

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS**

AUDIT REPORT

June 30, 2011



**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
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June 30, 2011**

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FINANCIAL SECTION

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2011**

The Santa Barbara School Districts (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 is currently operating 8 elementary schools, 4 charter schools, 1 community academy, 4 junior high schools, 3 high schools, 2 alternative schools and 1 continuation high school.

In November 2010, the District's voters approved by more than the required 55% favorable vote, Measure Q and Measure R, authorizing the issuance and sale of general obligation bonds, not to exceed \$75,000,000 and \$35,000,000, respectively. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

The Proposition 39 bonds were issued by the District, through the County of Santa Barbara. On May 4, 2011, Election of 2010, Series A and B of the Measure Q bond authorization were issued, which consisted of qualified school construction current interest term bonds, capital appreciation serial bonds and capital appreciation term bonds with an initial par amount of \$24,998,211 with stated interest rates of 5.17% to 7.40% and maturing through August 1, 2041. As of June 30, 2011, the principal balance outstanding on the Measure Q, Election of 2010, Series A and B bonds was \$25,231,959.

Also on May 4, 2011, Election of 2010, Series A of the Measure R bond authorization were issued, which consisted of capital appreciation serial bonds, capital appreciation term bonds and convertible capital appreciation term bonds with an initial par amount of \$14,998,229 with stated interest rates of 5.81% to 7.39% and maturing through August 1, 2041. As of June 30, 2011, the principal balance outstanding on the Measure R, Election of 2010, Series A bond was \$15,211,513.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure Q and Measure R including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2011**

The Measure Q and R Citizens' Oversight Committees had the following members as of June 30, 2011, all of whom were appointed by the District's Board of Education with two year terms of office:

Measure Q Citizens' Oversight Committee

Name	Title	Representation	Education Code Section
Mark Ingalls	Chairperson	Parent of Child Enrolled in District	15282(a)(4)
Salvador Guarena	Vice-Chairperson	Community -at- Large	15282(a)
Teriza Chaney	Secretary	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Carlos Martinez	Member	Community -at- Large	15282(a)
Linda Mier	Member	Active in a Senior Citizens' Organization	15282(a)(2)
Val Noronha	Member	Active in a Business Organization	15282(a)(1)
Francine Graves	Member	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Michael Jordan	Member	Active in a Business Organization	15282(a)(1)
Edward C. Rollins	Member	Parent of Child Enrolled in District	15282(a)(4)

Measure R Citizens' Oversight Committee

Name	Title	Representation	Education Code Section
Brian Robinson	Chairperson	Community -at- Large	15282(a)
Kathryn Jacobs	Vice-Chairperson	Parent of Child Enrolled in District	15282(a)(4)
Carola Nicholson	Secretary	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Lucille Boss	Member	Community -at- Large	15282(a)
Anne Fitzgerald	Member	Active in a Senior Citizens' Organization	15282(a)(2)
Joseph Bailey	Member	Active in a Business Organization	15282(a)(1)
Allison Bell	Member	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)



INDEPENDENT AUDITORS' REPORT

Governing Board Members and
Measure Q and Measure R Citizens' Oversight Committees
Santa Barbara School Districts
Santa Barbara, California

We have audited the accompanying balance sheet of the Proposition 39 Bond Building Fund of the Santa Barbara School Districts as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2011. These financial statements are the responsibility of the Santa Barbara School Districts management. Our responsibility is to express an opinion 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 opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of Measure Q and Measure R general obligation bonds as issued by the Santa Barbara School Districts, through the County of Santa Barbara, and are not intended to present fairly the financial position of the Santa Barbara School Districts in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition 39 Bond Building Fund of the Santa Barbara School Districts as of June 30, 2011, and the results of its operations for the fiscal year ended June 30, 2011, 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 28, 2011 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, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

SAN DIEGO

RANCHO CUCAMONGA

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In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated December 28, 2011 on our consideration of Santa Barbara School Districts compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2011 and should be considered in assessing the results of our financial audit.

