



Excellence for All

**SANTA BARBARA UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SANTA BARBARA UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2012

FINANCIAL SECTION

| | |
|---|----|
| Independent Auditors' Report | 2 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Assets | 14 |
| Statement of Activities | 15 |
| Fund Financial Statements | |
| Governmental Funds - Balance Sheet | 16 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 17 |
| Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances | 18 |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities | 19 |
| Proprietary Funds - Statement of Net Assets | 21 |
| Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Assets | 22 |
| Proprietary Funds - Statement of Cash Flows | 23 |
| Fiduciary Funds - Statement of Net Assets | 24 |
| Notes to Financial Statements | 25 |

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|----|
| General Fund - Budgetary Comparison Schedule | 59 |
| Schedule of Other Postemployment Benefits (OPEB) Funding Progress | 60 |

SUPPLEMENTARY INFORMATION

| | |
|--|----|
| Schedule of Expenditures of Federal Awards | 62 |
| Local Education Agency Organization Structure | 64 |
| Schedule of Average Daily Attendance | 65 |
| Schedule of Instructional Time | 66 |
| Reconciliation of Annual Financial and Budget Report With Audited Financial Statements | 67 |
| Schedule of Financial Trends and Analysis | 68 |
| Schedule of Charter Schools | 69 |
| Combining Statements - Non-Major Governmental Funds | |
| Combining Balance Sheet | 70 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 71 |
| Note to Supplementary Information | 72 |

INDEPENDENT AUDITORS' REPORTS

| | |
|---|----|
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 75 |
| Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 | 77 |
| Report on State Compliance | 79 |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

| | |
|--|----|
| Summary of Auditors' Results | 82 |
| Financial Statement Findings | 83 |
| Federal Awards Findings and Questioned Costs | 84 |
| State Awards Findings and Questioned Costs | 85 |
| Summary Schedule of Prior Audit Findings | 87 |
| Management Letter | 92 |

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Santa Barbara Unified School District
Santa Barbara, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Barbara Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 13, budgetary comparison information and other postemployment benefits information on pages 59 and 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

VADINERX TRINE, Day + Co. CP

Rancho Cucamonga, California
December 14, 2012



Santa Barbara Unified School District

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This section of Santa Barbara Unified School District's (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, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities separately. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Santa Barbara Unified School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether *its financial health is* improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we present the District activities as follows:

Governmental Activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental Funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Proprietary Funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

On July 1, 2011, the Santa Barbara Elementary and Secondary school district became a Thompson Unified School District. This unification brought in an additional \$6.0 million for the District. Also on July 1, the Santa Barbara Unified School District got a new Superintendent, Dr. David Cash, a new financial system, and on November 1 a new Chief Business Official, Meg Jetté who was previously the Director of Fiscal Services.

In the spring of 2012, the District did a refunding of its general obligation bonds, for the amount of \$16.0 million in the secondary territory and \$11.7 million in the Elementary territory, as well as an additional bond issuance of \$15.0 million to finance much needed secondary facilities repairs.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$101.6 million for the fiscal year ended June 30, 2012. Of this amount, \$10.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

| | | Governmental Activities | |
|--|--|-------------------------|-----------------------|
| | | 2012 | 2011 |
| Assets | | | |
| Current and other assets | | \$ 66,117,617 | \$ 67,344,386 |
| Capital assets | | 187,541,196 | 173,730,910 |
| Total Assets | | 253,658,813 | 241,075,296 |
| Liabilities | | | |
| Current liabilities | | 6,199,104 | 7,326,476 |
| Long-term obligations | | 145,848,283 | 128,228,824 |
| Total Liabilities | | 152,047,387 | 135,555,300 |
| Net assets | | | |
| Invested in capital assets, net of related debt | | 79,926,656 | 86,101,722 |
| Restricted | | 11,317,802 | 13,363,482 |
| Unrestricted | | 10,366,968 | 6,054,792 |
| Total Net Assets | | \$ 101,611,426 | \$ 105,519,996 |

The \$10.4 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

| | Governmental Activities | |
|--------------------------------------|-------------------------|---------------------|
| | 2012 | 2011 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 2,094,254 | \$ 3,399,851 |
| Operating grants and contributions | 24,439,586 | 31,154,450 |
| Capital grants and contributions | 2,741,158 | 3,013,892 |
| General revenues: | | |
| Federal and State aid not restricted | 10,241,128 | 10,795,224 |
| Property taxes | 95,906,756 | 90,231,870 |
| Other general revenues | 8,237,096 | 2,789,016 |
| Total Revenues | 143,659,978 | 141,384,303 |
| Expenses | | |
| Instruction-related | 97,840,269 | 90,886,345 |
| Student support services | 16,189,341 | 14,846,044 |
| Administration | 6,710,706 | 6,994,092 |
| Plant services | 13,532,695 | 11,537,765 |
| Other | 13,295,537 | 17,929,868 |
| Total Expenses | 147,568,548 | 142,194,114 |
| Change in Net Assets | \$ (3,908,570) | \$ (809,811) |

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was \$147.6 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$95.9 million because the cost was paid by those who benefited from the programs (\$2.1 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$27.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$18.5 million in Federal and State funds, and with other revenues, like interest and general entitlements.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

In Table 3, we have presented the cost and net cost of each of the District's largest governmental activity functions: instruction, instruction-related activities, home-to-school transportation, food services, other pupil services, general administration, maintenance and operations, ancillary services, community services, interest on long-term obligations and all other functional expenditures. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

| | Total Cost of Services | | Net Cost of Services | |
|-----------------------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Instruction | \$ 81,997,052 | \$ 75,279,319 | \$ 68,558,961 | \$ 58,473,559 |
| Instruction-related activities | 15,843,217 | 15,607,026 | 13,541,140 | 12,909,909 |
| Home-to-school transportation | 2,280,629 | 2,151,828 | 1,256,553 | 1,171,044 |
| Food Services | 6,593,219 | 6,404,278 | 1,489,556 | 1,235,972 |
| Other pupil services | 7,315,493 | 6,289,938 | 6,373,248 | 5,119,668 |
| General administration | 6,710,706 | 6,994,092 | 5,943,484 | 5,990,672 |
| Maintenance and operations | 13,532,695 | 11,537,765 | 13,212,480 | 8,234,532 |
| Ancillary services | 1,555,785 | 1,508,664 | 1,472,911 | 1,179,466 |
| Community services | 5,385,424 | 6,000,982 | 1,518,575 | 1,017,279 |
| Interest on long-term obligations | 5,660,958 | 4,824,560 | 5,660,958 | 4,824,560 |
| Other | 693,370 | 5,595,662 | (734,316) | 4,469,260 |
| Total | \$ 147,568,548 | \$ 142,194,114 | \$ 118,293,550 | \$ 104,625,921 |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$55.3 million, which is a decrease of \$4.5 million from last year (Table 4).

Table 4

| | Fund Balance | | | |
|--|----------------------|-----------------------|-----------------------|----------------------|
| | July 1, 2011 | Revenues | Expenditures | June 30, 2012 |
| General Fund | \$ 8,768,965 | \$ 121,645,635 | \$ 121,445,985 | \$ 8,968,615 |
| Building Fund | 39,262,451 | 15,315,537 | 19,424,795 | 35,153,193 |
| County School Facilities Fund | 156,919 | 2,741,158 | 621,554 | 2,276,523 |
| Charter School Fund | 278,855 | 2,013,622 | 2,057,653 | 234,824 |
| Child Development Fund | 80,417 | 4,448,724 | 4,164,227 | 364,914 |
| Cafeteria Fund | 504,718 | 5,820,625 | 6,277,443 | 47,900 |
| Capital Facilities Fund | 1,379,985 | 797,847 | 386,649 | 1,791,183 |
| Special Reserve Fund For Capital Outlay Projects | 3,075,816 | 604,334 | 3,337,095 | 343,055 |
| Bond Interest and Redemption Fund | 6,231,705 | 37,585,131 | 37,721,910 | 6,094,926 |
| Total | \$ 59,739,831 | \$ 190,972,613 | \$ 195,437,311 | \$ 55,275,133 |

The primary reasons for these increases/decreases are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$199,650 million. This increase is due to the close monitoring of the budget throughout the year and the promise to the board that the District will eliminate the structural deficit. The Thompson Unification provides the District with an increase of State aid however, the deficit also increased. Our special revenue funds decreased from the prior year showing a decrease of approximately \$34,618. The special reserves were expensed in the year 2011-2012.
- The debt service funds showed a decrease of approximately \$136,779.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on March 13, 2012. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 59.)

The main variance in revenue between the District's Adopted Budget and the unaudited actuals is the fact that the District only budgets 90 percent of State and Federal revenues due to the fact that the State and Federal budgets are passed after the District's budgets are approved. Therefore, for the first interim the District increases its revenues to reflect the actual grant amounts and any carryover from the previous year. At that time the District will also adjust the expenditures.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$187.5 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$14.7 million, or 8.5 percent, from last year (Table 5).

Table 5

| | Governmental Activities | |
|----------------------------------|-------------------------|-----------------------|
| | 2012 | 2011 |
| Land and construction in process | \$ 21,282,415 | \$ 9,426,806 |
| Buildings and improvements | 164,428,076 | 162,363,301 |
| Furniture and equipment | 1,830,705 | 1,007,132 |
| Total | \$ 187,541,196 | \$ 172,797,239 |

This year's additions of \$14,743,957 included several bond projects for the Elementary and Secondary districts, vehicles, cafeteria equipment and wireless internet District-wide. Debt was issued for these additions in the spring of 2011 and in June of 2012.

Several capital projects are planned for the 2012-2013 year. We anticipate capital additions to be \$20 million for the 2012-2013 year. We present more detailed information about our capital assets in Note 4 to the financial statements.

Long-Term Obligations

At the end of this year, the District had \$145.8 million in long-term obligations outstanding versus \$128.2 million last year, an increase of 13.7 percent. Those consisted of:

Table 6

| | Governmental Activities | |
|---|-------------------------|-----------------------|
| | 2012 | 2011 |
| General obligation bonds - net (Financed with property taxes) | \$ 143,260,894 | \$ 127,131,396 |
| Capitalized lease obligations | 133,561 | 173,699 |
| Compensated absences | 1,011,670 | 923,729 |
| Career Technical Education Facilities Loan | 1,442,158 | - |
| Total | \$ 145,848,283 | \$ 128,228,824 |

The District's general obligation bond rating continues to be "Aa3." The State limits the amount of general obligation debt that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$143.3 million is significantly below this \$629,644,155 statutorily-imposed limit.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Other obligations include compensated absences payable, postemployment benefits (not including health benefits) and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012 ARE NOTED BELOW:

The District spent \$11.3 million modernization project which Dos Pueblos Engineering building, Washington portables, San Marcos turf and track, Cleveland roof, and multiple sites had playground repairs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2012-2013 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income has been increased due to the passing of Proposition 30 and the increase in ADA since the Adopted Budget.
2. At First Interim the District assumed that the five furloughs would be restored due to Proposition 30 passing, however, since the District had not met with the unions and the board had not approved the restoration of the days at the time of the First Interim, the District accounted for them in the multi-year projects. As of December 7, 2012 the District has restored seven furloughs to all units and is waiting board approval. The restoration of the furloughs will have an impact on the ending fund balance however the District will meet its three percent reserve.
3. Interest earnings will remain the same percent due to the averaging of the past four quarters of interest rates.
4. Developer fee collections are based on approximate new housing units to be constructed.
5. Federal income will increase by 17 percent due to the increased population of qualified students and the normal reduction of Federal funding at Adopted Budget. This is historically done due to the uncertainty of the Federal budget.
6. State income will decrease by 2.9 percent due to the increase cost of Special Education regional program cost going from 40 to 60 percent pay-as-you-go. SELPA decreases the funding to cover the regional programs.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Expenditures are based on the following forecasts:

As mentioned prior in this MD&A, the District has met with its unions and has restored seven furloughs to all employees however, the agreements will not have approval by the board of education until December 11, 2012. This will be a significant impact on the District's fund balance, however, it will still be able to meet its three percent reserve amount.

| | <u>Staffing Ratio</u> | <u>Enrollment</u> |
|------------------------------------|-----------------------|-------------------|
| Grades kindergarten through three* | 25:1 | 2,588 |
| Grades four through six | 33:1 | 1,835 |
| Grades seven through eight | 30:1 | 2,963 |
| Grades nine through twelve | 36:1 | 6,214 |

*The new items specifically addressed in the budget are the restoration of the furlough days.

