u>212,598,209</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	7,047,532
Deferred revenue	1,702,445
Claims liability	253,912
Portion of long-term liabilities due within one year	<u>3,349,614</u>
Total current liabilities	<u>12,353,503</u>
Long-term debt due after one year	<u>89,867,108</u>
Total liabilities	<u>102,220,611</u>
 NET ASSETS	
Invested in capital assets, net of related debt	86,218,963
Restricted for:	
Capital projects	1,919,335
Debt service	6,277,411
Educational programs	7,483,257
Unrestricted	<u>8,478,632</u>
Total net assets	<u>\$ 110,377,598</u>

SANTA BARBARA SCHOOL DISTRICTS
Statement of Activities
For the Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Instructional Services:					
Instruction	\$ 78,224,602	\$ 119,795	\$ 15,765,286	\$ 1,041,289	\$ (61,298,232)
Instruction-Related Services:					
Supervision of instruction	4,320,980	33,022	2,384,638	-	(1,903,320)
Instructional library, media and technology	1,481,855	1,954	191,150	-	(1,288,751)
School site administration	9,060,293	4,314	441,184	-	(8,614,795)
Pupil Support Services:					
Home-to-school transportation	2,035,914	135,611	1,068,513	-	(831,790)
Food services	4,736,720	1,433,149	3,080,989	-	(222,582)
All other pupil services	7,587,211	135	2,139,006	-	(5,448,070)
General Administration Services:					
Data processing services	1,252,412	-	-	-	(1,252,412)
Other general administration	9,480,201	80,054	1,111,049	-	(8,289,098)
Plant Services	14,160,037	19,081	858,182	-	(13,282,774)
Ancillary services	1,463,900	40,932	364,727	-	(1,058,241)
Community services	5,863,155	277,242	5,220,303	-	(365,610)
Interest on long-term debt	3,712,061	-	-	-	(3,712,061)
Other outgo	646,273	15,683	5,557,489	-	4,926,899
Depreciation (unallocated)	3,746,945	-	-	-	(3,746,945)
Total Governmental Activities	\$ 147,772,559	\$ 2,160,972	\$ 38,182,516	\$ 1,041,289	(106,387,782)
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					81,283,384
Property taxes, levied for debt service					6,523,339
Property taxes, levied for other specific purposes					167,144
Federal and state aid not restricted to specific purpose					13,281,964
Interest and investment earnings					1,180,183
Interagency revenues					53,885
Miscellaneous					6,843,627
					<u>109,333,526</u>
					Change in net assets 2,945,744
					Net assets - July 1, 2008 <u>107,431,854</u>
					Net assets - June 30, 2009 <u>\$ 110,377,598</u>

SANTA BARBARA SCHOOL DISTRICTS
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 6,563,299	\$ 4,901,015	\$ 6,257,214	\$ 6,292,272	\$ 24,013,800
Accounts receivable	12,951,296	7,574	20,197	1,561,245	14,540,312
Due from other funds	5,171,400	87	-	1,114,233	6,285,720
Inventories	-	-	-	59,443	59,443
Prepaid expenditures	23,407	-	-	-	23,407
Total Assets	\$ 24,709,402	\$ 4,908,676	\$ 6,277,411	\$ 9,027,193	\$ 44,922,682
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 4,414,899	\$ 31,483	\$ -	\$ 488,404	\$ 4,934,786
Due to other funds	1,551,932	8,190	-	4,671,305	6,231,427
Deferred revenue	1,166,041	-	-	536,404	1,702,445
Total Liabilities	7,132,872	39,673	-	5,696,113	12,868,658
Fund Balances					
Reserved for:					
Inventories	-	-	-	59,443	59,443
Revolving cash	9,000	-	-	-	9,000
Debt service	-	-	6,277,411	-	6,277,411
Prepaid expenditures	23,407	-	-	-	23,407
Categorical programs	7,483,257	-	-	-	7,483,257
Unreserved, reported in:					
General fund	10,060,866	-	-	-	10,060,866
Capital project funds	-	4,869,003	-	1,919,335	6,788,338
Other funds	-	-	-	1,352,302	1,352,302
Total Fund Balances	17,576,530	4,869,003	6,277,411	3,331,080	32,054,024
Total Liabilities and Fund Balances	\$ 24,709,402	\$ 4,908,676	\$ 6,277,411	\$ 9,027,193	\$ 44,922,682

SANTA BARBARA SCHOOL DISTRICTS
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds		\$ 32,054,024
<p>Amounts reported for governmental activities in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$215,914,787 and the accumulated depreciation is (\$43,628,683).</p>		
		172,286,104
<p>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:</p>		
		280,688
<p>Long-term notes receivable do not meet the availability criteria under modified accrual basis and are deferred in the funds.</p>		
		150,000
<p>In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatured interest owing at the end of the period was:</p>		
		(1,834,124)
<p>In governmental funds, debt premium costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt premium costs are amortized over the life of the debt. Unamortized debt premium costs included in prepaid expense on the statement of net assets are:</p>		
		(989,357)
<p>In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:</p>		
	General obligation bonds	\$ 90,165,000
	Compensated absences payable	1,637,365
	Supplementary early retirement plan	425,000
		<u>(92,227,365)</u>
<p>Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:</p>		
		<u>657,628</u>
Total net assets - governmental activities		<u><u>\$ 110,377,598</u></u>

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
For the Fiscal Year Ended June 30, 2009

REVENUES	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:					
Property taxes	\$ 75,328,940	\$ -	\$ 6,523,339	\$ 2,482,582	\$ 84,334,861
Federal and state aid not restricted to specific purpose	16,355,496	-	-	963,824	17,319,320
Earnings on investments	877,058	78,674	99,557	124,896	1,180,185
Interagency revenues	191,885	-	-	-	191,885
Miscellaneous	1,926,198	95,249	-	4,423,832	6,445,279
Program Revenues:					
Charges for services	236,671	-	-	1,924,301	2,160,972
Operating grants and contributions	29,595,444	-	-	8,587,071	38,182,515
Capital grants and contributions	-	-	-	1,041,289	1,041,289
Total Revenues	124,511,692	173,923	6,622,896	19,547,795	150,856,306
EXPENDITURES					
Instructional Services:					
Instruction	74,882,627	-	-	2,739,121	77,621,748
Instruction-Related Services:					
Supervision of instruction	4,320,387	-	-	593	4,320,980
Instructional library, media and technology	1,481,855	-	-	-	1,481,855
School site administration	8,597,404	-	-	462,889	9,060,293
Pupil Support Services:					
Home-to-school transportation	2,035,914	-	-	-	2,035,914
Food services	377,111	-	-	4,459,095	4,836,206
All other pupil services	7,380,350	-	-	1,424	7,381,774
General Administration Services:					
Data processing services	1,303,942	-	-	-	1,303,942
Other general administration	4,690,955	-	-	830,040	5,520,995
Plant services	12,501,652	-	-	1,683,914	14,185,566
Facility acquisition and construction	34,769	2,679,187	-	4,410,793	7,124,749
Ancillary services	1,463,900	-	-	-	1,463,900
Community services	998,420	-	-	4,864,735	5,863,155
Enterprise activities	-	-	-	3,812,872	3,812,872
Other outgo:					
Transfers between agencies	108,931	-	-	180,106	289,037
Debt service - issuance costs	359,000	-	-	-	359,000
Debt service - principal	-	-	2,549,564	-	2,549,564
Debt service - interest	-	-	4,382,934	-	4,382,934
Total Expenditures	120,537,217	2,679,187	6,932,498	23,445,582	153,594,484
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,974,475	(2,505,264)	(309,602)	(3,897,787)	(2,738,178)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	80,774	-	1,112,166	1,192,940
Interfund transfers out	(1,155,990)	(80,774)	-	(94,176)	(1,330,940)
All other financing sources (uses)	(124,082)	-	-	-	(124,082)
Total Other Financing Sources and Uses	(1,280,072)	-	-	1,017,990	(262,082)
Net Change in Fund Balances	2,694,403	(2,505,264)	(309,602)	(2,879,797)	(3,000,260)
Fund Balances, July 1, 2008	14,882,127	7,374,267	6,587,013	6,210,877	35,054,284
Fund Balances, June 30, 2009	\$ 17,576,530	\$ 4,869,003	\$ 6,277,411	\$ 3,331,080	\$ 32,054,024

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2009

Total net change in fund balances - governmental funds \$ (3,000,260)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 7,469,455	
Depreciation expense	<u>(3,746,945)</u>	3,722,510

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 2,705,000

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: 688,417

In governmental funds, debt issue costs and premiums are recognized in the period they are incurred. In the government-wide statements, issue costs and premiums are amortized over the life of the debt. The difference between the debt issue costs and premium recognized in the current period and the costs and premium amortized for the period is:

Amortization of premium on issuance	\$ 54,614	
Amortization of cost of issuance	<u>(17,543)</u>	37,071

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (351,771)

In governmental funds, Early Retirement Incentive Program (ERIP) costs are recognized when employer contributions are made. In the statement of activities, ERIP costs are recognized on an accrual basis. Additions to ERIP owing in the current period was: (425,000)

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. (430,223)

Change in net assets of governmental activities \$ 2,945,744

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Statement of Fund Assets - Proprietary Funds
June 30, 2009

	Governmental Activities - Internal Service Funds					
	Insurance Property Loss	Workers' Compensation	Dental & Vision	Total Self Insurance Fund	Warehouse Revolving Fund	Total Internal Service Funds
ASSETS						
Cash	\$ 118,395	\$ 604,629	\$ 110,845	\$ 833,869	\$ 51,778	\$ 885,647
Due from other funds	138,000	-	271,951	409,951	31,444	441,395
Other receivables	433	157,059	133,062	290,554	17,611	308,165
Inventory	-	-	-	-	50,643	50,643
Total Assets	256,828	761,688	515,858	1,534,374	151,476	1,685,850
LIABILITIES						
Accounts payable and accrued liabilities	85,768	136,191	55,320	277,279	1,343	278,622
Claims liability	253,912	-	-	253,912	-	253,912
Due to other funds	-	-	418,000	418,000	77,688	495,688
Total liabilities	339,680	136,191	473,320	949,191	79,031	1,028,222
NET ASSETS						
Unrestricted	(82,852)	625,497	42,538	585,183	72,445	657,628
Total net assets	\$ (82,852)	\$ 625,497	\$ 42,538	\$ 585,183	\$ 72,445	\$ 657,628