Christy White Accountancy Corp

Rancho Cucamonga, California
December 28, 2011

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Balance Sheet
June 30, 2011**

	<u>MEASURE Q</u>	<u>MEASURE R</u>	<u>TOTAL</u>
ASSETS			
Cash in county treasury	\$ 23,814,073	\$ 13,413,719	\$ 37,227,792
Accounts receivable	23,140	13,459	36,599
Total Assets	<u>\$ 23,837,213</u>	<u>\$ 13,427,178</u>	<u>\$ 37,264,391</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 531,154	\$ 589,012	\$ 1,120,166
Due to other funds	20,088	-	20,088
Total Liabilities	<u>551,242</u>	<u>589,012</u>	<u>1,140,254</u>
FUND BALANCE			
Restricted for capital projects	<u>23,285,971</u>	<u>12,838,166</u>	<u>36,124,137</u>
Total Fund Balance	<u>23,285,971</u>	<u>12,838,166</u>	<u>36,124,137</u>
Total Liabilities and Fund Balance	<u>\$ 23,837,213</u>	<u>\$ 13,427,178</u>	<u>\$ 37,264,391</u>

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

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011**

	<u>MEASURE Q</u>	<u>MEASURE R</u>	<u>TOTAL</u>
REVENUES			
Interest income	\$ 23,110	\$ 13,459	\$ 36,569
Total Revenues	<u>23,110</u>	<u>13,459</u>	<u>36,569</u>
EXPENDITURES			
Capital outlay	<u>1,735,481</u>	<u>2,173,522</u>	<u>3,909,003</u>
Total Expenditures	<u>1,735,481</u>	<u>2,173,522</u>	<u>3,909,003</u>
OTHER FINANCING SOURCES AND USES			
Proceeds from long-term debt	<u>24,998,342</u>	<u>14,998,229</u>	<u>39,996,571</u>
Total Other Financing Sources and Uses	<u>24,998,342</u>	<u>14,998,229</u>	<u>39,996,571</u>
Net Change in Fund Balance	23,285,971	12,838,166	36,124,137
Fund Balance, July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, June 30, 2011	<u>\$ 23,285,971</u>	<u>\$ 12,838,166</u>	<u>\$ 36,124,137</u>

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

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Santa Barbara School District (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 is currently operating 8 elementary schools, 4 charter schools, 1 community academy, 4 junior high schools, 3 high schools, 2 alternative schools and 1 continuation high school.

In November, 2010 the District voters approved the issuance of \$75,000,000 in general obligation bonds to benefit the Santa Barbara High School District and \$35,000,000 to benefit the Santa Barbara Elementary School District through the passage of Measure Q and Measure R, respectively. Both Measures are designed to improve the quality of local education by providing “adequate classrooms, science labs, technology, and libraries; repair/replace outdated electrical, plumbing, heating/ventilation, infrastructure systems and deteriorated portable classrooms; fix leaking roof; improve disabled student access; and improve educational academy and career technology facilities.”

Two oversight committees to the District’s Governing Board and Superintendent, called the Citizens’ Oversight Committees (COCs), were established pursuant to the requirements of State law and the provisions of the Measure Q and Measure R bonds, respectively. The COCs are required by state law to actively review and report on the proper expenditure of taxpayers’ money for school construction. The COCs provide oversight and advise the public whether the District is spending the Proposition 39 Bond funds for school capital improvements within the scope of projects outlined in the respective Measure Q and Measure R Bond project list. In fulfilling its duties, the COCs review, among other things, the District’s annual performance and financial audits of Measure Q and Measure R activity.

The statements presented are for the individual Proposition 39 Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2010, Series A and B general obligation bonds (Measure Q) and Election of 2010, Series A general obligation bonds (Measure R) as issued by the District, through the County of Santa Barbara, and are not intended to be a complete presentation of the District’s financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

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

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

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

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. 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.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the Santa Barbara County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable*, *Restricted*, *Committed*, *Assigned* and *Unassigned*. The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. 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. 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.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as cash in county treasury:

	<u>MEASURE Q</u>	<u>MEASURE R</u>	<u>TOTAL</u>
Cash in county treasury, at cost	\$ 23,814,073	\$ 13,413,719	\$ 37,227,792

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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (continued)

Policies and Practices (continued)

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.