The District has used the K-3 class size reduction flexibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Meg Jetté, Assistant Superintendent, Business Services, at Santa Barbara Unified School District, 720 Santa Barbara Street, Santa Barbara, California, or e-mail at mjette@sbsdk12.org.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

| | Governmental Activities |
|---|------------------------------------|
| ASSETS | |
| Deposits and investments | \$ 50,668,705 |
| Receivables | 9,680,689 |
| Prepaid expenses | 174,035 |
| Stores inventories | 88,307 |
| Deferred cost on issuance | 2,114,776 |
| Deferred charges on refunding | 2,236,712 |
| Net OPEB assets | 1,154,393 |
| Capital assets | |
| Land and construction in process | 21,282,415 |
| Other capital assets | 229,473,367 |
| Less: Accumulated depreciation | <u>(63,214,586)</u> |
| Total Capital Assets | <u>187,541,196</u> |
| Total Assets | <u>253,658,813</u> |
| LIABILITIES | |
| Accounts payable | 4,802,929 |
| Interest payable | 1,325,155 |
| Deferred revenue | 71,020 |
| Long-term obligations | |
| Current portion of long-term obligations | 4,010,578 |
| Noncurrent portion of long-term obligations | <u>141,837,705</u> |
| Total Long-Term Obligations | <u>145,848,283</u> |
| Total Liabilities | <u>152,047,387</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 79,926,656 |
| Restricted for: | |
| Debt service | 4,769,771 |
| Capital projects | 4,067,706 |
| Educational programs | 1,675,056 |
| Other activities | 805,269 |
| Unrestricted | <u>10,366,968</u> |
| Total Net Assets | <u>\$ 101,611,426</u> |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

| Functions/Programs | Expenses | Program Revenues | | |
|--|-----------------------|--------------------------------------|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| Instruction | \$ 81,997,052 | \$ 81,001 | \$ 10,615,932 | \$ 2,741,158 |
| Instruction-related activities: | | | | |
| Supervision of instruction | 5,481,661 | 6,163 | 2,106,661 | - |
| Instructional library, media, and technology | 1,444,954 | 637 | 5,193 | - |
| School site administration | 8,916,602 | 1,686 | 181,737 | - |
| Pupil services: | | | | |
| Home-to-school transportation | 2,280,629 | 183,842 | 840,234 | - |
| Food services | 6,593,219 | 1,223,609 | 3,880,054 | - |
| All other pupil services | 7,315,493 | 2,852 | 939,393 | - |
| Administration: | | | | |
| Data processing | 1,252,837 | 3,662 | 83,075 | - |
| All other administration | 5,457,869 | 23,267 | 657,218 | - |
| Plant services | 13,532,695 | 36,627 | 283,588 | - |
| Facility acquisition and construction | 433,521 | - | - | - |
| Ancillary services | 1,555,785 | 18,661 | 64,213 | - |
| Community services | 5,385,424 | 190,814 | 3,676,035 | - |
| Interest on long-term obligations | 5,660,958 | - | - | - |
| Other outgo | 259,849 | 321,433 | 1,106,253 | - |
| Total Governmental Activities | \$ 147,568,548 | \$ 2,094,254 | \$ 24,439,586 | \$ 2,741,158 |

General revenues and subventions:

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

Change in Net Assets

Net Assets - Beginning
 Net Assets - Ending

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

| |
|----------------------------------|
| Changes in Net Assets |
|----------------------------------|

| |
|------------------------------------|
| Governmental Activities |
|------------------------------------|

| | |
|----|----------------------|
| \$ | (68,558,961) |
| | (3,368,837) |
| | (1,439,124) |
| | (8,733,179) |
| | (1,256,553) |
| | (1,489,556) |
| | (6,373,248) |
| | (1,166,100) |
| | (4,777,384) |
| | (13,212,480) |
| | (433,521) |
| | (1,472,911) |
| | (1,518,575) |
| | (5,660,958) |
| | 1,167,837 |
| | <u>(118,293,550)</u> |

| | |
|----|---------------------------|
| | 86,684,309 |
| | 7,108,244 |
| | 2,114,203 |
| | 10,241,128 |
| | 147,035 |
| | 8,090,061 |
| | <u>(3,908,570)</u> |
| | 105,519,996 |
| \$ | <u><u>101,611,426</u></u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

| | General Fund | Building Fund | County School Facilities Fund |
|--|----------------------|----------------------|-------------------------------------|
| ASSETS | | | |
| Deposits and investments | \$ 2,638,050 | \$ 36,688,672 | \$ 2,346,573 |
| Receivables | 8,223,663 | 153,538 | 269 |
| Due from other funds | 1,619,007 | 17,595 | - |
| Prepaid expenditures | 168,544 | - | - |
| Stores inventories | 35,740 | - | - |
| Total Assets | \$ 12,685,004 | \$ 36,859,805 | \$ 2,346,842 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 2,760,783 | \$ 1,706,612 | \$ 70,319 |
| Due to other funds | 909,586 | - | - |
| Deferred revenue | 46,020 | - | - |
| Total Liabilities | 3,716,389 | 1,706,612 | 70,319 |
| Fund Balances: | | | |
| Nonspendable | 268,536 | - | - |
| Restricted | 1,675,056 | 35,153,193 | 2,276,523 |
| Assigned | 3,468,833 | - | - |
| Unassigned | 3,556,190 | - | - |
| Total Fund Balances | 8,968,615 | 35,153,193 | 2,276,523 |
| Total Liabilities and Fund Balances | \$ 12,685,004 | \$ 36,859,805 | \$ 2,346,842 |

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

| Non-Major Governmental Funds | Total Governmental Funds |
|------------------------------------|--------------------------------|
| \$ 8,853,202 | \$ 50,526,497 |
| 1,302,951 | 9,680,421 |
| 444,709 | 2,081,311 |
| 5,491 | 174,035 |
| 52,567 | 88,307 |
| <u>\$ 10,658,920</u> | <u>\$ 62,550,571</u> |
| | |
| \$ 125,393 | \$ 4,663,107 |
| 1,631,725 | 2,541,311 |
| 25,000 | 71,020 |
| <u>1,782,118</u> | <u>7,275,438</u> |
| | |
| 58,058 | 326,594 |
| 8,228,724 | 47,333,496 |
| 600,178 | 4,069,011 |
| (10,158) | 3,546,032 |
| <u>8,876,802</u> | <u>55,275,133</u> |
| | |
| \$ 10,658,920 | \$ 62,550,571 |
| <u>\$ 10,658,920</u> | <u>\$ 62,550,571</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

| | | |
|--|---------------------|------------------------------|
| Total Fund Balance - Governmental Funds | | \$ 55,275,133 |
| Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | | |
| The cost of capital assets is: | \$ 250,755,782 | |
| Accumulated depreciation is: | <u>(63,214,586)</u> | |
| Net Capital Assets | | 187,541,196 |
| Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis. | | |
| Deferred cost on issuance | 2,114,776 | |
| Deferred charges on refunding | <u>2,236,712</u> | |
| | | 4,351,488 |
| In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred. | | (1,325,155) |
| An Internal Service Fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are: | | 462,654 |
| Expenditures relating to postemployment benefits were recognized on the modified accrual basis, but contributions made in excess of the annual required contribution (ARC) should be recorded as an asset in the government-wide financial statements. | | 1,154,393 |
| Long-term obligations at year-end consist of: | | |
| General obligation bonds | 136,288,658 | |
| Unamortized premium on general obligation bonds | 4,903,356 | |
| Capital lease obligations | 133,561 | |
| Compensated absences | 1,011,670 | |
| Career Technical Education Facilities Loan | 1,442,158 | |
| In addition, the District has issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is: | | |
| | <u>2,068,880</u> | |
| Total Long-Term Obligations | | (145,848,283) |
| Total Net Assets - Governmental Activities | | <u>\$ 101,611,426</u> |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

| | General Fund | Building Fund | County School Facilities Fund |
|--|---------------------|----------------------|-------------------------------------|
| REVENUES | | | |
| Revenue limit sources | \$ 83,698,956 | \$ - | \$ - |
| Federal sources | 8,851,251 | - | - |
| Other State sources | 19,895,682 | - | 2,740,100 |
| Other local sources | 9,139,646 | 223,681 | 1,058 |
| Total Revenues | 121,585,535 | 223,681 | 2,741,158 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | 74,275,956 | - | - |
| Instruction-related activities: | | | |
| Supervision of instruction | 5,501,390 | - | - |
| Instructional library, media and technology | 1,451,791 | - | - |
| School site administration | 8,729,049 | - | - |
| Pupil services: | | | |
| Home-to-school transportation | 2,280,629 | - | - |
| Food services | 18,923 | - | - |
| All other pupil services | 6,925,795 | - | - |
| General administration: | | | |
| Data processing | 1,088,287 | - | - |
| All other general administration | 4,658,997 | 91,856 | - |
| Plant services | 12,923,657 | - | - |
| Facility acquisition and construction | 17,601 | 19,297,597 | 621,554 |
| Ancillary services | 1,565,023 | - | - |
| Community services | 1,517,000 | - | - |
| Other outgo | 89,685 | - | - |
| Debt service | | | |
| Principal | - | - | - |
| Interest and other | 134,822 | 35,342 | - |
| Total Expenditures | 121,178,605 | 19,424,795 | 621,554 |
| Excess (Deficiency) of Revenues Over Expenditures | 406,930 | (19,201,114) | 2,119,604 |
| Other Financing Sources (Uses): | | | |
| Transfers in | 60,100 | - | - |
| Other sources | - | 15,091,856 | - |
| Other sources - proceeds of refunding bonds | - | - | - |
| Transfers out | (267,380) | - | - |
| Other uses - payment to refunded bond escrow agent | - | - | - |
| Net Financing Sources (Uses) | (207,280) | 15,091,856 | - |
| NET CHANGE IN FUND BALANCES | 199,650 | (4,109,258) | 2,119,604 |
| Fund Balances - Beginning | 8,768,965 | 39,262,451 | 156,919 |
| Fund Balances - Ending | \$ 8,968,615 | \$ 35,153,193 | \$ 2,276,523 |

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

| Non-Major Governmental Funds | | Total Governmental Funds | |
|---|---------------------|---|---------------------|
| \$ | 1,541,249 | \$ | 85,240,205 |
| | 5,000,762 | | 13,852,013 |
| | 3,412,441 | | 26,048,223 |
| | 10,596,501 | | 19,960,886 |
| | <u>20,550,953</u> | | <u>145,101,327</u> |
| | 1,252,529 | | 75,528,485 |
| | - | | 5,501,390 |
| | - | | 1,451,791 |
| | 233,050 | | 8,962,099 |
| | - | | 2,280,629 |
| | 6,167,772 | | 6,186,695 |
| | - | | 6,925,795 |
| | - | | 1,088,287 |
| | 1,085,373 | | 5,836,226 |
| | 223,437 | | 13,147,094 |
| | 3,696,032 | | 23,632,784 |
| | - | | 1,565,023 |
| | 3,893,976 | | 5,410,976 |
| | - | | 89,685 |
| | 3,170,138 | | 3,170,138 |
| | 4,150,265 | | 4,320,429 |
| | <u>23,872,572</u> | | <u>165,097,526</u> |
| | <u>(3,321,619)</u> | | <u>(19,996,199)</u> |
| | 267,380 | | 327,480 |
| | 2,546,950 | | 17,638,806 |
| | 27,905,000 | | 27,905,000 |
| | (60,100) | | (327,480) |
| | <u>(30,012,305)</u> | | <u>(30,012,305)</u> |
| | 646,925 | | 15,531,501 |
| | <u>(2,674,694)</u> | | <u>(4,464,698)</u> |
| | 11,551,496 | | 59,739,831 |
| \$ | <u>8,876,802</u> | \$ | <u>55,275,133</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ (4,464,698)**

**Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:**

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

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

| | | |
|------------------------|--------------------|------------|
| Capital outlays | \$ 23,196,397 | |
| Depreciation expense | <u>(8,452,440)</u> | |
| Net Expense Adjustment | | 14,743,957 |

Some of the future capital projects this year were financed with a facilities loan.

The amount financed by the loan is reported in the governmental funds as a source of state revenue. On the other hand, the loan is not revenue in the Statement of Activities, but rather constitute a long-term obligation in the Statement of Net Assets.

(1,442,158)

Contributions for postemployment benefits are recorded as an expense in the governmental funds when paid. In the Statement of

Activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:

594,215

In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than the amounts earned by \$87,941.

(87,941)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:

| | |
|------------------------------------|--------------|
| Sale of general obligation bonds | (14,997,218) |
| Refunding general obligation bonds | (27,905,000) |

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

| | | |
|-------------------------------|------------------|---------|
| Premium on issuance | (2,641,588) | |
| Cost of issuance | 614,484 | |
| Deferred charges on refunding | <u>2,242,305</u> | |
| Combined Adjustment | | 215,201 |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2012

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:

| | |
|---------------------------|---------------|
| General obligation bonds | \$ 30,900,000 |
| Capital lease obligations | 40,138 |

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

| | | |
|----------------------------------|------------------|-----------|
| Amortization of debt premium | \$ 136,156 | |
| Amortization of cost of issuance | <u>(339,067)</u> | |
| Combined Adjustment | | (202,911) |

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds decreased by \$314,066, and second, \$1,621,848 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

(1,307,782)

An Internal Service Fund is used by the District's management to charge the costs of the dental and vision insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.