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities - Internal Service Funds					Total Internal Service Funds
	Insurance Property Loss	Workers' Compensation	Dental & Vision	Total Self Insurance Fund	Warehouse Revolving Fund	
OPERATING REVENUES						
Charges to other funds	\$ -	\$ -	\$ 893,955	\$ 893,955	\$ -	\$ 893,955
Total operating revenues	-	-	893,955	893,955	-	893,955
OPERATING EXPENSES						
Services and other operating expenditures	245,775	(20,023)	1,251,075	1,476,827	-	1,476,827
Total operating expenses	245,775	(20,023)	1,251,075	1,476,827	-	1,476,827
OPERATING INCOME (LOSS)	(245,775)	20,023	(357,120)	(582,872)	-	(582,872)
NON-OPERATING REVENUES						
Interest income	3,878	8,409	2,183	14,470	179	14,649
INCOME (LOSS) BEFORE TRANSFERS	(241,897)	28,432	(354,937)	(568,402)	179	(568,223)
Interfund transfers in	138,000	-	-	138,000	-	138,000
CHANGE IN NET ASSETS	(103,897)	28,432	(354,937)	(430,402)	179	(430,223)
NET ASSETS, JULY 1, 2008	21,045	597,065	397,475	1,015,585	72,266	1,087,851
NET ASSETS, JUNE 30, 2009	\$ (82,852)	\$ 625,497	\$ 42,538	\$ 585,183	\$ 72,445	\$ 657,628

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 955,525
Cash payments for payroll, insurance and operating costs	(964,105)
	<u>(8,580)</u>
CASH FLOWS FROM RELATED FINANCING ACTIVITIES	
Interfund transfer in	138,000
	<u>138,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	14,649
	<u>14,649</u>
Net increase in cash	144,069
Cash, July 1, 2008	<u>741,578</u>
Cash, June 30, 2009	<u>\$ 885,647</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (582,872)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(39,355)
Decrease in due from other funds	53,473
Decrease in inventory	47,452
Decrease in accounts payable and current liabilities	(66,972)
Increase in claims liability	84,204
Increase in due from other funds	495,490
	<u>(8,580)</u>
Net cash used by operating activities	<u>\$ (8,580)</u>

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Statement of Fiduciary Net Assets – Agency Funds
June 30, 2009

	Agency Funds
	Student Body Funds
Assets	
Cash	\$ 926,366
Other current assets	3,190
Total Assets	<u>\$ 929,556</u>
Liabilities	
Accounts payable	\$ 33,941
Due to student groups	895,615
Total Liabilities	<u>\$ 929,556</u>

The notes to financial statements are an integral part of this statement.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. 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. The District operates eight elementary schools, three charter schools, two alternative schools, one community academy, 15 children's after school child care centers, four junior high schools, three high schools, four continuation schools, home school programs 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 the District, this includes general operations, food service, and student-related activities.

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also 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.

C. Charter Schools

The District has approved charters for Peabody Charter School, Cesar Chavez Charter School, and Santa Barbara Elementary Charter and Santa Barbara Middle Charter Schools 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 Cesar Chavez and Santa Barbara Charter Schools, which it passes on the Charters.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

E. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Basis of Presentation (continued)

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. The Internal Service Fund is presented on the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using a flow of current financial resources measurement focus.

With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) 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 activities.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Basis of Presentation (continued)

Fund Financial Statement (continued):

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

F. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collected within the current period or within 60 days after year end.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Basis of Accounting (continued)

Revenues- (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary funds and fiduciary funds as follows:

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another 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 bonds were issued.
- The *Bond Interest and Redemption Fund* is used for the repayment of bonds issued for a district (Education Code Sections 15125-15262).

Non-Major Governmental Funds:

- *Special Revenue Funds* are established to account for the proceeds from specific revenue sources other than trust or for major capital projects) that are restricted to the financing of particular activities:
 1. *Charter School Special Revenue Fund* is used to account separately for the activities of district operated charter school that would otherwise be reported in the authorizing District's General Fund.
 2. *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.
 3. *Cafeteria Special Revenue Fund* is used to account separately for Federal, State, and local resources to operate the food service program and is only used for those expenditures authorized by the governing board as necessary for the operation of the District's food service program.
 4. *Deferred Maintenance Fund* is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (Education Code Section 17582-17587) and for items of maintenance approved by the State Allocation Board.
 5. *Retiree Benefits Special Reserve Fund* is used to account for funds set aside for board designated employee retirement costs.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fund Accounting (continued)

- *Capital Projects 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).
 1. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act
 2. *State School Building Lease-Purchase Fund* is used 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.)
 3. *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 Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.)
 4. *Special Reserve Fund for Capital Outlay Projects* exists primarily to provide for accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 428408).

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:
 - *Internal Service Funds* are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains two internal service funds, the Self-Insurance Internal Service Fund, which is more fully discussed in Note 11, and the Warehouse Revolving Fund.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fund Accounting (continued)

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 account for student body activities (ASB).

H. Encumbrances

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

I. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. It is the final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Assets, Liabilities, and Equity

1. 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 held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. 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.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	5-50 years
Furniture and Equipment	2-15 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

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

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Assets, Liabilities, and Equity (continued)

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

K. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1) and become delinquent if unpaid by August 31.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

L. 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.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

N. New GASB Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 45. In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement requires employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

GASB Statement No. 49. *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52. *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Cash in county treasury	\$ 21,055,185	\$ 765,647	\$ -	\$ 21,820,832
Cash on hand and in banks	10,000	-	926,366	936,366
Cash with fiscal agent	2,935,989	-	-	2,935,989
Cash in revolving fund	9,000	110,000	-	119,000
Collections awaiting deposit	3,626	-	-	3,626
Investments	-	10,000	-	10,000
Total deposits	<u>\$ 24,013,800</u>	<u>\$ 885,647</u>	<u>\$ 926,366</u>	<u>\$ 25,815,813</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.

Cash 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, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its web site. The table below identifies some of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 Treasury. The District maintains an investment with the Santa Barbara County Investment Pool with a fair value of approximately \$22,012,822 and an amortized book value of \$21,820,832. The average weighted maturity for this pool is 296 days. The District also maintains cash with a fiscal agent at US Bank in a money market account with a fair value of approximately \$2,935,989 and an amortized book value of \$2,935,989.

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 investment with the Santa Barbara County Investment Pool is rated AA+ by Standard & Poor's Rating Services.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. 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, 2009, none of the District's bank balance was exposed to custodial credit risk.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:Ⓢ

	General FundⓈ	Building FundⓈ	Bond Interest and Redemption FundⓈ	Non-Major Governmental FundsⓈ	Self Insurance FundⓈ	Total Governmental ActivitiesⓈ
Federal GovernmentⓈ	\$Ⓢ 5,098,965Ⓢ	\$Ⓢ -	\$Ⓢ -	\$Ⓢ 400,224Ⓢ	\$Ⓢ -	\$Ⓢ 5,499,189Ⓢ
State GovernmentⓈ	2,469,077Ⓢ	-	-	359,149Ⓢ	-	2,828,226Ⓢ
Local GovernmentⓈ	5,383,254Ⓢ	7,574Ⓢ	20,197Ⓢ	801,872Ⓢ	308,165Ⓢ	6,521,062Ⓢ
TotalⓈ	<u>\$Ⓢ 12,951,296Ⓢ</u>	<u>\$Ⓢ 7,574Ⓢ</u>	<u>\$Ⓢ 20,197Ⓢ</u>	<u>\$Ⓢ 1,561,245Ⓢ</u>	<u>\$Ⓢ 308,165Ⓢ</u>	<u>\$Ⓢ 14,848,477Ⓢ</u>

NOTE 4 – FUND BALANCES/NET ASSETS

The fund balances/net assets are designated or restricted as of June 30, 2009, as shown by fund:Ⓢ

	General FundⓈ
Economic UncertaintiesⓈ	<u>\$Ⓢ 3,654,287Ⓢ</u>
TotalⓈ	<u>\$Ⓢ 3,654,287Ⓢ</u>

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 5 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the fiscal year ended June 30, 2009 is shown below:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Land	\$ 1,537,176	\$ -	\$ -	\$ 1,537,176
Site improvements	1,873,217	253,558	-	2,126,775
Buildings and improvements	171,466,211	17,744,195	-	189,210,406
Furniture and equipment	4,552,744	382,331	-	4,935,075
Work in progress	29,015,984	7,087,124	17,997,753	18,105,355
Total at historical cost	<u>208,445,332</u>	<u>25,467,208</u>	<u>17,997,753</u>	<u>215,914,787</u>
Less accumulated depreciation:				
Site improvements	1,740,938	27,445	-	1,768,383
Buildings and improvements	34,727,949	3,707,084	-	38,435,033
Furniture and equipment	3,412,851	12,416	-	3,425,267
Total accumulated depreciation	<u>39,881,738</u>	<u>3,746,945</u>	<u>-</u>	<u>43,628,683</u>
Governmental activities capital assets, net	<u>\$ 168,563,594</u>	<u>\$ 21,720,263</u>	<u>\$ 17,997,753</u>	<u>\$ 172,286,104</u>

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 6 - INTERFUND ACTIVITIES

Interfund activity is reported as loans, service-provided reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due to Other Funds

Amounts Due to Other Funds at June 30, 2009 are as follows:

	Due To Other Funds				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Funds	
General Fund	\$ (3,783)	\$ 8,190	\$ 4,671,305	\$ 495,688	\$ 5,171,400
Building Fund	87	-	-	-	87
Other Governmental Funds	1,114,233	-	-	-	1,114,233
Internal Service Funds	441,395	-	-	-	441,395
Total	\$ 1,551,932	\$ 8,190	\$ 4,671,305	\$ 495,688	\$ 6,727,115
Due from the General Fund to the Charter School Fund for expenses					\$ 163,578
Due from the General Fund to the Child Development for indirect cost, transportation, printing, postage, and employee benefits					266,131
Due from the General Fund to the Cafeteria Fund for catering					4,668
Due from the General Fund to the Deferred Maintenance for deferred maintenance related expenses					375
Due from the General Fund to the Building Fund for projects					87
Due from the General Fund to the Capital Facilities Fund employee benefits					81
Due from the General Fund to the County School Facilities Fund for projects					63,170
Due from the General Fund to the Warehouse Revolving Fund for inventory					31,444
Due from the General Fund to the Self Insurance Fund for bank interest and workers compensation					409,951
Due from the General Fund to the Retiree Benefits Fund for employee benefits					616,230
Due from the General Fund to the General Fund costs					(3,783)
Due from the Charter School Fund to the General Fund for expenses					655,729
Due from the Child Development Fund to the General Fund for employee benefits					375,867
Due from the Cafeteria Fund to the General Fund for indirect cost, maintenance, printing, postage, and employee benefits					1,417,518
Due from the Deferred Maintenance Fund to the General Fund for expenses					24,975
Due from the Building Fund to the General Fund for expense					8,190
Due from the Capital Facilities Fund to the General Fund for printing, postage, maintenance expenditures and employee benefits					7,185
Due from the State School Building Lease Fund to the General Fund for printing, postage, maintenance expenditures and employee benefits					31,593
Due from the Special Reserve for Capital Outlay Fund to the General Fund for printing, postage, and employee benefits					31,575
Due from the Warehouse Revolving Fund to the General Fund for printing, postage, and employee benefits					77,688
Due from the Self Insurance Fund to the General Fund for retirement benefits					418,000
Due from the Retiree Fund to General Fund for retiree cost					2,126,863
Total					\$ 6,727,115