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 website. The table below identifies examples of the investment types permitted in the investment policy:

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

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment with the Santa Barbara County Investment Pool with a fair value of approximately \$37,308,488 and an amortized book value of \$37,227,792. The average weighted maturity for this pool is 529 days.

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 Af by Standard & Poor's Rating Services.

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.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable amounting to \$23,140 and \$13,459 for Measures Q and R, respectively, as of June 30, 2011 consists of interest earned on the District's investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Proposition 39 Bond Building Fund had construction commitments of \$708,825 and \$243,598 for Measures Q & R, respectively, as of June 30, 2011.

PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011

NOTE 5 – PROPOSITION 39 GENERAL OBLIGATION BONDS

As of June 30, 2011, the principal balance outstanding on the District’s Proposition 39 general obligation bonds is indicated as follows:

	Issue Date	Interest Rate	Maturity Date	Amount of Original Issue	Bonds				Bonds Outstanding June 30, 2011
					Outstanding July 1, 2010	Additions	Accretion	Deletions	
Measure R - 2010 Series A	5/4/2011	5.81%-7.39%	8/1/2041	\$ 14,998,229	\$ -	\$ 14,998,229	\$ 213,284	\$ -	\$ 15,211,513
Measure Q - 2010 Series A	5/4/2011	6.77%-7.40%	8/1/2041	15,798,211	-	15,798,211	233,748	-	16,031,959
Measure Q - 2010 Series B	5/4/2011	5.17%-5.72%	8/1/2025	9,200,000	-	9,200,000	-	-	9,200,000
					\$ -	\$ 39,996,440	\$ 447,032	\$ -	\$ 40,443,472

Measure R - 2010 Series A (Elementary)

In May 2011, the District received the proceeds of its 2010 Election Series A Bonds, which totaled \$14,998,229. Proceeds from the bonds will be used for the purpose of acquiring, constructing, repairing, renovating and improving school facilities. The bonds were issued as capital appreciation bonds and capital appreciation bonds that convert to current interest bonds. The capital appreciation bonds will not pay interest on a current, periodic basis but will accrete in value to the amounts and payable only at maturity on dates ranging from August 1, 2022 through August 1, 2041. The convertible bonds will accrete in value to August 1, 2023. From August 1, 2023, the convertible bonds will pay interest on the accreted value as of August 1, 2023 on February 1, 2024 and each February 1 and August 1 thereafter until maturity on August 1, 2036.

The annual requirements to amortize all Measure R general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended	Principal	Interest	Total
June 30,			
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
2022-2026	8,396,348	13,647,752	22,044,100
2027-2031	2,270,000	11,862,750	14,132,750
2032-2036	626,129	7,215,321	7,841,450
2037-2041	-	326,200	326,200
2042	3,705,752	29,464,248	33,170,000
Accretion	213,284	(213,284)	-
	\$ 15,211,513	\$ 62,302,987	\$ 77,514,500

PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011

NOTE 5 – PROPOSITION 39 GENERAL OBLIGATION BONDS (continued)

Measure Q - 2010 Series A (Secondary)

In May 2011, the District received the proceeds of its 2010 Election Series A Bonds, which totaled \$15,798,211. Proceeds from the bonds will be used for the purpose of acquiring, constructing, repairing, renovating and improving school facilities. The bonds were issued as capital appreciation bonds. The capital appreciation bonds will not pay interest on a current, periodic basis but will accrete in value to the amounts and payable only at maturity on dates ranging from August 1, 2026 through August 1, 2040.

Measure Q - 2010 Series B (Secondary)

In May 2011, the District received the proceeds of its 2010 Election Series B Bonds, which totaled \$9,200,000. Proceeds from the bonds will be used for the purpose of acquiring, constructing, repairing, renovating and improving school facilities. The bonds are designated as “qualified school construction bonds”. The District will be eligible to receive direct payment by the federal government of the federal subsidy payments.