Change in Net Assets of Governmental Activities

5,627
\$ (3,908,570)

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2012

| | Governmental Activities - Internal Service Fund |
|-----------------------------|--|
| ASSETS | |
| Current Assets | |
| Deposits and investments | \$ 142,208 |
| Receivables | 268 |
| Due from other funds | 460,000 |
| Total Current Assets | 602,476 |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable | 139,822 |
| NET ASSETS | |
| Restricted | 462,654 |
| Total Net Assets | \$ 462,654 |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

| | Governmental Activities - Internal Service Fund |
|---|--|
| OPERATING REVENUES | |
| Charges to other funds and miscellaneous revenues | <u>\$ 59,199</u> |
| OPERATING EXPENSES | |
| Professional and contract services | 54,173 |
| Supplies and materials | <u>208</u> |
| Total Operating Expenses | <u>54,381</u> |
| Operating Income | <u>4,818</u> |
| NONOPERATING REVENUES | |
| Interest income | <u>809</u> |
| Change in Net Assets | <u>5,627</u> |
| Total Net Assets - Beginning | <u>457,027</u> |
| Total Net Assets - Ending | <u><u>\$ 462,654</u></u> |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2012

| | Governmental Activities - Internal Service Fund |
|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash receipts from customers | \$ 170,802 |
| Other operating cash payments | (633,253) |
| Net Cash Used by Operating Activities | <u>(462,451)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | 809 |
| Net Increase in Cash and Cash Equivalents | <u>(461,642)</u> |
| Cash and Cash Equivalents - Beginning | 603,850 |
| Cash and Cash Equivalents - Ending | <u><u>\$ 142,208</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | |
| Operating income | \$ 4,818 |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Changes in assets and liabilities: | |
| Receivables | 6,320 |
| Due from other fund | 105,283 |
| Accounts payable | (78,872) |
| Due to other fund | <u>(500,000)</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u><u>\$ (462,451)</u></u> |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2012

| | Agency Funds |
|--------------------------|-------------------------|
| ASSETS | |
| Deposits and investments | \$ 10,628,500 |
| Stores inventories | 18,180 |
| Total Assets | \$ 10,646,680 |
| LIABILITIES | |
| Accounts payable | \$ 21,373 |
| Due to student groups | 1,156,537 |
| Due to employees | 9,468,770 |
| Total Liabilities | \$ 10,646,680 |

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Santa Barbara Unified School District (the District) was unified July 1, 2011, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates ten elementary, four junior high schools, three high schools, one continuation school, two charter schools, and two alternative schools.

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

Other Related Entities

Charter School The District has approved Charters for Santa Barbara Elementary Charter School and Santa Barbara Middle Charter School pursuant to *Education Code* Section 47605. The Charter Schools are operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 14, Deferred Maintenance Fund, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

As the District has not taken formal action to commit the flexed revenues formerly restricted to this program to the continued operation of the original programs, the revenues within this fund would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in assets, fund balance, revenues and expenditures of \$26,265, \$25,887, \$1,326, and \$420,041, respectively.

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

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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

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

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

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

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 fund:

Internal Service Fund Internal Service funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operated a self-insurance program for workers' compensation in previous reporting periods. The run-off claims for the program along with health benefits and property and liability activity are accounted for in the Internal Service Fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB), deferred payroll, payroll related benefits, and volunteer payroll withholdings of District employees.

Basis of Accounting - Measurement Focus

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District had no related debt outstanding as of June 30, 2012. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$11,317,802 of restricted net assets.

Interfund Activity

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for administration of the workers' compensation, property and liability, and health and welfare programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

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

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 1st 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 budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

| | |
|--------------------------------|----------------------|
| Governmental activities | \$ 50,668,705 |
| Fiduciary funds | 10,628,500 |
| Total Deposits and Investments | <u>\$ 61,297,205</u> |

Deposits and investments as of June 30, 2012, consisted of the following:

| | |
|--------------------------------|----------------------|
| Cash on hand and in banks | \$ 711,844 |
| Cash in revolving | 110,000 |
| Investments | 60,475,361 |
| Total Deposits and Investments | <u>\$ 61,297,205</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.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

General Authorizations

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

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

Interest Rate Risk

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

| Investment Type | Amortized Cost | Fair Value | Average Maturity in Days |
|--------------------------------------|-------------------|---------------|-----------------------------|
| Santa Barbara County Investment Pool | \$ 60,475,361 | \$ 60,576,550 | 705 |

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Santa Barbara County Investment Pool is not required to be rated, but has been rated Aa1 as of June 30, 2012 by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. 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, 2012, the District's bank balance of \$675,141 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

| | General Fund | Building Fund | County School Facilities Fund | Non-Major Governmental Funds |
|--------------------------|---------------------|-------------------|-------------------------------------|------------------------------------|
| Federal Government | | | | |
| Categorical aid | \$ 1,503,514 | \$ - | \$ - | \$ 639,218 |
| State Government | | | | |
| Apportionment | 831,713 | - | - | 26,192 |
| Categorical aid | 1,614,801 | - | - | 309,479 |
| Lottery | 317,926 | - | - | 6,927 |
| Local Government | | | | |
| Interest | 57,809 | 52,797 | 269 | 14,095 |
| Due from Charter Schools | 1,153,905 | 100,741 | - | - |
| Due from Cities | 1,364,860 | - | - | - |
| Other Local Sources | 1,379,135 | - | - | 307,040 |
| Total | <u>\$ 8,223,663</u> | <u>\$ 153,538</u> | <u>\$ 269</u> | <u>\$ 1,302,951</u> |

| | Internal Service Fund | Total Governmental Activities |
|--------------------------|-----------------------------|-------------------------------------|
| Federal Government | | |
| Categorical aid | \$ - | \$ 2,142,732 |
| State Government | | |
| Apportionment | - | 857,905 |
| Categorical aid | - | 1,924,280 |
| Lottery | - | 324,853 |
| Local Government | | |
| Interest | 268 | 125,238 |
| Due from Charter Schools | - | 1,254,646 |
| Due from Cities | - | 1,364,860 |
| Other Local Sources | - | 1,686,175 |
| Total | <u>\$ 268</u> | <u>\$ 9,680,689</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

| | Balance July 1, 2011 | Additions | Deductions | Balance June 30, 2012 |
|--|-------------------------|----------------------|----------------------|--------------------------|
| Governmental Activities | | | | |
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 1,537,176 | \$ - | \$ - | \$ 1,537,176 |
| Construction in process | 7,889,630 | 21,963,741 | 10,108,132 | 19,745,239 |
| Total Capital Assets Not Being Depreciated | 9,426,806 | 21,963,741 | 10,108,132 | 21,282,415 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 2,349,365 | 2,052,304 | - | 4,401,669 |
| Buildings and improvements | 210,733,080 | 8,055,828 | - | 218,788,908 |
| Furniture and equipment | 5,050,134 | 1,232,656 | - | 6,282,790 |
| Total Capital Assets Being Depreciated | 218,132,579 | 11,340,788 | - | 229,473,367 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 1,869,896 | 107,925 | - | 1,977,821 |
| Buildings and improvements | 48,849,248 | 7,935,432 | - | 56,784,680 |
| Furniture and equipment | 4,043,002 | 409,083 | - | 4,452,085 |
| Total Accumulated Depreciation | 54,762,146 | 8,452,440 | - | 63,214,586 |
| Governmental Activities Capital Assets, Net | <u>\$ 172,797,239</u> | <u>\$ 24,852,089</u> | <u>\$ 10,108,132</u> | <u>\$ 187,541,196</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---------------------|
| Governmental Activities | |
| Instruction | \$ 6,761,952 |
| Food services | 422,622 |
| All other pupil services | 422,622 |
| Data processing | 169,049 |
| All other general administration | 253,573 |
| Plant services | 422,622 |
| Total Depreciation Expenses Governmental Activities | <u>\$ 8,452,440</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2012, between major funds, non-major governmental funds and the Internal Service Fund are as follows:

| Due From | Due To | | |
|------------------------------|-------------------|------------------------------|---------------------|
| | General Fund | Non-Major Governmental Funds | Total |
| General Fund | \$ - | \$ 1,619,007 | \$ 1,619,007 |
| Building Fund | 17,595 | - | 17,595 |
| Non-Major Governmental Funds | 431,991 | 12,718 | 444,709 |
| Internal Service Fund | 460,000 | - | 460,000 |
| Total | <u>\$ 909,586</u> | <u>\$ 1,631,725</u> | <u>\$ 2,541,311</u> |

A balance of \$173,839 is due to the Charter School Non-Major Governmental Fund from the General Fund resulted from in lieu of property taxes.

A balance of \$253,366 is due to the Cafeteria Non-Major Governmental Fund from the General Fund resulted from a Meals for Needy allocation.

The balance of \$460,000 is due to the Internal Service Fund from the General Fund for the repayment of a temporary loan.

A balance of \$431,713 is due to the General Fund from the Charter School Non-Major Governmental Fund for operating and indirect costs.

A balance of \$214,247 is due to the General Fund from the Child Development Non-Major Governmental Fund for indirect costs.

A balance of \$580,000 is due to the General Fund from the Cafeteria Non-Major Governmental Fund to repay a temporary loan.

A balance of \$332,157 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for payroll related costs and indirect costs.

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

| Transfer To | Transfer From | | |
|------------------------------|-------------------|------------------------------------|-------------------|
| | General Fund | Non-Major Governmental Funds | Total |
| General Fund | \$ - | \$ 60,100 | \$ 60,100 |
| Non-Major Governmental Funds | 267,380 | - | 267,380 |
| Total | <u>\$ 267,380</u> | <u>\$ 60,100</u> | <u>\$ 327,480</u> |

The General Fund transferred to the following Non-Major Governmental Funds:

Cafeteria Fund for Meals for Needy allocation.

\$ 253,000

Charter School Fund for the portion of parcel tax monies.

14,380 \$ 267,380

The Cafeteria Non-Major Governmental Fund transferred to the

General Fund for reimbursement of payroll and benefit related costs.

60,100

Total

\$ 327,480

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

| | General Fund | Building Fund | County School Facilities Fund |
|-----------------------|---------------------|---------------------|-------------------------------------|
| State apportionment | \$ 1,383,489 | \$ - | \$ - |
| Salaries and benefits | 330,827 | 3,026 | - |
| Supplies | 144,850 | - | - |
| Services | 709,444 | 4,100 | - |
| Construction | - | 1,699,486 | 319 |
| Other | 192,173 | - | 70,000 |
| Total | <u>\$ 2,760,783</u> | <u>\$ 1,706,612</u> | <u>\$ 70,319</u> |

| | Non-Major Governmental Funds | Internal Service Fund | Total Governmental Activities |
|-----------------------|------------------------------------|-----------------------------|-------------------------------------|
| State apportionment | \$ 21,318 | \$ - | \$ 1,404,807 |
| Salaries and benefits | 56,758 | 139,822 | 530,433 |
| Supplies | 13,883 | - | 158,733 |
| Services | 2,763 | - | 716,307 |
| Construction | 28,868 | - | 1,728,673 |
| Other | 1,803 | - | 263,976 |
| Total | <u>\$ 125,393</u> | <u>\$ 139,822</u> | <u>\$ 4,802,929</u> |

| | Fiduciary Funds |
|-----------------------|--------------------|
| State apportionment | \$ - |
| Salaries and benefits | - |
| Supplies | - |
| Services | - |
| Construction | - |
| Other | 21,373 |
| Total | <u>\$ 21,373</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

| | General Fund | Non-Major Governmental Funds | Total Governmental Activities |
|------------------------------|------------------|------------------------------------|-------------------------------------|
| Federal financial assistance | \$ 23,487 | \$ - | \$ 23,487 |
| State categorical aid | 22,533 | 25,000 | 47,533 |
| Total | <u>\$ 46,020</u> | <u>\$ 25,000</u> | <u>\$ 71,020</u> |

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$22,000,000 of Tax and Revenue Anticipation Notes bearing interest at 2.0 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 30, 2012. By May 2012, 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.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

| | Balance June 30, 2011 | Additions | Deductions | Balance June 30, 2012 | Due in One Year |
|---|--------------------------|----------------------|----------------------|--------------------------|---------------------|
| General obligation bonds | \$ 124,733,472 | \$ 44,524,066 | \$ 30,900,000 | \$ 138,357,538 | \$ 3,840,000 |
| Premium on issuance | 2,397,924 | 2,641,588 | 136,156 | 4,903,356 | - |
| Capital leases | 173,699 | - | 40,138 | 133,561 | 42,254 |
| Accumulated vacation - net | 923,729 | 87,941 | - | 1,011,670 | - |
| Career Technical Education Facilities Loan | - | 1,442,158 | - | 1,442,158 | 128,324 |
| | <u>\$ 128,228,824</u> | <u>\$ 48,695,753</u> | <u>\$ 31,076,294</u> | <u>\$ 145,848,283</u> | <u>\$ 4,010,578</u> |

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments for capital leases are paid by the Cafeteria Fund. The accrued vacation will be paid by the fund for which the employee worked. Payments for the Career Technical Education Facilities Loan are made from the County School Facilities Fund.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2000 General Obligation Bonds, 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 2.00 to 5.00 percent is payable semi-annually February 1 and August 1 of each year.