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 6 - INTERFUND ACTIVITIES (continued)

B. Interfund Transfers

Amounts transferred from other funds in 2008-09 are as follows:

	Interfund Transfer In			Total
	Building	Other	Internal	
	Fund	Governmental	Service	
	Funds	Funds	Funds	
General Fund	\$ -	\$ 1,017,990	\$ 138,000	\$ 1,155,990
Building Fund	80,774	-	-	80,774
Other Governmental Funds	-	94,176	-	94,176
Total	\$ 80,774	\$ 1,112,166	\$ 138,000	\$ 1,330,940
Transfer from the General Fund to the Charter Schools Fund for State Fiscal Stabilization Funds			\$	130,988
Transfer from the General Fund to the Child Development Fund to cover operating deficit				263,559
Transfer from the General Fund to the Deferred Maintenance Fund for prior year and current year contributions				623,443
Transfer from the General Fund to the Self-Insurance Fund to cover operating costs				138,000
Transfer from the Building Fund to the Building General Obligation Sub Fund to transfer cash balance				80,774
Transfer from the State School Building Lease/Purchase Fund to the County School Facilities Fund to transfer fund balance				31,024
Transfer from the County School Facilities Fund to the Special Reserve for Capital Outlay Fund for expenditures				31,576
Transfer from the Special Reserve for Capital Outlay Fund to the County School Facilities Fund for expenditures				31,576
Total			\$	1,330,940

NOTE 7 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

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 were due and payable on June 30, 2009. By May 2009, 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.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the fiscal year ended June 30, 2009 is shown below.

	Balance			Balance		Due Within
	July 1, 2008	Additions	Deductions	June 30, 2009	One Year	
General obligation bonds	\$ 92,870,000	\$ -	\$ 2,705,000	\$ 90,165,000	\$ 2,870,000	
Premium on issuance	1,043,971	-	54,614	989,357	54,614	
Accumulated vacation	1,285,594	351,771	-	1,637,365	-	
Supplemental early retirement plan	-	425,000	-	425,000	425,000	
Other postemployment benefits	-	1,203,325	1,203,325	-	-	
	<u>\$ 95,199,565</u>	<u>\$ 1,980,096</u>	<u>\$ 3,962,939</u>	<u>\$ 93,216,722</u>	<u>\$ 3,349,614</u>	

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008			Bonds Outstanding June 30, 2009		
			Original Issue	Additions	Redeemed	Outstanding June 30, 2009	Due Within One Year	
8/1/2028	4.75%-7.75%	\$ 15,000,000	\$ 360,000	-	\$ 360,000	\$ -	\$ -	
8/1/2030	5.25%-5.63%	25,000,000	1,055,000	-	515,000	540,000	540,000	
8/1/2029	1.75%-4.89%	21,000,000	19,885,000	-	575,000	19,310,000	595,000	
8/1/2029	1.92%-4.60%	10,000,000	9,735,000	-	270,000	9,465,000	280,000	
8/1/2026	1.75%-4.65%	5,435,000	4,865,000	-	180,000	4,685,000	190,000	
8/1/2030	2.69%-4.55%	21,000,000	20,055,000	-	545,000	19,510,000	560,000	
8/1/2024	4.00%-5.00%	13,265,000	13,265,000	-	75,000	13,190,000	480,000	
8/1/2028	4.00%-5.00%	23,650,000	23,650,000	-	185,000	23,465,000	225,000	
		<u>\$ 134,350,000</u>	<u>\$ 92,870,000</u>	<u>\$ -</u>	<u>\$ 2,705,000</u>	<u>\$ 90,165,000</u>	<u>\$ 2,870,000</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% to 7.75% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, there was no principal balance outstanding.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

Bonded Debt (continued)

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 August 1, 1998. Interest at rates varying from 5.25% to 5.63% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$540,000.

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 1, 1998. Interest at rates varying from 1.75% to 4.89% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$19,310,000.

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 August 1, 1998. Interest at rates varying from 1.92% to 4.60% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$9,465,000.

2004, Series A Refunding

In November 2004, the District received the proceeds of its 2004 Election 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, August 1 of each year. Interest at rates varying from 1.75% to 4.89% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$4,685,000.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 8 – GENERAL LONG-TERM DEBT (continued)

Bonded Debt (continued)

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 August 1, 1998. Interest at rates varying from 2.69% to 4.55% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$19,510,000.

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 in full 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% to 5.00% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$13,190,000.

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 in full 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% to 5.00% is payable semi-annually February 1 and August 1 of each year. At June 30, 2009, the principal balance outstanding was \$23,465,000.

Debt Service Requirements to Maturity

The bonds mature through 2031 as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest to</u>	<u>Total</u>
		<u>Maturity</u>	
2010	\$ 2,870,000	\$ 5,344,449	\$ 8,214,449
2011	3,005,000	4,043,881	7,048,881
2012	3,130,000	3,934,131	7,064,131
2013	3,270,000	3,812,081	7,082,081
2014	3,430,000	3,684,531	7,114,531
2015-2019	19,820,000	16,077,688	35,897,688
2020-2024	25,660,000	10,840,163	36,500,163
2025-2029	24,215,000	4,685,288	28,900,288
2030-2031	4,765,000	295,987	5,060,987
Total	<u>\$ 90,165,000</u>	<u>\$ 52,718,199</u>	<u>\$ 142,883,199</u>

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS

Santa Barbara School District administers a single-employer defined benefit other postemployment plan (OPEB), where plan assets may be used only for the payment of benefits to the members of that plan. The plan assets are accounted for in the Retiree Benefit Special Revenue Fund. The District implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008-09.

Plan Descriptions and Contribution Information

Membership of the plan consisted of the following:

	Special Revenue Fund
Retirees and beneficiaries receiving benefits	418
Active plan members	1,657
Total	<u>2,075</u>
Number of participating employers	1

The District's Retiree Benefit Special Revenue Fund is a single-employer defined benefit postemployment healthcare plan administered by the District, which covers eligible retired employees of the District including all departments. The Fund provides health insurance benefits to eligible retirees.

Retired plan members and beneficiaries currently receiving benefits are eligible to retire upon attaining age 55 with 10 or more years of service. The District reimburses Certificated and Classified retirees for premium cost of medical coverage (employee only) up to a maximum of \$1,000 per year until the age of 65. Retirees employed before October 7, 1982 who have twenty or more years of full-time service with the District are also reimbursed up to a maximum of \$500 per year after age 65.

Management/Confidential retirees receive medical, vision and dental insurance coverage (employee only) for life. The District paid premium amount is based on the number of years of service with the District.

Benefits are not provided to spouses or dependents under the current bargaining agreement. However, the District is currently paying for medical, dental and vision coverage for spouses of some of the current retirees receiving special benefits through 2009.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Annual required contribution	\$	804,000
Interest on net OPEB obligation		-
Adjustment to annual required contribution		399,325
Annual OPEB cost		<u>1,203,325</u>
Contributions made		<u>1,203,325</u>
Decrease in net OPEB obligation		-
Net OPEB obligation - July 1, 2008		-
Net OPEB obligation - June 30, 2009	\$	<u><u>-</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 are as follows:

Year Ended	Required	Percentage
June 30,	Contribution	Contributed
2009	\$ 804,000	100%

Funded Status and Funding Progress- OPEB Plans

As of July 1, 2007, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability (AAL) for benefits was \$10.8 million and the unfunded actuarial accrued liability (UAAL) was \$10.8 million.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 9 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress– OPEB Plans (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

	Special Revenue Fund
Valuation Date	7/1/2007
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Future payroll
Remaining amortization period	29 years
Asset Valuation	N/A
Actuarial assumptions:	
Investment rate of return	0%
Healthcare cost trend rate	10%

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 10 – JOINT VENTURES

A. The Santa Barbara School District participate in a joint venture under a joint powers agreement (JPA) with the Southern California Regional Liability Excess Fund (So Cal ReLiEF). So Cal ReLiEF was established to purchase excess liability coverage through the JPA. The relationship between the Santa Barbara School District and the So Cal ReLiEF is such that So Cal ReLiEF is not a component unit of the District for financial reporting purposes. The most current available financial summary is presented below:

	Southern California ReLiEF June 30, 2008
Assets	\$ 43,861,260
Liabilities	30,304,168
Net Assets	\$ 13,557,092
Revenues	\$ 12,838,283
Expenses	15,688,114
Operating Income	(2,849,831)
Non-Operating Income	2,619,035
Change in Net Assets	\$ (230,796)

B. The District participates in a joint venture under a joint powers agreement (JPA) with the Self-Insured Schools of California Property and Liability Program (SISC I). The SISC I arranges for and provides property and liability insurance for its member school districts and other educational agencies. The District pays a premium commensurate with the level of coverage required. The JOA is independently accountable for its fiscal matters. SISC I maintains its own accounting records and its budgets are not subject to any approval than that of the governing board. Member districts share surpluses and deficits proportional to their participation in the SISC I. The relationship between the District and SISC I is such that the SISC I is not a component unit of the District for financial reporting purposes.

C. The District participates in a joint venture under the joint powers agreement (JPA) with Santa Barbara County Schools Financing Authority. The Authority's purpose is providing financing assistance for construction and acquisition of major capital facilities to its five members: The District (Santa Barbara Elementary School District and Santa Barbara Secondary School District), Goleta Union School District, Hope Elementary School District and Santa Maria School District. The Authority is governed by a board comprised of the chief business officer of each member. The relationship between the District and the Authority is such that the Authority is not a component unit of the District.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 11 – RISK MANAGEMENT – CLAIMS

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District’s risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in a public entity risk pool, as described in Note 10, for claims in excess of insured amounts for workers’ compensation and liability protection. The Dental and Vision Program, for which the District retains the risk of loss, is administered through the Self-Insurance Fund. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past four fiscal years.

The District records an estimated reserve for property 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.

The fund establishes a liability for both reported and unreported events, which included 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, 2009:

	All Self- Insurance Activities
Liability Balance, July 1, 2006	\$ 150,000
Claims and changes in estimates	2,815,124
Claims payments	(2,787,257)
Liability Balance, June 30, 2007	<u>177,867</u>
Claims and changes in estimates	1,904,047
Claims payments	(1,912,206)
Liability Balance, June 30, 2008	<u>169,708</u>
Claims and changes in estimates	1,561,031
Claims payments	(1,476,827)
Liability Balance, June 30, 2009	<u>253,912</u>
Assets available to pay claims at June 30, 2009	<u><u>\$ 1,534,374</u></u>

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 12 – PARCEL TAX

On November 4, 2008, Measures H were approved by the voters of the District. This measure is a qualified special parcel tax of \$23 per parcel to be levied by the District each year for four years. The purpose of Measure H is “to offset severe state budget cuts; protect the quality of education; supplement music, arts, foreign language, and other theater programs at a secondary level; and restore math class size reduction.”

