



December 14, 2012

Santa Barbara Unified School District
Governing Board and
Citizens' Oversight Committee
Santa Barbara, California

We have audited the financial statements of the Building fund (Measure R) of Santa Barbara Unified School District for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Santa Barbara Unified School District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimate(s) affecting the Building fund financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements of the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2012

Management Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Santa Barbara Unified School District Citizens' Oversight Committee and management of Santa Barbara Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

VAJIRANSE TIRINE, Day + Co. LLP

Rancho Cucamonga, California
December 14, 2012

SANTA BARBARA UNIFIED SCHOOL DISTRICT

**2010 GENERAL OBLIGATION BONDS
MEASURE R
FINANCIAL AND PERFORMANCE AUDITS**

JUNE 30, 2012

SANTA BARBARA UNIFIED SCHOOL DISTRICT

**2010 GENERAL OBLIGATION BONDS
MEASURE R
FINANCIAL AUDIT**

JUNE 30, 2012

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

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JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

Governing Board and
Citizens' Oversight Committee
Santa Barbara Unified School District
Santa Barbara, California

We have audited the accompanying financial statements of the Santa Barbara Unified School District (the District), Building Fund (Measure R), as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure R and are not intended to present fairly the financial position and results of operations of the Santa Barbara Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Building Fund (Measure R) of the Santa Barbara Unified School District at June 30, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, on our consideration of the District Building Fund's (Measure R) 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.

VAVRINEK, TRINE, DAY & CO., LLP

Rancho Cucamonga, California
December 14, 2012

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**BALANCE SHEET
JUNE 30, 2012**

ASSETS

Deposits and investments	\$ 10,644,537
Accounts receivable	<u>20,771</u>
Total Assets	<u><u>\$ 10,665,308</u></u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	<u>\$ 682,547</u>
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FUND BALANCES

Restricted	
Capital projects funds	<u>9,982,761</u>
Total Liabilities and Fund Balances	<u><u>\$ 10,665,308</u></u>

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

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUES

Interest income	\$ 82,066
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EXPENDITURES

Salaries and benefits	234,923
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Services

Noncapitalized equipment	1,172
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Contracted services	4,888
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Capital outlay

Landscaping/irrigation	65,279
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Architects fees	793,784
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Other construction costs	349,885
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Building construction/improvement	1,092,838
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DSA/Plan check fees	23,724
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Construction testing	62,455
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Equipment/furniture	1,044,263
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Total Expenditures

3,673,211

NET CHANGE IN FUND BALANCE

(3,591,145)

FUND BALANCE - BEGINNING

13,573,906

FUND BALANCE - ENDING

\$ 9,982,761

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

SANTA BARBARA UNIFIED SCHOOL DISTRICT BUILDING FUND (MEASURE R)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Santa Barbara Unified School District Building Fund (Measure R) conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA). The Santa Barbara Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The financial statements include only the Building Fund of the Santa Barbara Unified School District used to account for Measure R projects. This Fund was established to account for the expenditures of general obligation bonds issued under the General Obligation Bonds Election of 2010. These financial statements are not intended to present fairly the financial position and results of operations of the Santa Barbara Unified School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Building Fund (Measure R) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Building Fund (Measure R) is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

SANTA BARBARA UNIFIED SCHOOL DISTRICT BUILDING FUND (MEASURE R)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Fund Balance - Building Fund (Measure R)

As of June 30, 2012, the fund balance is classified as follows:

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.

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.

Use of Estimates

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

NOTE 2 - INVESTMENTS

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 instrument; 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 agreement; 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 BUILDING FUND (MEASURE R)

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 statement at amounts based upon the District's pro-rata share of the fairly 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 is 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 District maintains a Building Fund (Measure R) investment of \$10,644,537 with the Santa Barbara County Investment Pool. The fair value of this investment is approximately \$10,662,348 with an average maturity of 705 days.

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - ACCOUNTS RECEIVABLE

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

Interest	<u><u>\$ 20,771</u></u>
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NOTE 4 - ACCOUNTS PAYABLE

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

Capital outlay	<u><u>\$ 682,547</u></u>
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**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2012, the Building Fund (Measure R) had the following commitments with respect to unfinished capital projects:

Measure R Projects	Remaining Construction Commitment	Expected Date of Completion
Adams Elementary School Asphalt Drainage	\$ 701,354	12/31/12
Adams Elementary School Library Replacement	298,665	06/30/13
Adams Elementary School Wireless Access	634	12/31/12
Adelante Charter School Restroom Replacement	25,548	06/30/13
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 Locks and Keys	10,829	09/30/12
Franklin Elementary School Play Equipment	184,961	12/31/12
Harding Elementary School Fire Alarm Replacement	3,456	12/31/12
Harding Elementary School Kitchen Modernization	69,197	06/30/13
Harding Elementary School Restroom Modernization	22,790	06/30/13
McKinley Elementary School Locks and Keys	16,919	09/30/12
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 Heating System Replacement	87,000	03/30/13
Peabody Charter School Kindergarten Re-Roof	135,299	12/31/12
Peabody Charter School New Restroom	199,415	03/30/13
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
Santa Barbara Community Academy School New Restroom and Fire Line	112,974	06/30/13
Washington Elementary School Fire Alarm Replacement	3,103	12/31/12
Washington Elementary School Library Replacement	406,587	03/30/13
Washington Elementary School Portable Classroom HVAC	356,005	12/31/12
Washington Elementary School Ramp	146,362	03/30/13
Washington Elementary School Temporary Library Building	70,200	12/31/12
Washington Elementary School Wireless Access	3,722	12/31/12
	<u>\$ 3,835,490</u>	

Litigation

The District is not currently a party to any legal proceedings, relating to Measure R.