The annual requirements to amortize all Measure Q general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended	Principal	Interest	Cash Subsidy	Total
June 30,				
2012	-	\$ -	\$ 103,966	\$ 103,966
2013	-	-	512,711	512,711
2014	-	-	512,711	512,711
2015	-	-	512,711	512,711
2016	-	-	512,711	512,711
2017-2021	1,535,000	-	2,503,807	4,038,807
2022-2026	7,665,000	-	1,473,747	9,138,747
2027-2031	2,449,431	6,405,569	-	8,855,000
2032-2036	1,475,117	4,779,883	-	6,255,000
2037-2041	11,377,463	68,247,537	-	79,625,000
2042	496,200	9,503,800	-	10,000,000
Accretion	233,748	(233,748)	-	-
	<u>\$ 25,231,959</u>	<u>\$ 88,703,041</u>	<u>\$ 6,132,364</u>	<u>\$ 120,067,364</u>

PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Notes to Financial Statements
June 30, 2011

NOTE 5 – PROPOSITION 39 GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all Measure Q and Measure R general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended June 30,	Principal	Interest	Cash Subsidy	Total
2012	\$ -	\$ -	\$ 103,966	\$ 103,966
2013	-	-	512,711	512,711
2014	-	-	512,711	512,711
2015	-	-	512,711	512,711
2016	-	-	512,711	512,711
2017-2021	1,535,000	-	2,503,807	4,038,807
2022-2026	16,061,348	13,647,752	1,473,747	31,182,847
2027-2031	4,719,431	18,268,319	-	22,987,750
2032-2036	2,101,246	11,995,205	-	14,096,451
2037-2041	11,377,463	68,573,737	-	79,951,200
2042	4,201,952	38,968,048	-	43,170,000
Accretion	447,032	(447,032)	-	-
Total	\$ 40,443,472	\$ 151,006,029	\$ 6,132,364	\$ 197,581,865

**OTHER INDEPENDENT
AUDITORS' REPORTS**



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

Governing Board Members and
Measure Q and Measure R Citizens' Oversight Committees
Santa Barbara School Districts
Santa Barbara, California

We have audited the financial statements of the Proposition 39 Bond Building Fund of the Santa Barbara School Districts (District) as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as Finding #2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SAN DIEGO

RANCHO CUCAMONGA

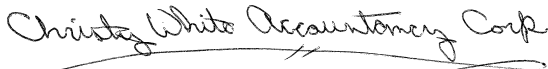
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition 39 Bond Building Fund of the Santa Barbara School Districts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the District's Governing Board, the Measure Q and Measure R Citizens' Oversight Committees, management, others within the entity, and the taxpayers of the Santa Barbara School Districts, and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Accountancy Corp

Rancho Cucamonga, California
December 28, 2011



INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board Members and
Measure Q and Measure R Citizens' Oversight Committees
Santa Barbara School Districts
Santa Barbara, California

We have audited the financial statements of the Proposition 39 Bond Building Fund of the Santa Barbara School Districts (the "District") as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated December 28, 2011. Our audit was made in accordance with generally accepted auditing standards in the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Proposition 39 General Obligation Bonds for the fiscal year ended June 30, 2011. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Proposition 39 Bonds were only used for the purposes set forth in the respective Measure Q and Measure R ballot language and not for any other purpose, such as teacher and administrative salaries.

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In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Proposition 39 projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Proposition 39 funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2010-11 financial statement balances for the Proposition 39 Bond Building Fund are not materially misstated.

Results of Procedures Performed:

The result of our audits tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unqualified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We performed a site walk to verify that Proposition 39 funds expended for the fiscal year ended June 30, 2011 were for valid facilities acquisition and construction purposes. CWA toured five District construction sites where construction work had commenced: Cleveland School (roofing project related to cafeteria building and library/classroom building), Franklin Primary School (A/C project related to admin/classroom building), McKinley School (parking lot and plumbing projects), San Marcos High School (construction of new classroom building and related portable relocation), and Santa Barbara High School (deferred maintenance projects).

Results of Procedures Performed:

Results of the site walks indicate that the major 2010-11 Proposition 39 construction projects were successfully completed and advanced into 2011-12 expenditure/construction phases where applicable.