On November 4, 2008, Measures I were approved by the voters of the District. This measure is a qualified special parcel tax of \$27 per parcel to be levied by the District each year for four years. The purpose is “to offset severe state budget cuts; protect the quality of education; enhance math, science, and technology education and offer classroom music programs at the elementary school level.”

NOTE 13 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded beyond claims payable and incurred but not reported reserves established in the Self-Insurance Internal Service Fund.

Construction Commitments

As of June 30, 2009, the District had no material commitments with respect to unfinished capital projects.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 14 - EMPLOYEE RETIREMENT PLANS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2008-09 was 9.428%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 1,964,100	100%
2007-08	\$ 1,919,077	100%
2006-07	\$ 1,787,513	100%

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 14 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 5,294,868	100%
2007-08	\$ 5,163,894	100%
2006-07	\$ 5,116,080	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$2,899,020 to STRS (4.517% of salaries subject to STRS in 2008-09).

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 15 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2009, expenditures exceeded appropriations in the General Fund as follows:

<u>General Fund</u>	
Certificated salaries	\$ 498,444
Classified salaries	\$ 81,635
Employee benefits	\$ 134,456
Services and other operating expenditures	\$ 888,458

NOTE 16 – NOTE RECEIVABLE

On April 3, 2008, the District 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 District. If the Promisor’s employment with the District 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, 2009 is approximately \$152,619.

NOTE 17 – SINGLE DISTRICT RESOLUTION

The Governing Board of the Santa Barbara Elementary District and the Santa Barbara Secondary School District adopted a resolution pursuant to Education Code Section 35110 allowing the elementary and secondary school district 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 district shall continue to be treated as separate school district 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.

SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2009

NOTE 18 – SUBSEQUENT EVENTS

Municipal Lease

On July 10, 2009 the District received \$850,000 from the Municipal Finance Corporation to purchase portables. The District will make ten annual payments at the rate of 4.50%.

Tax and Revenue Anticipation Notes

On July 1, 2009, the District issued \$17,500,000 Tax and Revenue Anticipation Notes bearing interest at 2 percent. The notes were issued to supplement cash flows. Interest and principal are due and payable on June 30, 2010. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month, until 100 percent of principal and interest due is on account in May 2010.

Accounting Treatment of Re-apportioned Categorical Funds

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

Required Supplementary Information

SANTA BARBARA SCHOOL DISTRICTS
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue limit sources	\$ 86,906,209	\$ 85,308,594	\$ 86,068,483	\$ 759,889
Federal	6,774,343	8,252,237	14,011,681	5,759,444
Other state	19,544,620	19,975,765	18,227,843	(1,747,922)
Other local	4,073,142	5,494,906	6,203,685	708,779
Total Revenues	117,298,314	119,031,502	124,511,692	5,480,190
Expenditures				
Certificated salaries	61,133,831	63,204,914	63,703,358	(498,444)
Classified salaries	18,491,351	19,038,593	19,120,228	(81,635)
Employee benefits	19,087,852	19,377,814	19,512,270	(134,456)
Books and supplies	5,938,662	6,561,269	5,362,010	1,199,259
Services and other operating expenditures	11,515,317	12,330,423	13,218,881	(888,458)
Capital outlay	177,594	503,895	323,084	180,811
Direct support/indirect costs	(451,149)	(615,186)	(811,545)	196,359
Other outgo	120,000	111,500	108,931	2,569
Total Expenditures	116,013,458	120,513,222	120,537,217	(23,995)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	1,284,856	(1,481,720)	3,974,475	5,456,195
Other Financing Sources and Uses				
Interfund transfers in	-	18,558	-	(18,558)
Interfund transfers out	(858,345)	(798,697)	(1,155,990)	(357,293)
Other financing uses	-	(110,787)	(124,082)	(13,295)
Total Other Financing Sources and Uses	(858,345)	(890,926)	(1,280,072)	(389,146)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	315,724	(2,372,646)	2,694,403	5,067,049
Fund Balances, July 1, 2008	15,280,477	15,280,477	14,882,127	398,350
Fund Balances, June 30, 2009	\$ 15,596,201	\$ 12,907,831	\$ 17,576,530	\$ 5,465,399

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Funding Progress
For the Year Ended June 30, 2009

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2007	\$ -	\$ 10,766,000	\$ 10,766,000	0%	\$ 77,600,000	14%

Supplementary Information Section

SANTA BARBARA SCHOOL DISTRICTS
Local Educational Agency Organization Structure
June 30, 2009

The Santa Barbara School Districts (the “District”) is located in Santa Barbara County, California. The District was established on June 6, 1866, and is comprised of an area of approximately 133.59 square miles. There were no changes in the boundaries of the District during the current year. The District is currently operating 8 elementary schools, 3 charter schools, 1 community academy, 15 children’s after school child care centers, 4 junior high schools, 3 high schools, 1 continuation high school, and 1 community day school.

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Ms. Kate Parker	President	2010
Mr. H. Edward Heron	Vice President	2012
Ms. Annette Cordero	Member	2012
Ms. Susan Christol Deacon	Member	2012
Dr. Robert Noël, Ed.D.	Member	2010

DISTRICT ADMINISTRATORS

Dr. J. Brian Sarvis, Ed.D.
Superintendent

Mr. Eric D. Smith
Deputy Superintendent, Business Services and Non-Instructional Operations

Ms. Robin Sawaske
Associate Superintendent, Education

Ms. Meg Jette’
Director of Fiscal Services

Dr. Kristine Robertson
Director of Personnel

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	Second Period [Ⓢ] <u>Report[Ⓢ]</u>	Annual [Ⓢ] <u>Report[Ⓢ]</u>
Elementary:		
Kindergarten [Ⓢ]	574 [Ⓢ]	573 [Ⓢ]
Grades 1 through 3, regular classes [Ⓢ]	1,879 [Ⓢ]	1,880 [Ⓢ]
Grades 4 through 6, regular classes [Ⓢ]	1,826 [Ⓢ]	1,823 [Ⓢ]
Grades 7 and 8, regular classes [Ⓢ]	2,832 [Ⓢ]	2,826 [Ⓢ]
Home and hospital [Ⓢ]	3 [Ⓢ]	3 [Ⓢ]
Community day school [Ⓢ]	16 [Ⓢ]	15 [Ⓢ]
Special education [Ⓢ]	174 [Ⓢ]	175 [Ⓢ]
	<u>7,304[Ⓢ]</u>	<u>7,295[Ⓢ]</u>
Total Elementary [Ⓢ]	<u>7,304[Ⓢ]</u>	<u>7,295[Ⓢ]</u>
Secondary:		
Grades 9 through 12, regular classes [Ⓢ]	5,818 [Ⓢ]	5,721 [Ⓢ]
Continuation education [Ⓢ]	220 [Ⓢ]	215 [Ⓢ]
Home and hospital [Ⓢ]	16 [Ⓢ]	19 [Ⓢ]
Special education [Ⓢ]	234 [Ⓢ]	227 [Ⓢ]
	<u>6,288[Ⓢ]</u>	<u>6,182[Ⓢ]</u>
Total Secondary [Ⓢ]	<u>6,288[Ⓢ]</u>	<u>6,182[Ⓢ]</u>
Total Average Daily Attendance [Ⓢ]	<u><u>13,592[Ⓢ]</u></u>	<u><u>13,477[Ⓢ]</u></u>

See accompanying note to supplementary information.Ⓢ

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Average Daily Attendance (continued)
For the Fiscal Year Ended June 30, 2009

	Second Period Report	Annual Report
Charter Schools:		
Santa Barbara Charter (Elementary)		
Kindergarten	38	39
Grades 1 through 3, regular classes	93	94
Grades 4 through 6, regular classes	65	65
Total Charter Schools	196	198
Santa Barbara Charter (Elementary) - Classroom Based		
Kindergarten	28	28
Grades 1 through 3, regular classes	67	67
Grades 4 through 6, regular classes	46	46
Total Charter Schools	141	141
Cesar Estrada Chavez Dual Language Immersion Charter		
Kindergarten	37	37
Grades 1 through 3, regular classes	114	113
Grades 4 through 6, regular classes	92	92
Total Charter Schools	243	242
Cesar Estrada Chavez Dual Language Immersion Charter - Classroom Based		
Kindergarten	37	37
Grades 1 through 3, regular classes	114	113
Grades 4 through 6, regular classes	92	92
Total Charter Schools	243	242
Santa Barbara Charter (Middle)		
Grades 4 through 6, regular classes	26	26
Grades 7 through 8, regular classes	39	39
Total Charter Schools	65	65
Santa Barbara Charter (Middle) - Classroom Based		
Grades 4 through 6, regular classes	19	19
Grades 7 through 8, regular classes	27	27
Total Charter Schools	46	46
Annual Supplemental Instruction Hours	Hours of Attendance	
Elementary	172,818	
High School	120,553	
Charter Schools - Cesar Estrada Chavez Dual Language Immersion Charter	1,031	

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	Multi-track Year Round	
Kindergarten	35,000	36,000	36,935	180	N/A	Complied
Grade 1	49,000	50,400	51,421	180	N/A	Complied
Grade 2	49,000	50,400	51,421	180	N/A	Complied
Grade 3	49,000	50,400	51,421	180	N/A	Complied
Grade 4	49,875	54,000	54,390	180	N/A	Complied
Grade 5	49,875	54,000	54,390	180	N/A	Complied
Grade 6	49,875	54,000	54,390	180	N/A	Complied
Grade 7	50,535	54,000	55,235	180	N/A	Complied
Grade 8	50,535	54,000	55,235	180	N/A	Complied
Grade 9	65,200	64,800	65,230	180	N/A	Complied
Grade 10	65,200	64,800	65,230	180	N/A	Complied
Grade 11	65,200	64,800	65,230	180	N/A	Complied
Grade 12	65,200	64,800	65,230	180	N/A	Complied

Santa Barbara Charter School

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	Multi-track Year Round	
Kindergarten	*	36,000	43,660	180	N/A	Complied
Grade 1	b	50,400	54,205	180	N/A	Complied
Grade 2	b	50,400	54,205	180	N/A	Complied
Grade 3	b	50,400	54,205	180	N/A	Complied
Grade 4	b	54,000	54,205	180	N/A	Complied
Grade 5	b	54,000	54,205	180	N/A	Complied
Grade 6	b	54,000	55,360	180	N/A	Complied
Grade 7	b	54,000	55,360	180	N/A	Complied
Grade 8	b	54,000	55,360	180	N/A	Complied