On June 5, 2012, the District issued the 2012 General Obligation Refunding Bonds, Series A, in the amount of \$16,160,000, to advance refund \$16,150,000 of the 2000 General Obligation Bonds, Series B. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide Statement of Net Assets. As of June 30, 2012, the principal balance outstanding was \$1,325,000.

1998 General Obligation Bonds, 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 3.00 to 5.00 percent is payable semi-annually February 1 and August 1 of each year.

On June 14, 2012, the District issued the 2012 General Obligation Refunding Bonds, Series B, in the amount of \$11,745,000, to advance refund \$7,995,000 of the 1998 General Obligation Bonds, Series B. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide Statement of Net Assets. As of June 30, 2012, the principal balance outstanding was \$640,000.

2004 General Obligation Refunding Bonds, Series A

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 3.00 to 5.00 percent is payable semi-annually February 1 and August 1 of each year.

On June 14, 2012, the District issued the 2012 General Obligation Refunding Bonds, Series B, in the amount of \$11,745,000, to advance refund \$3,665,000 of the 2004 General Obligation Refunding Bonds, Series A. As a result, the refunded portion of the debt obligation has been removed as a long-term obligation from the government-wide Statement of Net Assets. As of June 30, 2012, the principal balance outstanding was \$430,000.

2000 General Obligation Bonds, 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 3.00 to 4.75 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2012, the principal balance outstanding was \$17,770,000.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2007 General Obligation Refunding Bonds, Series A

In July 2007, the District received the proceeds of its 2007 Series A Refunding Bonds, which totaled \$13,265,000. Proceeds from the bonds were 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 percent to 5.00 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2012, the principal balance outstanding was \$11,620,000.

2007 General Obligation Refunding Bonds, Series B

In July 2007, the District received the proceeds of its 2007 Series B Refunding Bonds, which totaled \$23,650,000. Proceeds from the bonds were 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 percent is payable semi-annually February 1 and August 1 of each year. At June 30, 2012, the principal balance outstanding was \$21,605,000.

2010 General Obligation Bonds, Series A

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. At June 30, 2012, the outstanding principal balance was \$15,750,947.

2010 General Obligation Bonds, 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. At June 30, 2012, the outstanding principal balance was \$16,623,871.

2010 General Obligation Bonds, Series B

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. At June 30, 2012, the outstanding balance was \$9,200,000.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2010 General Obligation Bonds, Series C

On June 5, 2012, the District issued the 2010 Series C General Obligation Bonds in the amount of \$14,997,218 to finance the acquisition, construction, repair and equipping of high school District facilities and to pay issuance costs. The bonds have a final maturity to occur on August 1, 2045, with interest yields varying from 2.54 to 12.00 percent. At June 30, 2012, the principal balance outstanding was \$15,487,720.

2012 General Obligation Refunding Bonds, Series A

On June 5, 2012, the District issued the \$16,160,000 2012 General Obligation Refunding Bonds, Series A. The bonds have a final maturity that occurs August 1, 2045, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$17,456,830 from the issuance (issuance of \$16,160,000 net of premium received of \$1,524,209 and costs incurred on issuance of \$227,379) were used to advance refund a portion of the District's outstanding 2000 General Obligation Bonds, Series B, with the prepayment to occur on August 1, 2013. The refunding of debt resulted in a decrease in debt service payments of \$2,325,870. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new certificates) of \$1,458,981.

As of June 30, 2012, the principal balance outstanding on the defeased debt amounted to \$16,150,000 with amounts of \$17,756,830 as of June 30, 2012 held in escrow to fund the repayment. The advance refunding met the requirements of an in-substance defeasance and the associated assets and liability were removed from the District's financial statements. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$1,303,530 remain to be amortized using the straight-line method. At June 30, 2012, the principal balance outstanding on the 2012 General Obligation Refunding Bonds, Series A was \$16,160,000.

2012 General Obligation Refunding Bonds, Series B

On June 14, 2012, the District issued the \$11,745,000 2012 General Obligation Refunding Bonds, Series B. The bonds have a final maturity that occurs August 1, 2029, with interest rates from 2.00 to 5.00 percent. The net proceeds of \$12,555,475 from the issuance (issuance of \$11,745,000 net of premium received of \$1,021,592 and costs incurred on issuance of \$211,117) were used to advance refund a portion of the District's outstanding 1998 General Obligation Bonds, Series B and 2004 General Obligation Refunding Bonds, Series A, with the prepayment to occur on August 1, 2013. The refunding of debt resulted in a decrease in debt service payments of \$1,467,397. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new certificates) of \$1,127,431.

As of June 30, 2012, the principal balance outstanding on the defeased debt amounted to \$11,620,000 with amounts of \$12,555,475 as of June 30, 2012 held in escrow to fund the repayment. The advance refunding met the requirements of an in-substance defeasance and the associated assets and liability were removed from the District's financial statements. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Assets and are amortized to interest expense over the life of the liability. Deferred charges on refunding of \$933,182 remain to be amortized using the straight-line method. At June 30, 2012, the principal balance outstanding on the 2012 General Obligation Refunding Bonds, Series B was \$11,745,000.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

General Obligations Bonds

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding | Issued | Accreted | Redeemed | Bonds Outstanding |
|------------|---------------|---------------|----------------|-----------------------|----------------------|---------------------|----------------------|-----------------------|
| | | | | July 1, 2011 | | | | June 30, 2012 |
| 8/5/04 | 8/1/29 | 2.00-5.00% | \$ 21,000,000 | \$ 18,105,000 | \$ - | \$ - | \$ 16,780,000 | \$ 1,325,000 |
| 10/20/04 | 8/1/29 | 3.00-5.00% | 10,000,000 | 8,895,000 | - | - | 8,255,000 | 640,000 |
| 11/9/04 | 8/1/26 | 3.00-5.00% | 5,435,000 | 4,300,000 | - | - | 3,870,000 | 430,000 |
| 9/28/05 | 8/1/30 | 3.00-4.75% | 21,000,000 | 18,370,000 | - | - | 600,000 | 17,770,000 |
| 7/18/07 | 8/1/24 | 4.00-5.00% | 13,265,000 | 12,185,000 | - | - | 565,000 | 11,620,000 |
| 7/18/07 | 8/1/28 | 4.00-5.00% | 23,650,000 | 22,435,000 | - | - | 830,000 | 21,605,000 |
| 5/4/11 | 8/1/41 | 5.81-7.39% | 14,998,229 | 15,211,513 | - | 539,434 | - | 15,750,947 |
| 5/4/11 | 8/1/41 | 6.77-10.20% | 15,798,211 | 16,031,959 | - | 591,912 | - | 16,623,871 |
| 5/4/11 | 8/1/25 | 5.17-5.72% | 9,200,000 | 9,200,000 | - | - | - | 9,200,000 |
| 6/5/12 | 8/1/45 | 2.54-12.00% | 14,997,218 | - | 14,997,218 | 490,502 | - | 15,487,720 |
| 6/5/12 | 8/1/45 | 2.00-5.00% | 16,160,000 | - | 16,160,000 | - | - | 16,160,000 |
| 6/14/12 | 8/1/29 | 2.00-5.00% | 11,745,000 | - | 11,745,000 | - | - | 11,745,000 |
| | | | | <u>\$ 124,733,472</u> | <u>\$ 42,902,218</u> | <u>\$ 1,621,848</u> | <u>\$ 30,900,000</u> | <u>\$ 138,357,538</u> |

The bonds mature as follows:

| Fiscal Year | Principal Including Accreted Interest to Date | Accreted Interest to Maturity | Current Interest to Maturity | Total |
|-------------|---|-------------------------------|------------------------------|-----------------------|
| 2013 | \$ 3,840,000 | \$ - | \$ 3,528,807 | \$ 7,368,807 |
| 2014 | 3,745,000 | - | 3,804,668 | 7,549,668 |
| 2015 | 3,910,000 | - | 3,663,368 | 7,573,368 |
| 2016 | 3,790,000 | - | 3,522,365 | 7,312,365 |
| 2017 | 3,993,253 | 16,747 | 3,364,649 | 7,374,649 |
| 2018-2022 | 26,005,910 | 189,090 | 13,812,338 | 40,007,338 |
| 2023-2027 | 33,182,091 | 1,712,909 | 7,478,335 | 42,373,335 |
| 2028-2032 | 21,605,506 | 18,194,494 | 6,727,878 | 46,527,878 |
| 2033-2037 | 16,996,011 | 39,633,089 | 6,010,265 | 62,639,365 |
| 2038-2042 | 10,772,000 | 67,462,213 | 5,485,175 | 83,719,388 |
| 2043-2046 | 10,517,767 | 15,492,233 | 2,805,300 | 28,815,300 |
| Total | <u>\$ 138,357,538</u> | <u>\$ 142,700,775</u> | <u>\$ 60,203,148</u> | <u>\$ 341,261,461</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Capital Lease

The District has entered into an agreement to lease equipment. Such an agreement is, in substance, a purchase (capital lease) and is reported as a capital lease obligation. The District's liability on lease agreement with the option to purchase is summarized below:

| | |
|------------------------|-------------------|
| Balance, July 1, 2011 | \$ 197,176 |
| Payments | 49,294 |
| Balance, June 30, 2012 | <u>\$ 147,882</u> |

The capital lease has minimum lease payments as follows:

| Year Ending June 30, | Lease Payments |
|---|-------------------|
| 2013 | \$ 49,294 |
| 2014 | 49,294 |
| 2015 | 49,294 |
| Total | 147,882 |
| Less: Amount Representing Interest | 14,321 |
| Present Value of Minimum Lease Payments | <u>\$ 133,561</u> |

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$1,011,670.

Career Technical Education Facilities Loan

During 2011-2012 fiscal year, the District entered into an agreement with the State Allocation Board for a loan of \$1,442,158 for the purpose of financing a portion of the project costs of the Multimedia Arts and Design Academy Relocation Project at Santa Barbara High School. The loan has a final maturity of July 1, 2021, with an interest rate of 2.568 percent. At June 30, 2012, the principal balance outstanding was \$1,442,158.

Future payments are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2013 | \$ 128,324 | \$ 37,035 | \$ 165,359 |
| 2014 | 131,619 | 33,739 | 165,358 |
| 2015 | 134,999 | 30,359 | 165,358 |
| 2016 | 138,466 | 26,892 | 165,358 |
| 2017 | 142,022 | 23,337 | 165,359 |
| 2018-2022 | 766,728 | 60,067 | 826,795 |
| Total | <u>\$ 1,442,158</u> | <u>\$ 211,429</u> | <u>\$ 1,653,587</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$913,870, and contributions made by the District during the year were \$1,508,085. See Note 11 for additional information regarding the OPEB asset and the postemployment benefits plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

| | General Fund | Building Fund | County School Facilities Fund | Non-Major Governmental Funds | Total |
|---|---------------------|----------------------|-------------------------------|------------------------------|----------------------|
| Nonspendable | | | | | |
| Revolving cash | \$ 64,252 | \$ - | \$ - | \$ - | \$ 64,252 |
| Stores inventories | 35,740 | - | - | 52,567 | 88,307 |
| Prepaid expenditures | 168,544 | - | - | 5,491 | 174,035 |
| Total Nonspendable | 268,536 | - | - | 58,058 | 326,594 |
| Restricted | | | | | |
| Legally restricted programs | 1,675,056 | - | - | 342,615 | 2,017,671 |
| Capital projects | - | 35,153,193 | 2,276,523 | 1,791,183 | 39,220,899 |
| Debt services | - | - | - | 6,094,926 | 6,094,926 |
| Total Restricted | 1,675,056 | 35,153,193 | 2,276,523 | 8,228,724 | 47,333,496 |
| Assigned | | | | | |
| Deferred maintenance program | 2,234 | - | - | - | 2,234 |
| Special reserve fund for other than capital outlay projects | 23,653 | - | - | - | 23,653 |
| Capital projects | - | - | - | 343,055 | 343,055 |
| Other | 3,442,946 | - | - | 257,123 | 3,700,069 |
| Total Assigned | 3,468,833 | - | - | 600,178 | 4,069,011 |
| Unassigned | | | | | |
| Reserve for economic uncertainties | 3,556,190 | - | - | - | 3,556,190 |
| Remaining unassigned | - | - | - | (10,158) | (10,158) |
| Total Unassigned | 3,556,190 | - | - | (10,158) | 3,546,032 |
| Total | \$ 8,968,615 | \$ 35,153,193 | \$ 2,276,523 | \$ 8,876,802 | \$ 55,275,133 |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) ASSET

Plan Description

The Postemployment Benefits Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the Santa Barbara Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 463 retirees and beneficiaries currently receiving benefits, and 1,285 active Plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Santa Barbara Teachers' Association (SBTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the District contributed \$1,508,085 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 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 asset to the Plan:

| | |
|--|------------------------------|
| Annual required contribution | \$ 909,000 |
| Interest on net OPEB asset | (16,805) |
| Adjustment to annual required contribution | 21,675 |
| Annual OPEB cost (expense) | <u>913,870</u> |
| Contributions made | <u>(1,508,085)</u> |
| Increase in net OPEB asset | (594,215) |
| Net OPEB asset, beginning of year | (560,178) |
| Net OPEB asset, end of year | <u><u>\$ (1,154,393)</u></u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Employer Contribution | Percentage Contributed | Net OPEB Obligation (Asset) |
|------------------------|---------------------|---------------------------------|---------------------------|--------------------------------|
| 2010 | \$ 1,203,325 | \$ 1,173,043 | 97% | \$ 30,282 |
| 2011 | 927,000 | 1,517,460 | 164% | (560,178) |
| 2012 | 913,870 | 1,508,085 | 165% | (1,154,393) |

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|--------------------------------|----------------------------------|--|--------------------------------------|-------------------------|------------------------|--|
| July 1, 2009 | \$ - | \$ 13,616,000 | \$ 13,616,000 | 0% | \$ 83,100,670 | 16% |

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, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In the July 1, 2009, actuarial valuation, the entry age normal cost method was used. Currently, the District does not set aside assets in an irrevocable employee benefit trust. The assumptions include a three percent discount rate based on employer assets that are not restricted for other purposes and are expected to be used to finance benefit payments. Healthcare cost trend rates reflected an ultimate rate of five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2012, was 27 years.