Test of Expenditures

Procedures Performed:

The following performance tests of expenditures and transfers were performed:

We tested approximately \$0.83 million (48%) of the 2010-11 Measure Q expenditures (22 separate payments) and \$1.45 million (67%) of the 2010-11 Measure R expenditures (27 separate payments) for validity, allowability and accuracy. Expenditures sampled in our test included payments made to contractors, consultants and other vendors.

Results of Procedures Performed:

We found the expenditures and transfers tested to be in compliance with the terms of the Measure Q and measure R ballot measures, Facilities Plan, and applicable State laws and regulations without exception.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2011, we performed testing of four contracts to determine compliance with District policy and the provisions of the California Public Contract Code. We determined in our testing whether proper bidding and approval procedures were followed for the contracts selected.

Results of Procedures Performed:

We found that the contracts tested followed proper bidding procedures, and were awarded in all cases to the lowest responsible bidder.

Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure Q and Measure R General Obligation Bonds as listed and tested above. However, the results of our auditing procedures identified two issues as reported in Findings #2011-1 and #2011-2.

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

This report is intended solely for the information and use of the Measure Q and Measure R Citizens' Bond Oversight Committees, the District's Governing Board, management, and the taxpayers of the Santa Barbara School Districts and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Accountancy Corp

Rancho Cucamonga, California
December 28, 2011

**SCHEDULE OF FINDINGS
AND RECOMMENDATIONS**

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2011**

This section identifies audit findings or recommendations related to the audit of the Proposition 39 Bond Building Fund for the fiscal year ended June 30, 2011.

FINDING #2011-1: EXPENDITURES

Criteria: In accordance with industry standards regarding the maintenance of internal controls over financial reporting, all expenditures must be properly approved and encumbered in advance of the invoice date.

Condition: Not all expenditures out of Measure Q and Measure R funds are supported by a purchase order. Of those expenditures which do have a purchase order, the purchase order or alternative approval was not consistently in place in advance of the invoice date.

Cause: The preapproval/encumbrance documentation was missed due to insufficient communication between the building program and the business office regarding work to be performed.

Effect: Not all expenditures out of Measure Q and Measure R funds were properly preapproved/encumbered.

Perspective: Out of 22 Measure Q expenditure selections, 10 had a purchase order dated after the invoice date. Out of 27 Measure R expenditure selections 12 had a purchase order dated after the invoice date.

Recommendation: The District should increase communications between the building program and the business office with a focus on preapproval and encumbrance of work prior to construction services being rendered and invoiced.

District Response: The District agrees with the recommendation and will implement a procedure to ensure that the business office is kept apprised of bond expenditures prior to the obligation of payment to vendors.

**PROPOSITION 39 BOND BUILDING FUND
SANTA BARBARA SCHOOL DISTRICTS
Schedule of Findings and Recommendations
For the Fiscal Year Ended June 30, 2011**

FINDING #2011-2: COC APPOINTMENTS

Criteria: In accordance with Education Code Section 15278(a), if a Proposition 39 bond measure is approved, the governing board of the school district shall establish and appoint members to a independent citizens' oversight committee within 60 days of the date that the governing board enters the election results on its minutes. Additionally, per Education Code Section 15282(a)(5), one member of the citizens' oversight committee shall be both a parent or guardian of a child enrolled in the district and active in a parent-teacher organization.

Condition: All citizens' oversight committee members were appointed on March 22, 2011, over 60 days following the date the governing board entered the election results on its minutes on December 14, 2010. Additionally, the Measure R citizens' oversight committee does not have a member who is both a parent or guardian of a child enrolled in the district and active in a parent-teacher organization.

Cause: Unknown.

Effect: The District is out of compliance with Education Code Section 15278(a) and Education Code Section 15282(a)(5).

Perspective: All 9 citizens' oversight committee members for Measure Q and 6 citizens' oversight committee members for Measure R were appointed out of compliance with the appointment timeline as prescribed in Education Code Section 15278(a). Measure R has 1 vacancy related to a COC position required by Education Code Section 15282(a)(5).

Recommendation: The District should work to ensure that appointment of future citizens' oversight committees occurs in a timely manner in compliance with all applicable regulations.

District Response: The District will ensure that appointment of any future citizens' oversight committees occurs within the timeline outlined by applicable regulations.