Cesar Estrada Chavez Dual Language Immersion Charter School

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	Multi-track Year Round	
Kindergarten	*	36,000	47,700	180	N/A	Complied
Grade 1	b	50,400	53,660	180	N/A	Complied
Grade 2	b	50,400	54,345	180	N/A	Complied
Grade 3	b	50,400	54,345	180	N/A	Complied
Grade 4	b	54,000	57,280	180	N/A	Complied
Grade 5	b	54,000	57,280	180	N/A	Complied
Grade 6	b	54,000	57,280	180	N/A	Complied

* Charter did not operate in 1982-83

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010***	2009	2008	2007
Revenues and other financing sources	\$ 117,115,933	\$ 124,511,692	\$ 127,139,389	\$ 133,914,634
Expenditures	117,971,340	120,537,217	127,139,389	126,745,615
Other uses and transfers out	250,000	1,280,072	1,018,210	1,161,585
Total outgo	118,221,340	121,817,289	124,414,854	127,907,200
Change in fund balance (deficit)	(1,105,407)	2,694,403	2,724,535	6,007,434
Ending fund balance	\$ 16,471,123	\$ 17,576,530	\$ 14,882,127	\$ 12,157,592
Available reserves*	\$ 8,209,310	\$ 10,060,868	\$ 9,328,601	\$ 4,923,652
Available reserves as a percentage of total outgo	6.9%	8.3%	7.5%	3.8%
Total long-term debt	\$ 90,346,722	\$ 93,216,722	\$ 95,199,565	\$ 93,043,076
Average daily attendance at P-2**	13,608	13,592	13,712	13,960

The General Fund balance has increased by \$5,418,938 over the past two years. The fiscal year 2009-10 adopted budget projects a decrease of \$1,105,407. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo). Long-term debt has decreased \$27,312 over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Excludes Adult Education and Charter School ADA.

*** Revised Final Budget September 2009.

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2008-09 Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Forest Reserve	10.665	10044	\$ 4,051
Passed through California Dept. of Education (CDE):			
Needy School Breakfast	10.553	13526	781,898
National School Lunch	10.555	13396	2,007,425
Meal Supplements	10.555	13755	124,073
Food Distribution	10.555	13389	66,165
Total U.S. Department of Agriculture			<u>2,983,612</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants	84.010	13797	2,831,665
ARRA - Title I, Part A, Basic Grants Low Incidence	84.389	15005	175,101
Title I, Part A, Program Improvement District Intervention	84.010A	14581	150,000
Subtotal Title I, Part A Clusters			<u>3,156,766</u>
Title I, Part A, Improving Teacher Quality	84.367	14341	699,480
Title I, Part A, Principal Training	84.367	14334	4,500
Title I, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	39,604
Title I, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	103,092
Title III, Immigrant Education Program	84.365	14346	33,711
Title II - Limited English Proficiency	84.365	10084	573,075
Title V, Safe and Drug-Free Schools	84.186	14347	28,230
Title V, Part A, Innovative Education Strategies	84.298	14354	4,672
Subtotal NCLB			<u>4,643,130</u>
ARRA - State Fiscal Stabilization Funds	84.394	25008	136,812
Vocational Education	84.048	13924	134,108
Alcohol Abuse Reduction Grant	84.184A	14311	88,353
Passed through Santa Barbara County SELPA:			
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	4,128,539
Workability I	84.158	10006	6,511
Workability II	84.158	10006	213,747
Total U.S. Department of Education			<u>9,351,200</u>
U.S. Department of Health & Human Services:			
Passed through California Dept. of Health Services:			
Medi-Cal Billing Option	93.778	10013	61,713
Child Dev. Quality Improvement	93.575	13979	9,421
Child Dev. Federal Child Care, Center Based	93.596	13609	453,874
Total U.S. Department of Health & Human Services			<u>525,008</u>
U.S. Department of Homeland Security:			
Hazard Mitigation Grant	97.039	10041	11,485
Total U.S. Department of Homeland Security			<u>11,485</u>
Total Expenditures of Federal Awards			<u>\$ 12,871,305</u>

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

	Retiree® Benefits® Trust® Fund®	Retiree® Benefits® Special Reserve® Fund®	Self® Insurance® Fund®
June 30, 2009, annual financial and budget report® (SACS) fund balances/net assets®	\$ 38,075®	\$ -	\$ 669,387®
Adjustments and reclassifications:®			
Increasing (decreasing) the fund balance:®			
To add claims liability	-	-	(84,204)®
To reclassify trust fund as a special revenue fund®	(38,075)®	38,075®	-
Net adjustments and reclassifications®	(38,075)®	38,075®	-
June 30, 2009, audited financial statement fund balances/net assets®	\$ -	\$ 38,075®	\$ 585,183®

See accompanying note to supplementary information.®

SANTA BARBARA SCHOOL DISTRICTS
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2009

<u>Charter School</u>	<u>Inclusion in Financial</u> <u>Statements</u>
Cesar Estrada Chavez Dual Language Immersion Charter(K-6)	Included
Peabody Charter (K-6)	Not included
Santa Barbara Elementary Charter (K-5)	Included
Santa Barbara Middle Charter (6-8)	Included

See accompanying note to supplementary information.

SANTA BARBARA SCHOOL DISTRICTS
Note to the Supplementary Information
June 30, 2009

NOTE 1 – PURPOSE OF SCHEDULES

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.

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.

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.

Subrecipients

Of the federal expenditures presented in the schedule, the District provided no federal awards to subrecipients.

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.

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 administrations.

SANTA BARBARA SCHOOL DISTRICTS
Note to the Supplementary Information
June 30, 2009

NOTE 1 – PURPOSE OF SCHEDULES (continued)

Schedule of Charter Schools

This schedule list 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, 2009

	Charter School Special Revenue Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total Non-Major Governmental Funds
ASSETS										
Cash	\$ 931,233	\$ 9,097	\$ 855,817	\$ 645,655	\$ 1,306,801	\$ 911,784	\$ 31,576	\$ 1,018,679	\$ 581,630	\$ 6,292,272
Accounts receivable	214,126	300,330	759,349	27,735	248,398	4,138	17	5,092	2,060	1,561,245
Inventories	-	-	59,443	-	-	-	-	-	-	59,443
Due from other funds	163,577	266,131	4,668	376	616,231	81	-	63,169	-	1,114,233
Total Assets	\$ 1,308,936	\$ 575,558	\$ 1,679,277	\$ 673,766	\$ 2,171,430	\$ 916,003	\$ 31,593	\$ 1,086,940	\$ 583,690	\$ 9,027,193
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable and accrued liabilities	\$ 52,729	\$ 161,249	\$ 67,283	\$ 77,416	\$ 6,491	\$ 110,399	\$ -	\$ -	\$ 12,837	\$ 488,404
Due to other funds	655,665	375,867	1,417,580	24,975	2,126,864	7,185	31,593	-	31,576	4,671,305
Deferred revenue	7,217	23,886	-	-	-	-	-	-	505,301	536,404
Total Liabilities	715,611	561,002	1,484,863	102,391	2,133,355	117,584	31,593	-	549,714	5,696,113
Fund Balances										
Unreserved:										
Capital projects funds	-	-	-	-	-	798,419	-	1,086,940	33,976	1,919,335
Special revenue funds	593,325	14,556	194,414	571,375	38,075	-	-	-	-	1,411,745
Total Fund Balances	593,325	14,556	194,414	571,375	38,075	798,419	-	1,086,940	33,976	3,331,080
Total Liabilities and Fund Balances	\$ 1,308,936	\$ 575,558	\$ 1,679,277	\$ 673,766	\$ 2,171,430	\$ 916,003	\$ 31,593	\$ 1,086,940	\$ 583,690	\$ 9,027,193

SANTA BARBARA SCHOOL DISTRICTS
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balance - Unaudited
For the Fiscal Year Ended June 30, 2009

	Charters School Special Revenue Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund	Capital Facilities Fund	State School Building Lease-Purchase Fund	County School Facilities Fund	Special Reserve for Capital Outlay Fund	Total Non-Major Governmental Fund
REVENUES										
General Revenues:										
Earnings on investments	\$ 2,482,582	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,482,582
Federal and state aid	963,824	-	-	-	-	-	-	-	-	963,824
Interest and investment earnings	19,871	4,860	-	2,310	3,122	59,571	-	34,276	886	124,896
Miscellaneous	36,625	23,964	136,546	-	3,592,779	633,918	-	-	-	4,423,832
Program Revenues:										
Charges for services	76,298	352,391	1,495,612	-	-	-	-	-	-	1,924,301
Operating grants and contributions	306,748	4,748,629	2,980,929	522,661	-	-	-	-	28,104	8,587,071
Capital grants and contributions	-	-	-	-	-	-	-	1,041,289	-	1,041,289
Total Revenues	3,885,948	5,129,844	4,613,087	524,971	3,595,901	693,489	-	1,075,565	28,990	19,547,795
EXPENDITURES										
Instructional Services:										
Instruction	2,739,121	-	-	-	-	-	-	-	-	2,739,121
Supervision of instruction	593	-	-	-	-	-	-	-	-	593
School site administration	462,889	-	-	-	-	-	-	-	-	462,889
Pupil Support Services:										
Food services	-	203,839	4,255,256	-	-	-	-	-	-	4,459,095
All other pupil services	1,424	-	-	-	-	-	-	-	-	1,424
General Administration Services:										
Other general administration	390,007	227,592	204,485	-	-	7,956	-	-	-	830,040
Plant services	151,335	54,758	23,508	1,442,810	151,335	11,503	-	-	-	1,683,914
Facility acquisition and construction	101,330	-	-	-	-	3,427,814	-	853,545	28,104	4,410,793
Community service	76,298	4,788,437	-	-	-	-	-	-	-	4,864,735
Enterprise service	-	-	-	-	3,812,872	-	-	-	-	3,812,872
Other outgo:										
Transfers between agencies	-	180,106	-	-	-	-	-	-	-	180,106
Total Expenditures	3,922,997	5,454,732	4,483,249	1,442,810	3,812,872	3,447,273	-	853,545	28,104	23,445,582
Excess (Deficiency) of Revenues Over (Under) Expenditures	(37,049)	(324,888)	129,838	(917,839)	(216,971)	(2,753,784)	-	222,020	886	(3,897,787)
OTHER FINANCING SOURCES (USES)										
Interfund transfers in	130,988	263,559	-	623,443	-	-	-	62,600	31,576	1,112,166
Interfund transfers out	-	-	-	-	-	-	(31,024)	(31,576)	(31,576)	(94,176)
Total Other Financing Sources and Uses	130,988	263,559	-	623,443	-	-	(31,024)	31,024	-	1,017,990
Net Change in Fund Balances	93,939	(61,329)	129,838	(294,396)	(216,971)	(2,753,784)	(31,024)	253,044	886	(2,879,797)
Fund Balances, July 1, 2008	499,386	75,885	64,576	865,771	255,046	3,552,203	31,024	833,896	33,090	6,210,877
Fund Balances, June 30, 2009	\$ 593,325	\$ 14,556	\$ 194,414	\$ 571,375	\$ 38,075	\$ 798,419	\$ -	\$ 1,086,940	\$ 33,976	\$ 3,331,080