NOTE 12 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following District major fund exceeded the budgeted amount in total as follows:

| | Expenditures and Other Uses | | |
|--------------|-----------------------------|-----------------------|---------------------|
| | Budget | Actual | Excess |
| General Fund | <u>\$ 119,797,649</u> | <u>\$ 121,445,985</u> | <u>\$ 1,648,336</u> |

Total actual expenditures include on-behalf payments of \$2,651,968.

NOTE 13 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During the fiscal year ending June 30, 2012, the District participated in the Self-Insured Schools of California II (SISC II) public entity risk pool for property and liability insurance coverage. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2012, the District participated in the Self-Insured Schools of California I (SISC I) public entity risk pool. The intent of SISC I is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in SISC I. The workers' compensation experience of the participating districts is calculated and applied to a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

Employee Medical Benefits

The District has contracted with the Self-Insured Schools of California III (SISC III) to provide employee health benefits. SISC III is a shared risk pool comprised of local educational agencies. Rates are set through an annual process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating members.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$4,940,780, \$5,035,449, and \$5,127,428, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under 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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,587,066, \$2,492,550, and \$2,124,605, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security as its alternative plan. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,651,968 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Operating Leases

The District is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. These leases, therefore, have not been accounted for as capital leases.

The following is a schedule, by years, for future minimum rental payments required under operating leases that have remaining non-cancelable lease terms in excess of one year, as of June 30, 2012.

| Year Ending June 30, | Lease Payment |
|-------------------------|-------------------|
| 2013 | \$ 265,949 |
| 2014 | 177,248 |
| 2015 | 163,549 |
| 2016 | 68,914 |
| 2017 | 33,871 |
| Total | <u>\$ 709,531</u> |

Rental expenditures for the year ended June 30, 2011 amounted to \$232,078.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

| CAPITAL PROJECT | Remaining Construction Commitment | Expected Date of Completion |
|---|---|-----------------------------------|
| Santa Barbara High School Kitchen Renovation | \$ 1,009,254 | 09/30/12 |
| San Marcos High School Gym Roof Replacement | 491,755 | 09/30/12 |
| Franklin Elementary School Locks and Keys | 10,829 | 09/30/12 |
| McKinley Elementary School Locks and Keys | 16,919 | 09/30/12 |
| Dos Pueblos High School Cafeteria Road Construction | 260,184 | 12/31/12 |
| Dos Pueblos High School Faculty Lot Asphalt | 318,823 | 12/31/12 |
| Dos Pueblos High School HVAC Replacement | 4,253,148 | 12/31/12 |
| Goleta Valley Jr. High School Wireless Access | 7,250 | 12/31/12 |
| La Colina Jr. High School Portable Replacement | 35,918 | 12/31/12 |
| La Colina Parking Lot Asphalt | 886,109 | 12/31/12 |
| La Colina Wireless Access | 29,647 | 12/31/12 |
| La Cuesta High School Wireless Internet | 5,590 | 12/31/12 |
| La Cumbre Jr. High School Wireless Access | 7,761 | 12/31/12 |
| San Marcos High School Classroom Additions | 2,551,009 | 12/31/12 |
| San Marcos High School Electrical Infrastructure | 64,499 | 12/31/12 |
| San Marcos High School Site Drainage | 31,933 | 12/31/12 |
| San Marcos High School Wireless Access | 320 | 12/31/12 |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Construction Commitments, Continued

| CAPITAL PROJECT | Remaining Construction Commitment | Expected Date of Completion |
|--|---|-----------------------------------|
| Santa Barbara Jr. High School Wireless Access | 18,703 | 12/31/12 |
| Adams Elementary School Asphalt Drainage | 701,354 | 12/31/12 |
| Adams Elementary School Wireless Access | 634 | 12/31/12 |
| Cleveland Elementary School Play Equipment | 162,151 | 12/31/12 |
| Cleveland Elementary School Playground Asphalt Replacement | 536,576 | 12/31/12 |
| Cleveland Elementary School Wireless Access | 12,736 | 12/31/12 |
| Franklin Elementary School Play Equipment | 184,961 | 12/31/12 |
| Harding Elementary School Fire Alarm Replacement | 3,456 | 12/31/12 |
| McKinley Elementary School Play Equipment | 132,334 | 12/31/12 |
| McKinley Elementary School Site Drainage Stabilization | 5,962 | 12/31/12 |
| McKinley Elementary School Wireless Access | 26,653 | 12/31/12 |
| Monroe Elementary School Wireless Access | 39,861 | 12/31/12 |
| Peabody Charter School Kindergarten Re-Roof | 135,299 | 12/31/12 |
| Peabody Charter School Wireless Access | 48,792 | 12/31/12 |
| Roosevelt Elementary School Marquee | 15,075 | 12/31/12 |
| Roosevelt Elementary School Wireless Access | 330 | 12/31/12 |
| Washington Elementary School Fire Alarm Replacement | 3,103 | 12/31/12 |
| Washington Elementary School Portable Classroom HVAC | 356,005 | 12/31/12 |
| Washington Elementary School Temporary Library Building | 70,200 | 12/31/12 |
| Washington Elementary School Wireless Access | 3,722 | 12/31/12 |
| Goleta Valley Jr. High School ICM Replacement | 7,736 | 03/30/13 |
| Santa Barbara High School Field House Modernization | 991 | 03/30/13 |
| Santa Barbara High School Gym Renovation | 34,096 | 03/30/13 |
| Santa Barbara High School Remaining ADA | 29,894 | 03/30/13 |
| Santa Barbara Jr. High School Science Modernization | 42,562 | 03/30/13 |
| Peabody Charter School Heating System Replacement | 87,000 | 03/30/13 |
| Peabody Charter School New Restroom | 199,415 | 03/30/13 |
| Washington Elementary School Library Replacement | 406,587 | 03/30/13 |
| Washington Elementary School Ramp | 146,362 | 03/30/13 |
| La Cumbre Jr. High School Theater Modernization | 237,588 | 06/30/13 |
| Adams Elementary School Library Replacement | 298,665 | 06/30/13 |
| Adelante Restroom Replacement | 25,548 | 06/30/13 |
| Harding Elementary School Kitchen Modernization | 69,197 | 06/30/13 |
| Harding Elementary School Restroom Modernization | 22,790 | 06/30/13 |
| Santa Barbara New Restroom and Fire Line | 112,974 | 06/30/13 |
| Total | <u>\$ 14,160,260</u> | |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Self-Insured Schools of California I (SISC I), Self-Insured Schools of California II (SISC II), and the Self-Insured Schools of California III (SISC III) public entity risk pools. The District pays an annual premium to the SISC I, SISC II, and SISC III, for workers' compensation, property and liability coverage and health benefits, respectively. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

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

During the year ended June 30, 2012, the District made payments of \$830,689, \$523,376, and \$14,790,509, to the Self-Insured Schools of California I (SISC I), Self-Insured Schools of California II (SISC II), and Self-Insured Schools of California III (SISC III), respectively for the services noted above.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$14,000,000 of Tax and Revenue Anticipation Notes dated July 1, 2012. The notes mature on June 2013, and yield 0.26 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2013, until 100 percent of principal and interest due is on account in May 2013.

NOTE 18 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA BARBARA UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

| | Budgeted Amounts | | Actual | Variances - |
|--|---------------------|---------------------|---------------------|--|
| | Original | Final | (GAAP Basis) | Positive (Negative) Final to Actual |
| REVENUES | | | | |
| Revenue limit sources | \$ 82,571,284 | \$ 82,992,199 | \$ 83,698,956 | \$ 706,757 |
| Federal sources | 6,501,181 | 9,421,229 | 8,851,251 | (569,978) |
| Other State sources | 17,910,313 | 16,968,311 | 19,895,682 | 2,927,371 |
| Other local sources | 7,086,437 | 7,021,968 | 9,139,646 | 2,117,678 |
| Total Revenues ¹ | 114,069,215 | 116,403,707 | 121,585,535 | 5,181,828 |
| EXPENDITURES | | | | |
| Current | | | | |
| Certificated salaries | 56,911,417 | 58,033,185 | 59,448,010 | (1,414,825) |
| Classified salaries | 19,429,531 | 20,699,845 | 21,040,147 | (340,302) |
| Employee benefits | 20,653,964 | 20,563,666 | 23,169,435 | (2,605,769) |
| Books and supplies | 3,331,004 | 6,598,261 | 5,009,465 | 1,588,796 |
| Services and operating expenditures | 13,108,169 | 14,073,550 | 12,738,068 | 1,335,482 |
| Capital outlay | 145,268 | 289,442 | 236,348 | 53,094 |
| Other outgo | (781,651) | (647,898) | (462,868) | (185,030) |
| Total Expenditures ¹ | 112,797,702 | 119,610,051 | 121,178,605 | (1,568,554) |
| Excess (Deficiency) of Revenues Over Expenditures | 1,271,513 | (3,206,344) | 406,930 | 3,613,274 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 208,000 | 520,100 | 60,100 | (460,000) |
| Transfers out | (472,942) | (187,598) | (267,380) | (79,782) |
| Net Financing Uses | (264,942) | 332,502 | (207,280) | (539,782) |
| NET CHANGE IN FUND BALANCES | 1,006,571 | (2,873,842) | 199,650 | 3,073,492 |
| Fund Balances - Beginning | 8,768,965 | 8,768,965 | 8,768,965 | - |
| Fund Balances - Ending | \$ 9,775,536 | \$ 5,895,123 | \$ 8,968,615 | \$ 3,073,492 |

¹ On behalf payments of \$2,651,968 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 14, Deferred Maintenance Fund have, for reporting purposes been consolidated into the General Fund, with additional revenues and expenditures pertaining to these other funds included in the Actual (GAAP Basis) revenues and expenditures, however they are not included in the original and final General Fund budgets.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)

FUNDING PROGRESS

FOR THE YEAR ENDED JUNE 30, 2012

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|--|--|--|---------------------------------|--------------------------------|--|
| July 1, 2007 | \$ - | \$ 10,766,000 | \$ 10,766,000 | 0% | \$ 76,055,000 | 14% |
| July 1, 2009 | - | 13,616,000 | 13,616,000 | 0% | 83,100,670 | 16% |

SUPPLEMENTARY INFORMATION

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|----------------|---|-------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Direct Awards: | | | |
| Elementary and Secondary School Counseling Demonstration | 84.215E | [1] | \$ 201,512 |
| Passed through California Department of Education (CDE): | | | |
| Title I, Part A Cluster: | | | |
| Title I, Part A - Basic Grants, Low Income and Neglected | 84.010 | 14981 | 2,371,186 |
| ARRA Title I, Part A - Basic Grants, Low Income and Neglected | 84.389 | 15005 | 130,437 |
| Subtotal for Title I, Part A Cluster | | | <u>2,501,623</u> |
| Title II, Part A - Improving Teacher Quality | 84.367 | 14341 | 587,375 |
| Title II, Part A - Principal Training | 84.367 | 14344 | 5,421 |
| Title III - Limited English Proficiency | 84.365 | 14346 | 487,314 |
| Title III - Immigrant Education Program | 84.365 | 15146 | 46,024 |
| Title IV, Part A - Safe and Drug-Free Schools | 84.186 | 14347 | 11,021 |
| Title V, Part A - Innovation Education Strategies | 84.298 | 14354 | 17,451 |
| Education Jobs Fund | 84.410 | 25152 | 315,737 |
| ARRA State Fiscal Stabilization Fund | 84.394 | 24997, 25008 | 725,333 |
| Vocational Education Grants | | | |
| Applied Technology - Secondary Education | 84.048 | 14894 | 113,320 |
| Passed through Santa Barbara County SELPA: | | | |
| Special Education Cluster (IDEA): | | | |
| Local Assistance | 84.027 | 13379 | 2,952,213 |
| ARRA Local Assistance | 84.391 | 15003 | 225,900 |
| Quality Assurance and Focused Monitoring | 84.027A | 13693 | 8,576 |
| Subtotal for Special Education Cluster (IDEA) | | | <u>3,186,689</u> |
| Passed through Department of Rehabilitation: | | | |
| Workability II, Transition Partnership | 84.158 | 10006 | 294,066 |
| Total U.S. Department of Education | | | <u>8,492,886</u> |

[1] Direct Award

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued FOR THE YEAR ENDED JUNE 30, 2012

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Program Expenditures |
|--|----------------|---|-------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through CDE: | | | |
| Child Nutrition Cluster: | | | |
| Basic Breakfast | 10.553 | 13525 | \$ 3,720 |
| Especially Needy Breakfast | 10.553 | 13526 | 885,008 |
| National School Lunch Program | 10.555 | 13524 | 2,313,409 |
| Meal Supplements | 10.555 | 13392 | 139,665 |
| Food Distribution | 10.555 | 13524 | 281,628 |
| Summer Food Program | 10.559 | 13004 | 139,626 |
| Subtotal for Child Nutrition Cluster | | | <u>3,763,056</u> |
| Child and Adult Care Food Program | 10.558 | 13529 | 145,534 |
| Total U.S. Department of Agriculture | | | <u>3,908,590</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through California Department of Health and Human Services: | | | |
| Medicaid Cluster: | | | |
| Medi-Cal Billing Option | 93.778 | 10013 | 104,901 |
| Medical Administrative Activities Program | 93.778 | 10060 | 367,129 |
| Subtotal for Medicaid Cluster | | | <u>472,030</u> |
| Passed through Community Action Commission: | | | |
| Head Start | 93.600 | 10016 | 268,024 |
| Passed through CDE: | | | |
| Child Development - Federal Child Care, Center Based | 93.596 | 13609 | 787,938 |
| Total U.S. Department of Health and Human Services | | | <u>1,527,992</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 13,929,468</u> |

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Santa Barbara Unified School District was unified July 1, 2011 and consists of an area comprising approximately 136.4 square miles. The District operates ten elementary schools, four junior high schools, three high schools, one continuation school, two charter schools, and two alternative schools. There were no boundary changes during the year.

