

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2010

**Santa Barbara Community College District
Financial Statements
June 30, 2010**

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Santa Barbara Community College District

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Financial Section

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Emeritus:

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Stephen A. Burdette
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Keith V. Lapp (1932-2008)

Independent Auditors' Report on Financial Statements

Board of Trustees

Santa Barbara Community College District
Santa Barbara, California 93109-2394

We have audited the accompanying financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the fiscal year ended June 30, 2010, which 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 an opinion on these financial statements based on our audit. The discretely presented component unit financial statements of the Foundation for Santa Barbara City College as of and for the fiscal year ended June 30, 2010, were audited by other auditors whose report dated October 7, 2010, expressed an unqualified opinion on those statements.

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. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2010, and the changes in financial position and cash flows 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 November 15, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees

Santa Barbara Community College District

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The Management's Discussion and Analysis on pages 7 through 13 and the Schedule of Funding Progress for OPEB Obligation on page 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

November 15, 2010

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Santa Barbara Community College District’s (“District”) Financial Report presents a narrative overview and analysis of the District’s financial activities for the fiscal year that ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

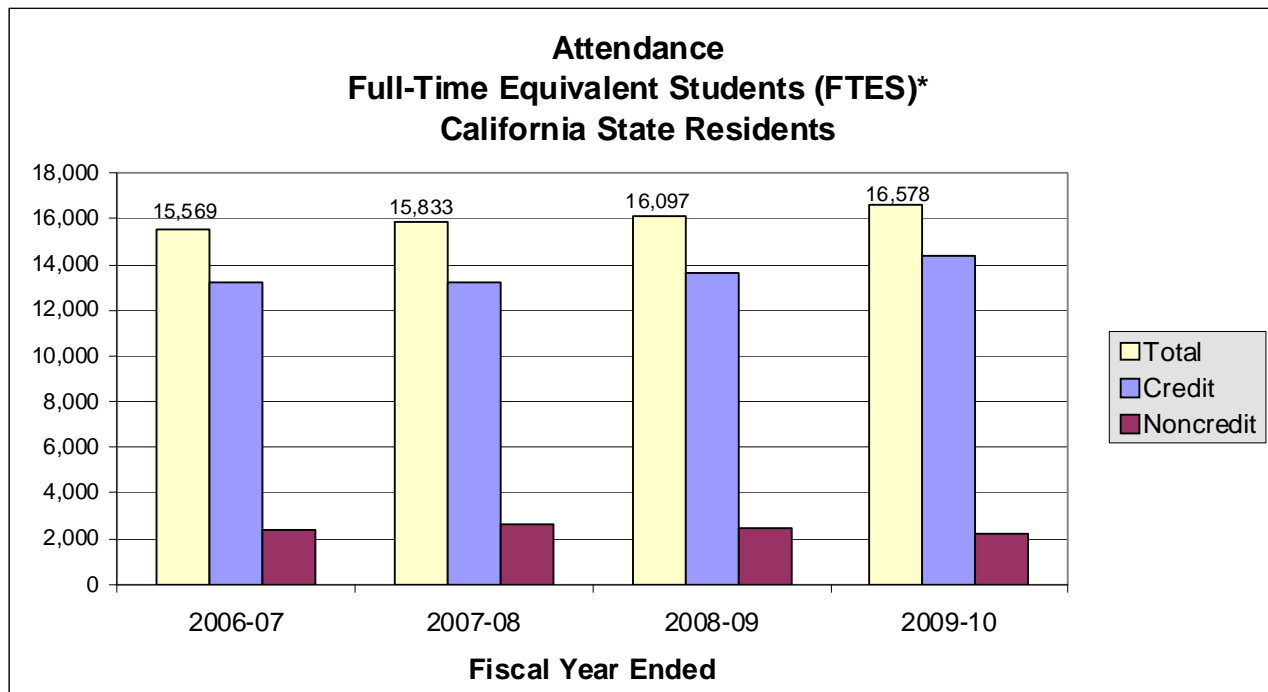
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

This Annual Report consists of four components: (1) Management’s Discussion and Analysis, (2) Basic Financial Statements, (3) Notes to the Basic Financial Statements, and (4) Supplementary Information, which among other things includes federal and state compliance items.