SANTA BARBARA SCHOOL DISTRICTS
Fiduciary Funds
Combining Statement of Net Assets - Unaudited
June 30, 2009

	Junior High Schools			
	Goleta			Santa
	Valley	La Colina	La Cumbre	Barbara
ASSETS				
Deposits and investments	\$ 46,860	\$ 68,730	\$ 48,410	\$ 58,684
Other assets	-	-	3,190	-
Total assets	<u>\$ 46,860</u>	<u>\$ 68,730</u>	<u>\$ 51,600</u>	<u>\$ 58,684</u>
LIABILITIES				
Accounts payable	\$ -	\$ 33,941	\$ -	\$ -
Due to student groups	46,860	34,789	51,600	58,684
Total liabilities	<u>\$ 46,860</u>	<u>\$ 68,730</u>	<u>\$ 51,600</u>	<u>\$ 58,684</u>

	High Schools			
	Dos		Santa	
	Pueblos	San Marcos	Barbara	Total
ASSETS				
Deposits and investments	\$ 246,314	\$ 175,543	\$ 281,825	\$ 926,366
Other assets	-	-	-	3,190
Total assets	<u>\$ 246,314</u>	<u>\$ 175,543</u>	<u>\$ 281,825</u>	<u>\$ 929,556</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 33,941
Due to student groups	246,314	175,543	281,825	895,615
Total liabilities	<u>\$ 246,314</u>	<u>\$ 175,543</u>	<u>\$ 281,825</u>	<u>\$ 929,556</u>

SANTA BARBARA SCHOOL DISTRICTS
Consolidation of General Funds - Unaudited
For the Fiscal Year Ended June 30, 2009

	Elementary District	High School District	Actual (Budgetary Basis)
Revenues			
Revenue from sources	\$ 23,533,122	\$ 62,535,361	\$ 86,068,483
Federal	5,208,459	8,803,222	14,011,681
Other state	9,004,119	9,223,724	18,227,843
Other local	2,925,000	3,278,685	6,203,685
Total Revenues	40,670,700	83,840,992	124,511,692
Expenditures			
Certificated salaries	21,792,498	41,910,860	63,703,358
Classified salaries	6,695,077	12,425,151	19,120,228
Employee benefits	6,409,819	13,102,451	19,512,270
Books and supplies	1,673,645	3,688,365	5,362,010
Services and other operating expenditures	4,955,061	8,263,820	13,218,881
Capital outlay	138,067	185,017	323,084
Direct support/indirect costs	(682,027)	(129,518)	(811,545)
Other outgo	44,798	64,133	108,931
Total Expenditures	41,026,938	79,510,279	120,537,217
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(356,238)	4,330,713	3,974,475
Other Financing Sources and Uses			
Interfund transfers out	(450,695)	(705,295)	(1,155,990)
Other financing uses	-	(124,082)	(124,082)
Total Other Financing Sources and Uses	(450,695)	(829,377)	(1,280,072)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(917,721)	3,501,336	2,694,403
Fund Balances, July 1, 2008	3,023,651	11,858,476	14,882,127
Fund Balances, June 30, 2009	\$ 2,105,930	\$ 15,359,812	\$ 17,576,530

SANTA BARBARA SCHOOL DISTRICTS
Note to Supplementary Information - Unaudited
June 30, 2009

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 Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

Fiduciary Fund – 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).

Other Independent Auditors' Reports



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF
• American Institute of CPAs
• California Society of CPAs
• California Association of
School Business Officials
• Community Associations
Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Santa Barbara School Districts
Santa Barbara, California

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

We have audited the financial statements of Santa Barbara School Districts as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated December 5, 2009. We conducted our audit in accordance with generally accepted auditing standards 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Santa Barbara School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santa Barbara School District's 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 entity'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 entity'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 questioned costs as items #2009-1 through #2009-13 to be significant deficiencies in internal control over financial reporting.

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 entity'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, of the significant deficiencies described above, we consider item #2009-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Barbara School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Santa Barbara School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on them.

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



San Diego, California
December 5, 2009



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Santa Barbara School District
Santa Barbara, California

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

Compliance

We have audited the compliance of Santa Barbara School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Santa Barbara School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Santa Barbara School District's management. Our responsibility is to express an opinion on Santa Barbara School District's compliance based on our audit.

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

In our opinion, Santa Barbara School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Santa Barbara School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Santa Barbara School District's internal control over compliance with 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 District's internal control over compliance.

A *control deficiency* in an entity'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 entity'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 entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity'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 management, the Board, others within the entity, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
December 5, 2009



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF
• American Institute of CPAs
• California Society of CPAs
• California Association of
School Business Officials
• Community Associations
Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
Santa Barbara School District
Santa Barbara, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the Santa Barbara School District, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 5, 2009. Our audit was made 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 of America; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, published by the Education Audit Appeals Panel. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Not applicable ¹
Regional Occupational Centers and Programs	6	Not applicable ¹
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 Program	7	Not applicable ¹

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 ²
K-8 only	1	Not applicable ¹
Grades 9-12 only	1	Not applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable ¹
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts 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
Nonclassroom-Based Instruction/Independent Study	15	Yes
Determination of Funding for Nonclassroom-Based Instruction	3	Yes
Annual Instructional Minutes - Classroom Based	3	Yes

¹This program is not required to be audited per flexibility provisions in SBx3 4.

²The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

We did not perform testing for community day school because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, the Santa Barbara School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Santa Barbara School Districts had not complied with the state laws and regulations.

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

.

Rigo Rigo & White, PC

San Diego, California

December 5, 2009

Findings and Questioned Costs Section

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</u>
Significant deficiency(ies) 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 weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's 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:

CFDA Numbers	Name of Federal Program or Cluster
<u>84.010</u>	<u>Title I, Part A, Basic Grants</u>
<u>84.010A</u>	<u>Title I, Part A, Program Improvement District Intervention</u>
<u>84.389</u>	<u>ARRA - Title I, Part A, Basic Grants Low Incidence</u>
<u>93.575</u>	<u>Child Dev: Quality Improvement</u>
<u>93.596</u>	<u>Child Dev: Federal Child Care, Center Based</u>
<u>93.778</u>	<u>Medi-Cal Billing Option</u>
<u>84.394</u>	<u>ARRA - State Fiscal Stabilization Funds</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 386,139</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2009-1: Associated Student Body Controls (30000) (Material Weakness)

We perform tests of controls over ASB accounting to determine that an adequate system of internal controls has been established and is being followed. We tested samples of cash receipts at each school, including the largest sources of revenue. We traced transactions from their inception to the deposit in the bank, ensuring that a complete audit trail exists. We also tested the cash disbursement process to determine whether ASB funds are properly authorized and spent according to appropriate District guidelines for use of student funds. We also ensured that the school maintains adequate minutes of its meetings and an appropriate financial accounting system, including monthly financial statements, bank reconciliations and student store inventories, if applicable.

The result of our testing found no known improprieties but lack of adequate controls does permit an opportunity for fraud or errors to occur without detection. The following is a summary of our audit results, based on the school sites selected for testing in the 2008-09 fiscal year:

Goleta Valley Junior School

- Three out of five cash receipts did not have proper supporting documentation (i.e. theater ticket sales, cooking club receipts, PTA donation receipts).

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-1 Associated Student Body Controls (30000) (Material Weakness) (continued)

La Cumbre Junior High School

- Six out of ten cash disbursements did not have student approvals.Ⓢ
- None of the cash deposits examined had supporting documentation to ensure all moniesⓈ collected were deposited, such as pre-numbered receipts, tallies, or logs.Ⓢ

La Colina Junior High School

- One out of six cash disbursements was for an inappropriate non-ASB related expenditure,Ⓢ specifically iTunes songs purchased for staff retirement party.Ⓢ
- Five out of seven cash receipts did not have proper documentation, such as pre-numberedⓈ receipts, tallies or log.Ⓢ

Santa Barbara High School

- Three out of fifteen cash disbursements did not have receipts or other adequate documentationⓈ
- Three out of fifteen cash disbursements did not have student approvals.Ⓢ
- All cash receipts tested did not have proper documentation, such as pre-numbered receipts,Ⓢ tallies or log.Ⓢ
- The ASB has an American Express card which might be more at risk of abuse than using theⓈ regular cash disbursement process.Ⓢ

Santa Barbara Junior High School

- None of the cash disbursements had student approvals, as required by the Education Code.Ⓢ
- Three out of five cash receipts did not have proper supporting documentation, such as pre-numbered receipts, tallies or log.Ⓢ

Recommendation: We recommend the ASB's follow FCMAT, *Student Body Accounting Manual* and useⓈ the standardized forms and procedures contained in the guide.Ⓢ In addition, we suggest the District officeⓈ train the site personnel on proper cash receipting and disbursements procedures.Ⓢ Regarding theⓈ American Express card at Santa Barbara High School, the District should follow up to determine whetherⓈ the expenses appear appropriate and have sufficient approvals.Ⓢ Also decide if ASBs should have theⓈ authority to have credit cards.Ⓢ

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-1: Associated Student Body Controls (30000) (Material Weakness) (continued)

District Response: Annually, the District requires all ASB bookkeepers and principals/assistant principals to attend a workshop on Associated Student Bodies presented by the Santa Barbara County Education Office and The Fiscal Crisis Management Team (FCMAT). Starting in 2010-11, the District will also require all ASB Advisors to attend this workshop. Additionally, each site will be provided with the list of their findings and will be required to submit corrective action plans addressing each finding by January 31, 2010.

All ASBs are required to follow the rules and regulations listed in the 2009 Associated Student Body Accounting Manual and Desk Reference published by FCMAT. The District office is also drafting a site policy manual for all ASB activities and transactions to be completed by February 2010. Training on this policy manual will be provided to each site during 2010 and additional follow-up audits will be performed by District staff. The new policy manual will specifically address the findings in the 2008-09 audit, as follows:

- Cash receipts
 - Pre-numbered tickets and proper check-in/check-out procedures
 - Pre-numbered receipt books
 - Tally sheets and double counts
 - Cash registers/boxes
 - Monthly revenue and cash reconciliations
- Cash disbursements
 - Student approval and documentation in minutes
 - Purpose is for students benefit and not a District obligation
 - Pre-approval by students, advisor and site administrator
 - Dual signatures on checks
- Credit Cards
 - ASBs are prohibited from entering into credit card arrangements
 - The credit card identified at Santa Barbara High School has been confiscated and destroyed and documentation of the account closure has been provided by the site to the District office. No additional cards will be issued.
- Minutes of Meetings
 - All minutes will be submitted by the sites to the District office on a monthly basis to verify student approval of expenditures.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-2 Fiscal Accountability (30000)

A Disbursing Officer is required for Fiscal Accountability and the District designated in fiscal year 2008-09 the Accounting Coordinator, who also oversees accounts payable and payroll. (Note: this has been corrected subsequent to 2008-09.) During the 2008-09 fiscal year, the job was not structured to permit time for the Disbursing Officer to perform full audit functions as, in our opinion, is a requirement of fiscal independence. There was also lack of segregation of duties in the Accounting Coordinator position, as discussed in other findings, and auditing work, that the Coordinator oversees and performs in, therefore not achieving independence. There was a risk during the 2008-09 year that fraud or errors could have occurred that would not have been detected under the previous organizational structure.