GOVERNING BOARD

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|----------------------|----------------|---------------------|
| Susan Chistol Deacon | President | 2012 |
| Monique Limon | Vice President | 2014 |
| Annette Cordero | Member | 2012 |
| H. Edward Heron | Member | 2012 |
| Kate Parker | Member | 2014 |

ADMINISTRATION

| | |
|----------------------|---|
| David E. Cash, Ed.D. | Superintendent |
| Meg Jetté | Assistant Superintendent, Business Services |
| Robin Sawake | Associate Superintendent, Education |
| Margaret Christensen | Assistant Superintendent, Human Resources |

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

| | Final Report | |
|---------------------------|-------------------------|------------------|
| | Second Period Report | Annual Report |
| ELEMENTARY | | |
| Kindergarten | 641 | 642 |
| First through third | 1,810 | 1,808 |
| Fourth through sixth | 1,740 | 1,739 |
| Seventh and eighth | 2,814 | 2,807 |
| Home and hospital | 2 | 3 |
| Special education | 244 | 245 |
| Total Elementary | 7,251 | 7,244 |
| SECONDARY | | |
| Regular classes | 5,669 | 5,622 |
| Continuation education | 115 | 114 |
| Home and hospital | 13 | 18 |
| Special education | 230 | 226 |
| Total Secondary | 6,027 | 5,980 |
| Total K-12 | 13,278 | 13,224 |
| CHARTER SCHOOLS | | |
| Classroom-Based | | |
| Kindergarten | 23 | 23 |
| First through third | 111 | 112 |
| Fourth through sixth | 69 | 68 |
| Seventh and eighth | 22 | 21 |
| Total Classroom-Based | 225 | 224 |
| Non Classroom-Based | | |
| Kindergarten | 6 | 6 |
| First through third | 31 | 30 |
| Fourth through sixth | 29 | 29 |
| Seventh and eighth | 11 | 12 |
| Total Non Classroom-Based | 77 | 77 |
| Total Charter School | | |
| Kindergarten | 29 | 29 |
| First through third | 142 | 142 |
| Fourth through sixth | 98 | 97 |
| Seventh and eighth | 33 | 33 |
| Total Charter School | 302 | 301 |

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

| Grade Level | 1982-83 | Reduced 1982-83 | 1986-87 | Reduced 1986-87 | 2011-12 | Number of Days | | Status |
|---------------|-------------------|--------------------|------------------------|------------------------|-------------------|-------------------------|------------------------|----------|
| | Actual Minutes | Actual Minutes | Minutes Requirement | Minutes Requirement | Actual Minutes | Traditional Calendar | Multitrack Calendar | |
| Kindergarten | 35,000 | 32,667 | 36,000 | 33,600 | 40,800 | 180 | - | Complied |
| Grades 1 - 3 | 49,000 | 45,733 | 50,400 | 47,040 | | | | |
| Grade 1 | | | | | 51,420 | 180 | - | Complied |
| Grade 2 | | | | | 51,420 | 180 | - | Complied |
| Grade 3 | | | | | 51,420 | 180 | - | Complied |
| Grades 4 - 6 | 49,875 | 46,550 | 54,000 | 50,400 | | | | |
| Grade 4 | | | | | 54,450 | 180 | - | Complied |
| Grade 5 | | | | | 54,450 | 180 | - | Complied |
| Grade 6 | | | | | 54,450 | 180 | - | Complied |
| Grades 7 - 8 | 50,535 | 47,166 | 54,000 | 50,400 | | | | |
| Grade 7 | | | | | 55,080 | 180 | - | Complied |
| Grade 8 | | | | | 55,080 | 180 | - | Complied |
| Grades 9 - 12 | 65,200 | 60,853 | 64,800 | 60,480 | | | | |
| Grade 9 | | | | | 65,268 | 180 | - | Complied |
| Grade 10 | | | | | 65,268 | 180 | - | Complied |
| Grade 11 | | | | | 65,268 | 180 | - | Complied |
| Grade 12 | | | | | 65,268 | 180 | - | Complied |

CHARTER SCHOOLS

| Grade Level | 1982-83 | Reduced 1982-83 | 1986-87 | Reduced 1986-87 | 2011-12 | Number of Days | | Status |
|--------------|-------------------|--------------------|------------------------|------------------------|-------------------|-------------------------|------------------------|----------|
| | Actual Minutes | Actual Minutes | Minutes Requirement | Minutes Requirement | Actual Minutes | Traditional Calendar | Multitrack Calendar | |
| Kindergarten | - | - | 36,000 | 33,600 | 43,185 | 180 | - | Complied |
| Grades 1 - 3 | - | - | 50,400 | 47,040 | | | | |
| Grade 1 | | | | | 54,200 | 180 | - | Complied |
| Grade 2 | | | | | 54,200 | 180 | - | Complied |
| Grade 3 | | | | | 54,200 | 180 | - | Complied |
| Grades 4 - 6 | - | - | 54,000 | 50,400 | | | | |
| Grade 4 | | | | | 54,200 | 180 | - | Complied |
| Grade 5 | | | | | 54,200 | 180 | - | Complied |
| Grade 6 | | | | | 54,200 | 180 | - | Complied |
| Grades 7 - 8 | - | - | 54,000 | 50,400 | | | | |
| Grade 7 | | | | | 54,280 | 180 | - | Complied |
| Grade 8 | | | | | 54,280 | 180 | - | Complied |

Note: The minutes for 1982-83 are not available. The Charter Schools began operations in 1993-94 and do not have historical records of instructional minutes prior to that time.

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

| | (Budget) 2013 ¹ | 2012 | 2011 | 2010 |
|--|-------------------------------|----------------|----------------|----------------|
| GENERAL FUND | | | | |
| Revenues | \$ 108,285,784 | \$ 121,584,209 | \$ 116,221,402 | \$ 113,004,491 |
| Other sources | - | 60,100 | 725,000 | 12,627 |
| Total Revenues and Other Sources | 108,285,784 | 121,644,309 | 116,946,402 | 113,017,118 |
| Expenditures | 109,173,548 | 120,737,227 | 119,893,574 | 118,809,289 |
| Other uses and transfers out | 250,000 | 288,717 | 154,382 | 1,276,180 |
| Total Expenditures and Other Uses | 109,423,548 | 121,025,944 | 120,047,956 | 120,085,469 |
| INCREASE (DECREASE) IN FUND BALANCE | \$ (1,137,764) | \$ 618,365 | \$ (3,101,554) | \$ (7,068,351) |
| ENDING FUND BALANCE | \$ 7,804,964 | \$ 8,942,728 | \$ 8,324,363 | \$ 11,425,917 |
| AVAILABLE RESERVES ² | \$ 5,899,274 | \$ 3,556,190 | \$ 6,182,439 | \$ 10,439,012 |
| AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³ | 5.39% | 3.01% | 5.15% | 8.69% |
| LONG-TERM OBLIGATIONS | N/A | \$ 145,848,283 | \$ 126,768,551 | \$ 90,135,017 |
| K-12 AVERAGE DAILY ATTENDANCE AT P-2 | 13,179 | 13,278 | 13,223 | 13,476 |

The General Fund balance has decreased by \$2,483,189 over the past two years. The fiscal year 2012-2013 budget projects a further decrease of \$1,137,764 (12.7 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and further anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$55,713,266 over the past two years.

Average daily attendance has decreased by 198 over the past two years. An additional decline of 99 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ On behalf payments of \$2,651,968 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 14, Deferred Maintenance Fund have, for reporting purposes been consolidated into the General Fund, with additional revenues and expenditures pertaining to these other funds included in the Actual (GAAP Basis) revenues and expenditures.

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2012

| <u>Name of Charter School</u> | <u>Included in Audit Report</u> |
|---|-------------------------------------|
| Santa Barbara Elementary (Charter Number 6111603) | Yes |
| Santa Barbara Middle (Charter Number 6116297) | Yes |
| Adelante (Charter Number 6118202) | No |
| Peabody (Charter Number 6045918) | No |

See accompanying note to supplementary information.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2012

| | Charter School Fund | Child Development Fund | Cafeteria Fund |
|--|---------------------------|------------------------------|-------------------|
| ASSETS | | | |
| Deposits and investments | \$ 400,532 | \$ 398,211 | \$ 16,186 |
| Receivables | 122,255 | 309,590 | 636,357 |
| Due from other funds | 173,839 | 4,786 | 266,084 |
| Prepaid expenses | - | - | 5,491 |
| Stores inventories | - | - | 52,567 |
| Total Assets | \$ 696,626 | \$ 712,587 | \$ 976,685 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 30,089 | \$ 34,818 | \$ 16,628 |
| Due to other funds | 431,713 | 287,855 | 912,157 |
| Deferred revenue | - | 25,000 | - |
| Total Liabilities | 461,802 | 347,673 | 928,785 |
| Fund Balances: | | | |
| Nonspendable | - | - | 58,058 |
| Restricted | 10,631 | 331,984 | - |
| Committed | 224,193 | - | - |
| Assigned | - | 32,930 | - |
| Unassigned | - | - | (10,158) |
| Total Fund Balances | 234,824 | 364,914 | 47,900 |
| Total Liabilities and Fund Balances | \$ 696,626 | \$ 712,587 | \$ 976,685 |

See accompanying note to supplementary information.

| Capital Facilities Fund | Special Reserve For Capital Outlay Projects Fund | Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|--|---|--|---|
| \$ 1,808,405 | \$ 144,557 | \$ 6,085,311 | \$ 8,853,202 |
| 12,024 | 213,110 | 9,615 | 1,302,951 |
| - | - | - | 444,709 |
| - | - | - | 5,491 |
| - | - | - | 52,567 |
| <u>\$ 1,820,429</u> | <u>\$ 357,667</u> | <u>\$ 6,094,926</u> | <u>\$ 10,658,920</u> |
| | | | |
| \$ 29,246 | \$ 14,612 | \$ - | \$ 125,393 |
| - | - | - | 1,631,725 |
| - | - | - | 25,000 |
| <u>29,246</u> | <u>14,612</u> | <u>-</u> | <u>1,782,118</u> |
| | | | |
| - | - | - | 58,058 |
| 1,791,183 | - | 6,094,926 | 8,228,724 |
| - | - | - | 224,193 |
| - | 343,055 | - | 375,985 |
| - | - | - | (10,158) |
| <u>1,791,183</u> | <u>343,055</u> | <u>6,094,926</u> | <u>8,876,802</u> |
| | | | |
| <u>\$ 1,820,429</u> | <u>\$ 357,667</u> | <u>\$ 6,094,926</u> | <u>\$ 10,658,920</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2012

| | Charter School Fund | Child Development Fund | Cafeteria Fund |
|---|---------------------------|------------------------------|-------------------|
| REVENUES | | | |
| Revenue limit sources | \$ 1,541,249 | \$ - | \$ - |
| Federal sources | 36,212 | 1,055,962 | 3,908,588 |
| Other State sources | 322,047 | 2,754,373 | 300,415 |
| Other local sources | 99,734 | 638,389 | 1,358,622 |
| Total Revenues | 1,999,242 | 4,448,724 | 5,567,625 |
| EXPENDITURES | | | |
| Current | | | |
| Instruction | 1,252,529 | - | - |
| Instruction-related activities: | | | |
| School site administration | 233,050 | - | - |
| Pupil services: | | | |
| Food services | - | 87,019 | 6,080,753 |
| Administration: | | | |
| All other administration | 431,713 | 215,164 | - |
| Plant services | 47,800 | 48,068 | 79,977 |
| Facility acquisition and construction | 12,561 | - | 7,319 |
| Community services | 80,000 | 3,813,976 | - |
| Debt service | | | |
| Principal | - | - | 40,138 |
| Interest and other | - | - | 9,156 |
| Total Expenditures | 2,057,653 | 4,164,227 | 6,217,343 |
| Excess (Deficiency) of | | | |
| Revenues Over Expenditures | (58,411) | 284,497 | (649,718) |
| Other Financing Sources (Uses) | | | |
| Transfers in | 14,380 | - | 253,000 |
| Other sources - proceeds of refunding bonds | - | - | - |
| Other sources | - | - | - |
| Transfers out | - | - | (60,100) |
| Other uses - payment to refunded bond escrow agent | - | - | - |
| Net Financing Sources (Uses) | 14,380 | - | 192,900 |
| NET CHANGE IN FUND BALANCES | (44,031) | 284,497 | (456,818) |
| Fund Balances - Beginning | 278,855 | 80,417 | 504,718 |
| Fund Balances - Ending | \$ 234,824 | \$ 364,914 | \$ 47,900 |