INDEPENDENT AUDITORS' REPORT



**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 and
Citizens' Oversight Committee
Santa Barbara Unified School District
Santa Barbara, California

We have audited the accompanying financial statements of the Santa Barbara Unified School District (the District), Building Fund (Measure R), as of and for the year ended June 30, 2012, 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 Note 1, the financial statements present only the Building Fund specific to Measure R and are not intended to present fairly the financial position and results of operations of Santa Barbara Unified School District in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of the District's Building Fund (Measure R) 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 Building Fund (Measure R) 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 Building Fund (Measure R) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Santa Barbara Unified School District's Building Fund (Measure R) 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 Building Fund (Measure R) 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*.

This report is intended solely for the information and use of the governing board, management, the Measure R's Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than these specified parties.

VADZINSKY, TIRRE, Day & Co. CP

Rancho Cucamonga, California
December 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**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 Code

EXPENDITURES

Finding

Not all expenditures out of the Measure R fund are supported by a purchase order. Of those expenditures which do have a purchase order, the purchase order or alternative approval was not consistently in place in advance of the invoice date. The preapproval/encumbrance documentation was missed due to insufficient communication between the building program and the business office regarding work to be performed. Not all expenditures out of the Measure R funds were properly preapproved/encumbered.

Recommendation

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

Current Status

Implemented.

SANTA BARBARA UNIFIED SCHOOL DISTRICT

**2010 GENERAL OBLIGATION BONDS
MEASURE R
PERFORMANCE AUDIT**

JUNE 30, 2012

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
2010 GENERAL OBLIGATION BONDS
MEASURE R**

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INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

Governing Board and
Citizens' Oversight Committee
Santa Barbara Unified School District
Santa Barbara, California

We were engaged to conduct a performance audit of the Santa Barbara Unified School District (the District), Measure R General Obligation Bond funds for the year ended June 30, 2012.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Measure R and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Measure R and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure R General Obligation Bond funds only for the specific projects approved by the voters, in accordance with Measure R and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

VAVRINEK, TRINE, DAY & CO., LLP

Rancho Cucamonga, California
December 14, 2012

SANTA BARBARA UNIFIED SCHOOL DISTRICT BUILDING FUND (MEASURE R)

JUNE 30, 2012

AUTHORITY FOR ISSUANCE

The Measure R Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California *Education Code*, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County on November 2, 2010 (the Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District in November 2010.

The District received authorization at an election held on November 2, 2010, to issue bonds of the District in an aggregate principal amount not to exceed \$35,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2010 Authorization). The Bonds represent the first and second series of the authorized bonds to be issued under the 2010 Authorization.

PURPOSE OF ISSUANCE

To improve quality of local education, shall the Santa Barbara Elementary School District provide adequate classrooms, science labs, technology, and libraries at all school sites; repair/replace outdated electrical, plumbing, heating/ventilation, infrastructure systems and deteriorated portable classrooms; fix leaking roofs; improve disabled student access by issuing \$35,000,000 in bonds at legal interest rates, with no money for administrator salaries and with oversight by a citizens' committee to ensure funds are spent only on local school improvements.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in *Education Code* Sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizens' oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the Government Auditing Standards issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

SANTA BARBARA UNIFIED SCHOOL DISTRICT BUILDING FUND (MEASURE R)

JUNE 30, 2012

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure R.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure R and not for District general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2011 to June 30, 2012. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2012, were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2012 for the Building Fund (Measure R). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure R as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2011 and ending June 30, 2012, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included transactions totaling \$2,375,265. This represents 65 percent of the total expenditures of \$3,673,211.
3. We verified that funds from the Building Fund (Measure R) were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects. In addition, we verified that funds held in the Building Fund (Measure R) were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

CONCLUSION

The results of our tests indicated that, in all significant respects, the Santa Barbara Unified School District has properly accounted for the expenditures held in the Building Fund (Measure R) and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Building Fund (Measure R), and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004, by the State of California Attorney General.

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

None reported.

**SANTA BARBARA UNIFIED SCHOOL DISTRICT
BUILDING FUND (MEASURE R)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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.

Compliance Finding

2011-1 Code

COC APPOINTMENTS

Finding

All citizens' oversight committee members were appointed on March 22, 2011, over 60 days following the date the governing board entered the election results on its minutes on December 14, 2010. Additionally, the Measure R citizens' oversight committee does not have a member who is both a parent or guardian of a child enrolled in the district and active in a parent-teacher organization. The District is out of compliance with *Education Code* Section 15278(a) and *Education Code* Section 15282(a)(5).

Recommendation

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

Current Status

Implemented.