Recommendation: We recommended the Disbursing Officer duties be moved to an internal audit position after our preliminary audit work. The District was in the process of hiring an internal auditor at that time and has since filled the position and transferred the fiscal accountability functions to the internal auditor.

District Response: An Internal Auditor was hired on July 1, 2009 to act as Disbursing Officer. The Accounting Coordinator no longer has access to physical warrant stock or signature authority on local bank accounts. The Internal Auditor maintains the keys to the physical warrants and has signature authority, but does not have posting rights in the financial systems (CECC or FIN) or access to the check signature plate. The Internal Auditor reports directly to the Deputy Superintendent, rather than the Director of Fiscal Services, thus enhancing her independence from the Business Office. She is also independent of warrant processing, thus meeting the requirements of a Disbursing Officer.

The Internal Auditor is currently writing procedures for notification of banks and the county office when the Internal Auditor leaves employment, identification of an interim and the hiring of a replacement. The Director of Fiscal Services will act as interim Disbursing Officer in the absence of the Internal Auditor. The Director of Fiscal Services does not have access to the check signature plate and all warrants are reviewed by the Accounting Coordinator, thus there is adequate segregation of duties and sufficient compensating controls for this interim position. The procedures will be completed by February 2010. The Accounting Coordinator and Payroll Supervisor no longer have access to the check printer key or the raw warrant stock. The Internal Auditor and IT Department have access to the key to the physical warrant stock room and the key to the warrant stock cabinet. Neither the Internal Auditor nor the IT Department have access to the check signature plate or have system posting rights.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-2 Fiscal Accountability (30000) (continued)

The Internal Auditor is responsible for checking out raw commercial warrant stock as needed for manual warrants and entering the warrants into the warrant log. The raw stock is provided to the Accounting Coordinator or the Payroll Supervisor for processing. The Internal Auditor tracks all manual warrant stock provided to the Accounting Coordinator and Payroll Supervisor and signs off on all manual warrants prior to mailing. All commercial warrant stock is tracked through a warrant log and will be audited by the Internal Auditor on a semi-annual basis.

The Accounting Coordinator is performing a 100% review of all commercial warrants. The Internal Auditor is performing a risk-based audit of commercial warrants. The Payroll Supervisor and Accounting Coordinator are performing a 100% review of all payroll disbursements. The Internal Auditor will begin performing a risk-based audit of payroll disbursements in January 2010.

Finding #2009-3 Financial Policies and Procedures (30000)

We found a lack of standardized procedures and forms in financial/accounting areas. We were also advised that the business staff is in the process of updating policies and procedures. We encourage continued effort in this area and communication of applicable revisions to school sites and departments.

Recommendation: We recommend that business staff develop and update standardized procedures to communicate and implement at all the appropriate levels, sites, and departments.

District Response: The District is currently working on and plans to implement financial policies and procedures in 2009-10. The District is also implementing a new financial system and as it moves off the current HP3000 onto a web-based system, procedures will be updated accordingly. Standardized procedures will be completed by June 2010.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-4 Safeguarding Assets (30000)

Information technology (IT) staff has the ability to reprint payroll checks more than once from the same file without going through the normal approval sequence. IT is also responsible for making up the sequence of numbers for direct deposit. There are no safeguards from preventing a person in their position to print checks at will, however, there is county oversight which might detect a material amount. We also found the accounts payable check stock is not properly accounted for; the Auditor noted an open box of checks that IT was unaware of in the file cabinet. Auditor also noted the box of checks was out of sequence and the checks were of the same account number as accounts payable checks in use. Finally, the paycheck computer and printer are located in an unsecured room.

Recommendation: Safeguard assets by acquiring a security system that restricts access to the check stock and identifies individuals who have accessed the areas (cameras, individual swipe cards, etc). Take inventory of the restricted area to account for all blank accounts payable checks. Also IT staff should not have the ability to reprint payroll checks. Once payroll checks are printed, the file should be locked.

District Response: The CECC system does not currently have controls in place to prevent printing duplicate checks. There are existing compensating controls, such as monthly cash reconciliations, cash transfers to cover the warrants, and County Auditor review of the warrant register, to offset the risk of duplicate checks. In addition, the Districts' CECC consultant is investigating the system's ability to lock the warrant data file to prevent printing of duplicate warrants. The Internal Auditor would have the ability to override this control to allow for a duplicate check in the case of printing errors.

The box of raw commercial warrant stock was entered into the commercial warrant log and subsequently destroyed, as witnessed by the Internal Auditor and Accounting Coordinator. All commercial warrant stock is tracked through a warrant log and will be audited by the Internal Auditor on a semi-annual basis.

While the paycheck computer and printer are located in an unsecured room, the key to operate the printer was moved to a secured room in September 2009 which is only accessible to the Internal Auditor and IT department.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-5 Revolving Cash (30000)

Payments made from revolving cash did not always contain evidence of approval on the supporting documentation. Without sufficient evidence of approval, there is an opportunity for an inappropriate expenditure to be made.

Recommendation: The District should develop a standard form to contain signature lines for approval and ensure that only authorized personnel are approving the expenditures.

District Response: The District has a standard approval form and requires the use of this form for reimbursement. Approval signatures are required by the site administrator and Director of Fiscal Service on each submitted form. Any forms submitted without proper authorization are returned to the originator with a letter identifying the deficiency. Revolving cash vouchers will not be prepared for payment without proper documentation and approval.

Finding #2009-6 Revolving Cash (ASES) (30000)

After school program expenditures for employee reimbursements were being paid out of revolving cash and the number of transactions were significant. Program payments, with few exceptions, should not be paid out of revolving cash but should go through the normal purchasing and accounts payable systems.

Recommendation: We recommend that ASES expenditures for employee reimbursements not be paid out of revolving cash in lieu of using the purchasing system. We would also recommend that the person signing the checks initial the backup as evidence of review.

District Response: As of October 2009, all revolving cash vouchers are processed through accounts payable and subject to the review and audit process.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-7 Cash Handling (30000)

We found various areas where cash handling internal controls could be improved:⓪

District Office Receivable and Cash Receipts: The same accountant bills for facilities use and⓪ posts cash receipts. A second person reviews the outstanding AR aging but would not, in the⓪ course of that function, notice an account improperly written off.⓪Lack of segregation of duties⓪ could result in theft of cash receipt not being detected.⓪The same accountant also does billings for⓪ multiple other activities such as: school site fundraising activities, ASB and PTA reimbursement⓪ for payroll and payables for instructional materials, Civic Center facility usage, CTA billing for⓪ substitute teachers, school site vandalism, lost keys billing, etc. Additionally, 3 of 10 cash receipts⓪ tested do not contain proper supporting documentation.⓪

Cafeteria Cash Clearing: Accounts need to be reconciled and monitored.⓪It appears that deposits⓪ are made into the cafeteria cash clearing account and a check is written to the cash in county⓪ treasury immediately without waiting for the checks to clear the clearing account.⓪As a result the⓪ District account is subject to NSF fees for returned checks.⓪

Child Development Cash Clearing: Through inquiry and testing of cash receipts it was noted⓪ that proper segregation of duties does not exist at the child development center. The same person⓪ invoices, collects cash as well determines fees allocated to the child's account.⓪Lack of segregation⓪ of duties provides an opportunity for fraud to exist.⓪

Site Cash Clearing: The high schools do not deposit all of their cash receipts through the District⓪ cash receipt process.⓪Sites make their own deposits into the secondary school cash clearing⓪ account.⓪The District office is not able to obtain all the deposit slips from the secondary school⓪ direct depositing,⓪therefore, the account cannot be fully reconciled each month.⓪

Recommendations: We recommend that someone independent of the cash receipt and reconciliation⓪ process reconcile and approve the reconciliation from Quicken to HP each month for the District, payroll⓪ and secondary school clearing account.⓪Segregate duties between cash receipting, invoicing &⓪ reconciliation.⓪

Consider hiring an armored truck service to pick up cash from the sites and District office and deliver to⓪ the bank.⓪

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-7 Cash Handling (30000) (continued)

Recommendations: We recommend that Nutrition Services post entries to the clearing account and reconcile it at each period end. Furthermore, the account should be used to “clear” funds so as to detect NSF’s before County Treasury transfers are made and thus prevent overdraft charges and/or leave a residual amount in the bank to cover NSF’s, but reconcile to that residual balance monthly.

We recommend that the District require the secondary school sites to submit and process all their cash receipts through the normal District receipting process eliminating any confusion or reconciling errors, reconciliation would then be completed at the District office level.

District Response: Implemented in November 2009, all fees for facilities use permits must be submitted with the application rather than billed subsequent to the event by the Accounts Receivable Technician I. The applications are approved by the Director of Facilities prior to submission to the AR Technician I for receipting.

Due to insufficient staffing, the Accounts Receivable Technician is responsible receipting, invoicing & reconciliations of the Santa Barbara Bank and Trust accounts. The AR Technician II performs reconciliations of all of the bank accounts held at the Santa Barbara County Treasury. The District will continue to evaluate these processes and either segregate duties among staff members or create additional compensating controls to offset the risk of any improprieties. In addition, the District will continue to provide training to staff members on the required level of supporting documentation for each and every cash receipt. Fiscal staff is currently evaluating cash invoicing and receipting software packages for utilization by the AR Technician in order to add additional levels of control to the receipting process. Reports produced from this software will be reviewed by management on a monthly basis. Deposits are prepared in each cafeteria daily and deposited throughout the month in a timely manner. In the past the total balance in the account at month-end has been transferred to county treasury. Going forward, the Nutrition Services Accounting Technician will leave \$1,000 in the account at month-end to allow for any unforeseen charges. In addition, the AR Technician II, located in the Fiscal Services department, will review Cafeteria Fund cash reconciliations on a monthly basis. The Internal Auditor will be evaluating the lack of segregation of duties at the child development center by April 2010. Based on the evaluation, duties will be sufficiently segregated or compensating controls will be established to reduce the risk of fraud to an acceptable level.

The District will require any deposits made directly by sites to be signed by two site personnel and submitted to the District office for review. The AR Technician will reconcile the clearing accounts monthly and will investigate and resolve any variances in a timely manner.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-8 Inventory (20000)

Through internal control inquiry, it was noted that fixed assets ranging from \$500 to \$5,000 are not being tagged and tracked, which is complicated to do as there is no centralized receiving function.