See accompanying note to supplementary information.

| Capital Facilities Fund | Special Reserve For Capital Outlay Projects Fund | Bond Interest and Redemption Fund | Total Non-Major Governmental Funds |
|--|---|--|---|
| \$ - | \$ - | \$ - | \$ 1,541,249 |
| - | - | - | 5,000,762 |
| - | - | 35,606 | 3,412,441 |
| 797,847 | 604,334 | 7,097,575 | 10,596,501 |
| <u>797,847</u> | <u>604,334</u> | <u>7,133,181</u> | <u>20,550,953</u> |
| - | - | - | 1,252,529 |
| - | - | - | 233,050 |
| - | - | - | 6,167,772 |
| - | - | 438,496 | 1,085,373 |
| 47,592 | - | - | 223,437 |
| 339,057 | 3,337,095 | - | 3,696,032 |
| - | - | - | 3,893,976 |
| - | - | 3,130,000 | 3,170,138 |
| - | - | 4,141,109 | 4,150,265 |
| <u>386,649</u> | <u>3,337,095</u> | <u>7,709,605</u> | <u>23,872,572</u> |
| <u>411,198</u> | <u>(2,732,761)</u> | <u>(576,424)</u> | <u>(3,321,619)</u> |
| - | - | - | 267,380 |
| - | - | 27,905,000 | 27,905,000 |
| - | - | 2,546,950 | 2,546,950 |
| - | - | - | (60,100) |
| - | - | (30,012,305) | (30,012,305) |
| - | - | 439,645 | 646,925 |
| 411,198 | (2,732,761) | (136,779) | (2,674,694) |
| 1,379,985 | 3,075,816 | 6,231,705 | 11,551,496 |
| <u>\$ 1,791,183</u> | <u>\$ 343,055</u> | <u>\$ 6,094,926</u> | <u>\$ 8,876,802</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist of Medi-Cal Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Administrative Activities funds have been recorded in the current period as revenues that have not been expended as of June 30, 2012.

| | CFDA Number | Amount |
|---|----------------|----------------------|
| Total Federal Revenues From the Statement of Revenues, Expenditures, and Changes in Fund Balances: | | \$ 13,852,013 |
| Medi-Cal Billing Option | 93.778 | 185,719 |
| Medi-Cal Administrative Activities | 93.778 | (108,264) |
| Total Schedule of Expenditures of Federal Awards | | <u>\$ 13,929,468</u> |

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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 Charter Schools

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

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

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Santa Barbara Unified School District
Santa Barbara, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara Unified School District as of and for the year ended June 30, 2012, which collectively comprise Santa Barbara Unified School District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Santa Barbara Unified School District in a separate letter dated December 14, 2012.

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

VADIRSK TIRAS, Day + Co. CP

Rancho Cucamonga, California
December 14, 2012



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

Governing Board
Santa Barbara Unified School District
Santa Barbara, California

Compliance

We have audited Santa Barbara Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Santa Barbara Unified School District's major Federal programs for the year ended June 30, 2012. Santa Barbara Unified 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 Unified School District's management. Our responsibility is to express an opinion on Santa Barbara Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Santa Barbara Unified School District's compliance with those requirements.

In our opinion, Santa Barbara Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Santa Barbara Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Santa Barbara Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Santa Barbara Unified School District's internal control over compliance.

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

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

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

VADZANSK TIZNE, Day + Co. LLP

Rancho Cucamonga, California
December 14, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Santa Barbara Unified School District
Santa Barbara, California

We have audited Santa Barbara Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* applicable to Santa Barbara Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Santa Barbara Unified School District's management. Our responsibility is to express an opinion on Santa Barbara Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Santa Barbara Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Santa Barbara Unified School District's compliance with those requirements.

In our opinion, Santa Barbara Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Santa Barbara Unified School District's compliance with the State laws and regulations applicable to the following items:

| | Procedures in Audit Guide | Procedures Performed |
|--|------------------------------|-------------------------|
| Attendance Accounting: | | |
| Attendance reporting | 6 | Yes |
| Teacher Certification and Misassignments | 3 | Yes |
| Kindergarten continuance | 3 | Yes |
| Independent study | 23 | Yes |
| Continuation education | 10 | Yes |

| | <u>Procedures in Audit Guide</u> | <u>Procedures Performed</u> |
|---|--------------------------------------|---------------------------------|
| Instructional Time: | | |
| School districts | 6 | Yes |
| County offices of education | 3 | Not applicable |
| Instructional Materials: | | |
| General requirements | 8 | Yes |
| Ratios of Administrative Employees to Teachers | 1 | Yes |
| Classroom Teacher Salaries | 1 | Yes |
| Early Retirement Incentive | 4 | Not applicable |
| Gann Limit Calculation | 1 | Yes |
| School Accountability Report Card | 3 | Yes |
| Public Hearing Requirement - Receipt of Funds | 1 | Yes |
| Juvenile Court Schools | 8 | Not applicable |
| Exclusion of Pupils - Pertussis Immunization | 2 | Yes |
| Class Size Reduction Program (including in charter schools): | | |
| General requirements | 7 | Yes |
| Option one classes | 3 | Yes |
| Option two classes | 4 | Not applicable |
| Districts or charter schools with only one school serving K-3 | 4 | Not applicable |
| After School Education and Safety Program: | | |
| General requirements | 4 | Yes |
| After school | 5 | Yes |
| Before school | 6 | Not applicable |
| Charter Schools: | | |
| Contemporaneous records of attendance | 3 | Yes |
| Mode of instruction | 1 | Yes |
| Non classroom-based instruction/independent study | 15 | Yes |
| Determination of funding for non classroom-based instruction | 3 | Yes |
| Annual instruction minutes classroom based | 4 | Yes |

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

VADINSKY TRINE, Day + Co. LLP

Rancho Cucamonga, California
December 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

| | |
|---|----------------------|
| Type of auditors' report issued: | <u>Unqualified</u> |
| Internal control over financial reporting: | |
| Material weakness identified? | <u>No</u> |
| Significant deficiency identified? | <u>None reported</u> |
| Noncompliance material to financial statements noted? | <u>No</u> |

FEDERAL AWARDS

| | |
|--|----------------------|
| Internal control over major programs: | |
| Material weakness identified? | <u>No</u> |
| Significant deficiency identified? | <u>None reported</u> |
| Type of auditors' report issued on compliance for major programs: | <u>Unqualified</u> |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? | <u>No</u> |
| Identification of major programs: | |

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| <u>84.365</u> | <u>Title III - Limited English Proficiency</u> |
| <u>84.365</u> | <u>Title III - Immigrant Education Program</u> |
| <u>84.394</u> | <u>ARRA State Fiscal Stabilization Fund</u> |
| <u>84.027, 84.027A, 84.391 (ARRA)</u> | <u>Special Education Cluster (IDEA) - (includes ARRA)</u> |
| <u>10.553, 10.555, 10.559</u> | <u>Child Nutrition Cluster</u> |

| | |
|--|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 417,884</u> |
| Auditee qualified as low-risk auditee? | <u>Yes</u> |

STATE AWARDS

| | |
|---|--|
| Type of auditors' report issued on compliance for programs: | <u>Unqualified</u> |
| Unqualified for all programs except for the following programs which were qualified: | |
| | <u>Name of Program</u> |
| | <u>After School Education and Safety Program</u> |

SANTA BARBARA UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

The following finding represents instances of noncompliance and/or questioned costs relating to State program laws and regulations. The finding has been coded as follows:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Type</u> |
|------------------------|-----------------------------|
| 40000 | State Compliance |

2012-1 40000

After School Education and Safety Program – Attendance and Reporting

Criteria or Specific Requirements

According to *Education Code* Section 8483(a)(2), elementary school pupils are to participate in the full day of the program every day during which pupils participate and pupils in middle or junior high schools are to attend the after school program a minimum of nine hours a week and three days a week, except as consistent with the established early release policy. Adequate documentation that supports attendance participation must be maintained by each site that documents that students are attending the program as consistent with the early release policy.

Condition

There appears to be some instances in which the total number of students reported on the monthly summaries does not agree to the total number of students served on the manual rosters. During review of manual rosters, it was noted that there were students that were absent on the manual rosters which was counted in the monthly summaries. As a result, the total number of students served reported to the California Department of Education for the second half attendance report was overstated by eight.

Questioned Costs

There is no questioned cost component to the condition identified.

Context

The condition identified was determined through review of attendance records from three of the seven sites that operate the after school program. Manual sign out rosters were reviewed for each child's sign out time, in order to determine daily participation. Auditor reviewed manual sign out rosters for the month of March 2012. Of the three sites reviewed, we determine the total number of students reported to the California Department of Education did not agree to the supporting documentation for two sites, Adams Elementary School and McKinley Elementary School.

Effect

As a result of our testing, it appears the number of students served reported to the California Department of Education was overstated by eight.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

Cause

It appears that the condition identified has materialized as a result of the site not following up to ensure total number of students participated from the manual rosters agree to the monthly summaries and to the attendance report that is submitted to the State.

Recommendation

The District should ensure adequate review has taken place on the attendance reports prior to submission to the California Department of Education. The total number of students served in the manual rosters should reconcile to the total number of students reported on the attendance report.

Corrective Action Plan

The prior procedure used by the A-OK Office for entering child days of attendance was a copy and paste procedure for new students. This procedure is no longer used. Eight days overstated did not affect our reimbursement and was reported immediately and corrected with the California Department of Education/After School Program Office. There is a monthly department audit by a second staff person to reconcile the attendance sheets with the spreadsheet.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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

Financial Statement Findings

2011-1 30000

Associated Student Body Controls - Goleta Valley Junior High School ASB

Criteria or Specific Requirements

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 test samples of cash receipts at each school, looking for the largest sources of revenue. We trace transactions from their inception to the deposit in the bank, ensuring that a complete audit trail exists. We also test the cash disbursement process to determine whether ASB funds are properly authorized and spent according to appropriate District guidelines for use of student funds.

Condition

- A W9 form for an independent contractor was not obtained by the ASB.
- Bank deposits are not timely. Per inquiry with ASB bookkeeper, club advisors/teachers will hold on to money for activities until the club advisor/teacher feels there is enough to deposit.
- Cash receipts system is not adequate. Seven out of ten items tested did not contain proper supporting documentation, such as ticket logs, pre-numbered cash receipts, inventory listing, etc.

Cause

District procedures are not being properly followed.

Effect

An inadequate system of internal control could lead to fraud or abuse within the ASB.

Perspective

Inquiry of ASB bookkeeper and samples of cash receipts and disbursements.

Recommendation

We recommend the District office train the site on proper cash receipting and disbursements procedures and backup. The District should also conduct audits to ensure the site is following procedures.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Current Status

Not implemented, see current year management comments.

2011-2 30000

Personnel and Payroll

Criteria or Specific Requirements

There should be a strong internal control environment surrounding the payroll department and its processes.

Condition

The District has made a concerted effort- to improve the internal control environment surrounding payroll. The District hired a new Payroll Coordinator to oversee the department, engaged FCMAT to conduct a study of the department, and has already implemented several of the recommendations from the prior year audit as well as the FCMAT study. Through inquiry, we did note items that still represent internal control weaknesses:

- Hourly employees and employees working overtime complete and submit a paper time card to their supervisor at the end of each month. The supervisor approves and a form is then submitted to the payroll department for processing. However, some sites /departments are not attaching copies of the original time sheets to the summary report. It is therefore impossible for the payroll department to verify that the hours worked and overtime hours reported are accurate.
- Substitute time is not reconciled to the leave record of the person they are substituting for to verify authenticity of time reported.

Cause

Internal control weaknesses within the payroll department.

Effect

An inadequate system of internal control could lead to fraud or abuse within the payroll department.

Perspective

Inquiry of Payroll Coordinator and testing of sample of payroll transactions.

Recommendation

We recommend that all sites/departments attach copies of original time sheets when submitting to the Payroll Department. We also recommend that substitute time is reconciled to the leave record of the person they are substituting for to verify authenticity of time reported.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Current Status

Not implemented, see current year management comment.

2011-3 30000

Credit Card Authorizations and Travel Policy

Criteria or Specific Requirements

The travel policy that has been approved by the Board and the District should be followed.

Condition

Through inquiry and inspection of supporting documentation for credit card purchases, it was determined that board approval was not always obtained or verified prior to purchase as is required for travel expenses over \$500. Specifically, a trip to Toronto was not board approved.

Cause

The approved travel policy is not being followed.

Effect

Unapproved travel being paid by the District.

Perspective

Inquiry of Management and testing of ample of credit card transactions.

Recommendation

We recommend that sites and purchasing adhere to the travel policy that has been approved by the Board and the District.

Current Status

Implemented.

2011-4 30000

Reconciliation of Inventory

Criteria or Specific Requirements

The Inventory should be reconciled from the general ledger to the stock status report to ensure that the balance reflects what is actually on hand.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Condition

Inventory was not reconciled from the general ledger to the stock status report causing an overstatement of the year-end balance. The financial statements were adjusted to reflect the correct amount.

Cause

Inventory balance not properly reconciled.

Effect

Misstatement of inventory balances.

Perspective

Review of the June 30, 2011 inventory balances.

Recommendation

We recommend that internal controls be implemented so that the general ledger is reconciled to the stock status report on a regular basis.

Current Status

Implemented.

Federal Awards Findings

2011-5 50000

Personnel Time Accounting for Federal Programs

Federal Program Information

U.S. Department of Education: Passed through California Department of Education (CDE) - Special Education (IDEA) Cluster including ARRA - Basic Local Assistance, Part B - CFDA #84.027, ARRA - IDEA Part B, Preschool Local Entitlement - CFDA #84.391, ARRA - IDEA Part B, Basic Local Assistance - CFDA #84.391, and ARRA -IDEA Part B, Preschool Grants - CFDA #84.392.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Criteria or Specific Requirements

OMB Circular A-87, *Cost Principles for Local, State and Indian Tribe Governments*, requires an accounting for personnel time on multi-funded positions by the time spent on each program and to semiannually certify positions charged 100 percent to Federal programs. The California Department of Education has issued an advisory dated August 28, 1997 that further expands on the requirements as related to school district agencies.

Condition

The District did not provide time certification documents under OMB Circular A-87, *Cost Principles for Local, State and Indian Tribe Governments*, which requires an accounting of personnel time for individuals charged 100 percent to the Federal programs noted above.

Questioned costs

\$1,139,883 was charged to Basic Local Assistance, Part B - CFDA #84.027
\$103,179 was charged to ARRA - IDEA Part B, Basic Local Assistance - CFDA #84.391
\$63,444 was charged to ARRA - IDEA Part B, Preschool Grants - CFDA #84.392
\$156,914 was charged to ARRA - IDEA Part B, Preschool Local Entitlement - CFDA #84.391.
However, the charges appear otherwise appropriate - based on our review of personnel records on program assignments.

Context

All employees tested.

Cause

Management not monitoring the time certifications used to account for salaries charged to Federal programs.

Effect

Non-compliance with Federal documentation regulation.

Recommendation

We recommend the District follow OMB Circular A-87 and CSAM Procedure 905 to prepare semi-annual certification for those charged to a "single cost objective." The certifications may be signed by the employee or their immediate supervisor. The District should also determine if any after-the-fact adjustments are needed to correct 2010-2011 expenditures for time not worked on each program.

Current Status

Implemented.



Governing Board
Santa Barbara Unified School District
Santa Barbara, California

In planning and performing our audit of the financial statements of Santa Barbara Unified School District (the District) for the year ended June 30, 2012, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 14, 2012, on the financial statements of Santa Barbara Unified School District.

INTERNAL CONTROLS

Clearing Account

Observation

The District did not reconcile their payroll clearing bank account on a monthly basis, but instead the District did a reconciliation that covers a four month period (February to June). Bank reconciliations should be done on a monthly basis to ensure that all outstanding checks are being voided after six months of being written and that all deposits are clearing the bank in a timely manner. Also monthly bank reconciliations, with independent review and proper segregation of duties, allow the District to identify any suspicious activity in a timely manner.

Recommendation

It is recommended that the District perform a monthly bank reconciliation of its payroll clearing account to ensure that deposits are made in a timely manner and that outstanding checks are being voided after six months of being written. Also by performing monthly bank reconciliations, it will ensure that any suspicious activity is identified and investigated within a reasonable amount of time.

District Clearing Account

Observation

The District does not assign and distribute receipt books to the sites that collect cash. In addition, copies of site receipts are not forwarded along with "Site Deposit Transfer Slips" and monies sent to the District for deposit. Although the "Site Deposit Transfer Slip" indicates the amount of deposit, the District should reconcile site receipts to the monies forwarded to ensure monies are intact. Finally, the District does not maintain a log that would allow them to monitor the sequential numbering of receipts from each site. This also would allow the District to ensure the completeness of monies sent.

Recommendation

The District should consider strengthening controls over the completeness of site receipts by issuing triplicate, pre-numbered receipt books to all sites and departments where cash and other monies are collected. The District could then monitor the sequence of receipts forwarded from the sites and department to ensure there are no gaps in the receipts forwarded and no gaps between the last receipt in the previous deposit sent and the first receipt in the current deposit received. This may be done by using a log for each site and department that submits deposits that indicates the date monies were received, the receipt numbers included in deposit, and the amount of deposit.

Payroll – Timecards

Observation

Based on testing performed, the sites are not required to forward individual timecards to the District. Currently, the sites collect all of the timecards, but only forwards the District a summary prepared from the timecards.

Recommendation

The District should consider having the site forward the individual timecards along with the summary. This will allow the District to verify the hours worked and make sure that all hours reported are complete and accurate.

Observation

Based on testing performed, the District does not reconcile substitute timecards to vacation and/or sick time reported by the regular employees they are substituting for. Also, the sites and departments are not required to send the "absence forms" to the District.

Recommendation

The District should be reconciling the substitute's timecard to the regular employee's sick and vacation time they substituted for to make sure the correct amount of sick and/or vacation times was accounted for. This will allow the District to make sure that sick and/or vacation time is being used appropriately and that employees are not being paid for time they did not work.

ASSOCIATED STUDENT BODY

Santa Barbara Junior High School

Observations

1. During our review of the ASB procedures over cash receipts, we noted three receipts totaling \$21,013 were not deposited in a timely manner. The number of days between the receipt date and deposit date was 21 days.
2. Bank reconciliations are not reviewed by personnel independent of the receipting function.
3. Seven of 16 disbursements tested did not have receiving documentation. In addition, one of these disbursements did not have an invoice.
4. Six of 16 disbursements reviewed appeared to be questionable ASB expenditures.
5. Revenue potentials are not fully completed for fundraising events.
6. Tickets are not used for except for performing arts events. However, a ticket roll or ticket log could not be provided during the audit.

Recommendations

1. Deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should communicate guidelines for such a procedure including the maximum cash on hand that should be maintained at the site. In addition, the site should ensure that procedures include depositing all remaining cash on hand before leaving for the winter and summer breaks.
2. Since the Associated Student Body bookkeeper is performing all accounting functions such as recording transactions, receipting deposits, making bank deposits, and reconciling the account. Control procedures should be in place to ensure that bank reconciliations are performed on time and accurately, and that appropriate separation of duties exists. These procedures should include a vice-principal or principal reviewing and signing the monthly bank reconciliations.
3. The site should maintain proper documentation for expenditures including invoices. ASB should ensure that all disbursement requests are supported by adequate invoices prior to the checks being issued. This will help identify and prevent potential misappropriation of ASB funds. In addition, all expenditures for goods should indicate whether the items purchases have been received. This can be noted with a stamp, signature, packing slip, etc. This reduces the risk of items being paid for but not received.
4. In order to ensure all disbursements are appropriate for the ASB, the District should notify the site of allowable and prohibited expenses for the student body. Generally, disbursements that are considered a district responsibility are not an allowable ASB expenditure.
5. Revenue potentials must be completed for each fundraiser. This includes the expected profit and loss section associated with the fundraisers. This will help identify any significant differences between anticipated profits and actual profits and losses and possible potential misappropriation of ASB funds. Analysis of actual profit and loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.

6. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. The site should log all ticket roll inventory, even if the rolls are not in use. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the event. A ticket sales report should be completed for every ticketed event. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections.

Dos Pueblos High School

Observations

During our audit of the ASB's internal controls, we noted the following issues:

1. Perpetual inventory is not maintained for items sold at the student store.
2. Currently, the site does not track the items sold from the student store. In addition, a daily sales recap is not prepared. As a result, a reconciliation between the items sold and cash collected is also not prepared.
3. Although the site uses the Blue Bear track system to receipt monies collected, we noted instances where it appeared that receipts were not issued in sequential order. In addition, monies were consistently deposited in a timely manner. This resulted in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.
4. Approval of disbursements is not noted in the minutes of the Student Council meetings.
5. For the ticket sales recap forms reviewed, the beginning and the ending ticket numbers did not agree to the master ticket log. In addition, the auditor noted one ticket roll's ending ticket number was not included in the master ticket log. One of the two ticket sales recap tested did not document reasons for overages/shortages.
6. Five of 16 disbursement reviewed were missing a purchase request form which has the three signatures pursuant to California *Education Code* Section 48933.
7. Revenue potentials are not completed for fundraising events.

Recommendations

1. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count at least once a year. The site should also reconcile the physical inventory count to a perpetual inventory. A perpetual inventory tracks beginning inventory, purchases and other additions to inventory and total number of items sold based on daily sales and receipts. The site should also establish a procedure to investigate any significant differences noted between the actual physical inventory counts and the perpetual inventory count. This information is necessary to analyze sales activity and applicable profit or loss and to determine if merchandise has been lost or stolen.

2. The student store can issue physical receipts for items purchased or generate a tally sheet of all items sold at the student store to tally total sales of items as they are being sold. A daily sales recap should then be prepared where the items sold are reconciled to the cash collected to determine if monies are deposited intact.
3. The District should investigate and determine why receipts were not issued in sequential order to help ensure all monies collected are deposited intact and in a timely manner. Deposits should, at a minimum, be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.
4. The minutes taken and filed should include details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures.
5. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. The site should log all ticket roll inventory, even if the rolls are not in use. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the event.
6. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases. In addition, pursuant to California *Education Code* Section 48933, three signatures are required on all disbursements from a student body account.
7. Revenue potentials must be completed for each fundraiser. This includes the expected profit and loss section associated with the fundraisers. This will help identify any significant differences between anticipated profits and actual profits and losses and possible potential misappropriation of ASB funds. Analysis of actual profit and loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.

Santa Barbara High School

Observations

1. Five of 37 disbursements tested did not have a purchase request form.
2. Six of 37 disbursements tested did not have receiving documentation.
3. Twenty-seven of 37 disbursements tested were not preapproved in the minutes.
4. Thirteen of the 37 disbursements reviewed appeared to be questionable ASB expenditures.
5. Revenue potentials are not completed for fundraising events.
6. The site does not maintain a master ticket log. In addition, ticket sales recaps do not list the color of tickets used for events or document explanations for any overages or shortages.
7. Bank reconciliations are not being performed on a monthly basis. Bank reconciliations have not been completed since October 2011.

Recommendations

1. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases. In addition, pursuant to California *Education Code* Section 48933, three signatures are required on all disbursements from a student body account.
2. All expenditures for goods should indicate whether the items purchases have been received. This can be noted with a stamp, signature, packing slip, etc. This reduces the risk of items being paid for but not received.
3. In order to ensure proper internal controls over the ASB disbursements, the site should make certain that all disbursement transactions are pre-approved by ASB in the ASB minutes and authorized administrative personnel. This would allow ASB and the reviewing administrator to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or purchases. In order to ensure all disbursements are appropriate for the ASB, the District should notify the site of allowable and prohibited expenses for the student body. Generally, disbursements that are considered a district responsibility are not an allowable ASB expenditure.
4. Revenue potentials must be completed for each fundraiser. This includes the expected profit and loss section associated with the fundraisers. This will help identify any significant differences between anticipated profits and actual profits and losses and possible potential misappropriation of ASB funds. Analysis of actual profit and loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.
5. A master ticket log should be maintained, which notes the type of ticket, color, and beginning and ending ticket number in the roll. Site should log all ticket roll inventory, even if the rolls are not in use. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the ending ticket number should be recorded in the master ticket log and the form should be reconciled to the log. An explanation of any overages/shortages must be documented on the form. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the event.
6. Monthly bank reconciliation's must be done in order to ensure that the cash balance reported on the general ledger is accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal. Differences between these two amounts could be caused by mispostings to the student body accounts.

We will review the status of the current year observations during our next audit engagement.

VADINERX TIRINE, Day + Co. LLP

Rancho Cucamonga, California
December 14, 2012