At year end we also found a \$37,578 variance between inventory per the general ledger and inventory supporting documentation. Upon inquiry it appears that the inventory tracking system is complicated and prone to misstatement. Funds are "borrowed" from Fund 01 by Fund 66, Warehouse Revolving Account, and District 31 in order to purchase inventory. When inventory is purchased it is recorded in Fund 66, District 31. District 17 must "purchase" inventory from District 31. Deletions of inventory require a "due to/due from" between Fund 66 and Fund 01, with the write-off expense being debited to Fund 01 and the credit to inventory being booked to Fund 66. Upon further inquiry it was determined the \$37,578 variance between counted inventory and book inventory was undeterminable and removed the overage. The current inventory accounting methodology results in the current year and prior ending balances being misstated and also creates opportunity for fraud due to the lack of ability to fully reconcile the variances.

Recommendation: We recommend that the purchasing department expand their procedures, currently in place to track federal program assets and assets over \$5,000, to include tracking all assets valued from \$500 to \$5,000. We also recommend that SBSB discontinue use of Fund #66 and maintain all inventory in the General Fund 01. As a result, purchases and deletions of inventory will not require "due to/due from" transactions. Furthermore, we suggest that inventory should be held separately for districts so that there will be reduced need for inter-district transactions and greater accountability for each district.

District Response: The District implemented the CECC Fixed Asset module on July 1, 2009 for the tracking of inventory (items valued at \$500 or greater but less than \$5,000) and assets valued at \$5,000 or greater. Inventory and assets are identified in the on-line Purchasing system at the Requisition level, and automatically pulled into the Fixed Asset module when the items are received in the system. In addition, all inventory and assets are shipped to the District's central warehouse for receiving, inspection and tagging with barcodes. Barcode numbers will be unique to each District and correspond to the Fixed Asset module. In the future, the District will deploy barcode scanners to each school site to facilitate annual physical counting of inventory and assets. Data from school sites will then be reconciled with the Fixed Asset module.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-9 Accounts Payable and Purchasing Segregation of Duties (30000)

The accounts payable technicians and Accounting Coordinator have the ability to setup a vendor (e.g., a one-time vendor), enter an invoice, pick up the checks and sign the checks (having access to the signature plate). Because there is no independent check, the potential for fraud exists.

We also found that journal entries are not approved with a second signature if initiated by the Accounting Coordinator and that most all entries are posted in the accounting department. Although no irregularities were found, there exists sole access to District assets and a means to cover-up potential fraud in the accounting entries.

Audit testing found 2 out of 69 expenditures had purchase orders dated after the invoice. In these cases, goods are purchased before going through the District's purchasing process, thus invoiced goods are received before purchase orders are generated. However, the goods purchased appeared to be appropriate types of expenses.

Recommendations: Accounts Payable should not be able to set up vendors because they are processing vendors for payment. Vendor set up should be restricted to the purchasing department. One time vendor issues should be run through either purchasing or the revolving cash fund if below the dollar amount restriction.

We recommend the internal audit the warrants as part of their fiscal accountability duties.

We recommend that all purchases should be pre-approved prior to purchase.

District Response: District policy states that the purchasing department is responsible for vendor set-up; however, accounts payable has access to the vendor set-up screens. The District has established procedures that would identify any improper vendor payments, such as a 100% review and a risk-based audit of commercial warrants by the Accounting Coordinator and Internal Auditors, respectively.

The Accounting Coordinator no longer has access to physical warrant stock or signature authority on local bank accounts. The Internal Auditor maintains the keys to the physical warrants and has signature authority, but does not have posting rights in the financial systems (CECC or FIN) or access to the check signature plate. The Internal Auditor is independent of warrant processing.

The Accounting Coordinator is now performing a 100% review of all commercial warrants and the Internal Auditor is performing a risk-based audit of commercial warrants, with minimum audit coverage of 50% of warrants and 75% of total dollars processed. Written procedures on the risk-based audit of commercial warrants were drafted in October 2009. The Santa Barbara County Education Office's Commercial Warrant Manual was examined when establishing procedures for auditing of all commercial warrants.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-9 Accounts Payable and Purchasing Segregation of Duties (30000) (continued)

District Response: District policy requires the creation of a PO prior to purchase; however, due to unforeseen circumstances a small number of purchases may be invoiced prior to the creation of a purchase order. Any invoices submitted without a purchase order are returned to the originator with a letter identifying the deficiency. Invoices will not be prepared for payment without proper documentation.

Starting in January 2010, the Director of Fiscal Services will review and authorize all journal entries initiated by the Accounting Coordinator.

Finding #2009-10 Credit Cards (30000)

Through our testing of credit cards, we found that 2 out of the 12 credit card transactions tested did not have an itemized receipt to support restaurant expenditures, which is preferably the credit card charge slip alone. One out of the 12 transactions tested for a hotel charge did not have a receipt attached to support the expense.

Recommendation: We recommend improvement in the supporting documentation provided for credit card charges, including itemized receipts when available.

District Response: Any credit card charges incurred without itemized receipts are returned to the originator with a letter identifying the deficiency. Credit cards will not be prepared for payment without proper documentation. In addition, the Business Office has reduced the number of District office credit cards by 50% to reduce the risk of unsupported or inappropriate charges.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-11 Personnel & Payroll (30000)

There are long-standing personnel and payroll District practices that are not consistent with good internal controls in the areas of hiring, time accounting, leave reporting, and reconciliation of payroll records; as further described:

- Timesheets and leave requests are not signed by employees.
- Site secretaries sometimes sign in lieu of the principal, contrary to District policy.
- Time and leave is not reported in a consistent format, i.e., District forms have been modified and hand-written notes are used. Lack of uniformity has resulted in incomplete information being submitted to the District office.
- Employee terminations are not always reported timely resulting in overpayments that may be difficult to collect.
- Improved reconciliation and review over STRS/PERS reporting is a priority of staff.
- Substitute time is not reconciled to the leave record of the person they are substituting for to verify authenticity of time reported.
- Temporary hourly employees are not always budget approved in advance of hiring and other personnel procedures might be circumvented.
- Communications between the site/personnel and payroll result in payroll errors and omissions, also the governing board must approve all changes not just new employees but existing employees and this has caused a lag in the payroll processing system.
- Employees are not required to sign for paychecks, therefore terminations are not timely or a ghost employee could exist.
- Three out of 12 I-9s, legal residency/citizenship form, could not be located.
- Magic personnel system is not integrated with payroll, therefore inefficiencies exist.

We understand that improvements have been made in the last year and that procedures are being written at present, but further compliance is needed.

Recommendation: We recommend that the District develop policies and standardized procedures to address the internal control deficiencies noted above. School sites and departments should be trained on the new procedures and held accountable.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-11 Personnel & Payroll (30000) (continued)

District Response: District staff are currently reviewing and evaluating all personnel and payroll policies. Standardized policies and procedures will be established in 2009-10 to address the internal control weaknesses identified above and all District staff and site personnel will be sufficiently trained and evaluated on the procedures.

In February 2010, the District will be implementing a new human resources system, Employee/Position Information Collaborative System (EPICS), to improve the hiring process and flow of documentation between sites, personnel and payroll. EPICS is a web-based system that allows for tracking of terminations, time and leave reporting, sub-time reconciliations and automotive generation of personnel action forms. EPICS will allow for full integration with the payroll module currently in development with CECC.

The District is also taking the following steps, with regard to payroll and personnel:

- To prevent the risk of a “ghost employee”, the District is evaluating the elimination of direct deposit for one pay period per year and requiring employees to sign for their paychecks.
- On December 15, 2009, fiscal staff will be presenting a proposal to the Santa Barbara School Board on board approval of employees.
- In July 2009, the District hired a Payroll Technician to reconcile, review and report over STRS/PERS.
- As of July 2009, the District implemented authorized signatures forms for each site, indicating personnel permitted to approve monthly time reports.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings, (continued)

Finding #2009-12 Deferred Net Pay (30000)

The District's maintain a Fund 81 for deferred net pay. This Fund is used to track the 10 month employee salaries in order to pay them over a 12 month period. This fund is not included in the District's financial statements and is accounted for in a separate account, District 90. This account is not being monitored or reconciled. All of the holding accounts and clearing accounts are also run through the District 90 account. As a result, there is a possibility of employee tax withholding being incorrectly calculated and disbursed without monthly reconciliation.

Recommendation: We recommend that the District monitor and reconcile the District 90 account on a monthly basis to make sure that deferred net pay fund and the clearing funds are being accounted for correctly.

District Response: As of December 2009, the Accounts Receivable Technician II is performing a monthly reconciliation of the District 90 account. Any and all variances are being investigated and will be resolved by February 2010.

Finding #2009-13 Retiree Benefit Fund (30000)

The District is using the Retiree Benefit Fund (SACS Fund 71) to accumulate monies to provide for the postemployment benefits of District employees, although the fund is not established as an irrevocable trust. The Retiree Benefit Fund is currently misclassified as a fiduciary fund. The Retiree Benefit Fund should be used to accumulate monies under an irrevocable trust to provide for the postemployment benefits of District employees. Alternatively, the District could establish a special reserve or self insurance fund for post-employment benefits.

Recommendation: The District should re-establish the Retiree Benefit Fund as either a Special Reserve for Postemployment Benefits Fund (SACS Fund 20), which is a special revenue governmental fund type, a Self-Insurance Fund, or simply as a designation in the General Fund.

District Response: On October 13, 2009, the Santa Barbara School Board authorized the closure of the Retiree Benefit Fund (SACS Fund 71) and opened a Special Reserve For Other Than Capital Outlay Fund (SACS Fund 17). As of December 9, 2009, fiscal staff is in the process of transferring the remaining balance in Fund 71 to Fund 17. Once all transfers are completed, Fund 71 will be closed and no further transactions will occur from that date forward.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs in the 2008-09 fiscal year.

SANTA BARBARA SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.®

There were no audit findings and questioned costs related to state awards during 2008-09.

SANTA BARBARA SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
Finding #2008-1: Budget Monitoring/Deficit Fund Balance - Cafeteria	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.	30000	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.	Implemented
Finding #2008-2: Fixed Assets	The District did not maintain detailed fixed asset records for equipment. The District also did not calculate depreciation expense for the year.	30000	The District should maintain detailed fixed asset records that will allow the calculation of annual depreciation and preparation of the government-wide financial statements.	Implemented

SANTA BARBARA SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-3: Criteria or Specific Requirements</i>	<p>Criteria: 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.</p> <p>Condition:</p> <ul style="list-style-type: none"> 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 on August 27th and held their public hearing on October 23rd (9 weeks). The Secondary School District started school on August 27th and held their public hearing on December 11th (16 weeks). 	70000	<p>The District should do the public hearing on or before the eighth week from the first day pupils attended school for that year.</p>	Implemented