The Annual Report also includes the discretely presented financial statements of the Foundation for SBCC which is considered a component unit of the District according to government accounting standards. Full information about the Foundation for SBCC can be found in the audited financial statements available from the Foundation’s office at 721 Cliff Drive, Santa Barbara, CA 93109.

Financial Highlights

- The District’s primary funding source is apportionment received from the State of California. The main basis of this apportionment is student attendance as measured by Full-Time Equivalent Students (“FTES”). During the 2009-10 fiscal year, FTES was 16,578, an increase of 480 FTES or 3.0% over the prior year.



* Full-time equivalent students are based on the District’s annual attendance report, Form CCFS-320 filed with the State Chancellor’s Office.

Enrollment of nonresident student at 2,183 FTES was the same as the prior year.

In most years the District's growth in California resident FTES is funded by state apportionment awarded specifically for growth or by State basic skills funds awarded to certain Districts whose growth exceeds fully funded FTES. In 2009-10 there was no State funding for growth. Nonresident enrollment fees increased by \$0.8 million compared to the prior year due to enrollment fee rate increase.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

Summarized Statement of Net Assets As of June 30, 2009 and 2010

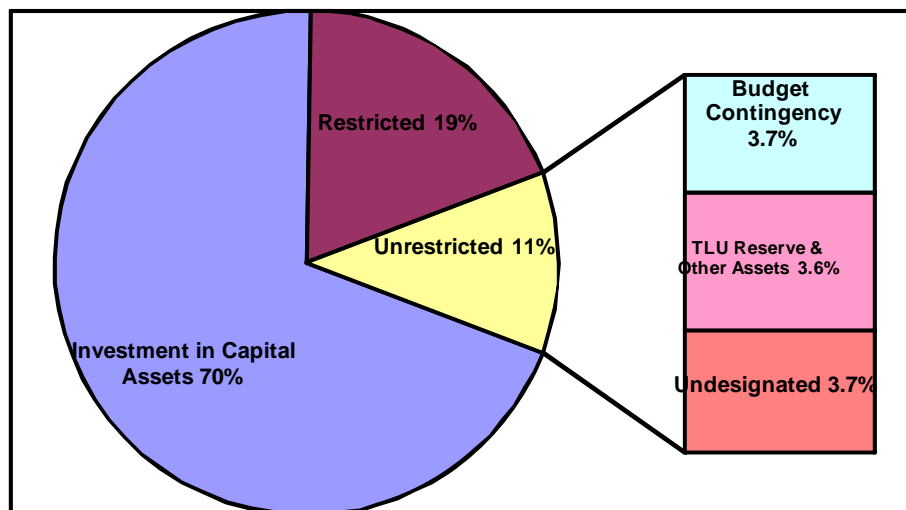
Assets	(in thousands)		
	2009	2010	Change
Assets			
Current assets			
Cash and cash equivalents	\$ 79,215	\$ 72,791	-8%
Receivables	14,359	19,531	36%
Inventory and other assets	1,466	1,408	-4%
Total current assets	95,040	93,730	-1%
Noncurrent assets			
Capital assets, net	85,552	102,207	19%
Total Assets	\$ 180,592	\$ 195,937	8%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 5,163	\$ 8,242	60%
Deferred revenue	9,724	7,866	-19%
Interest payable	1,003	1,086	8%
Bond payable, current portion	1,060	1,035	-2%
Loan payable, current portion		21	0%
Amounts held for others	30	38	27%
Total current liabilities	16,980	18,288	8%
Noncurrent liabilities			
Compensated absences-noncurrent portion	1,352	1,434	6%
Bond payable-noncurrent portion	45,940	44,905	-2%
Interest payable	33	0	-100%
Net OPEB obligation	371	682	84%
Loan payable	1,190	1,929	62%
Bond premium	604	579	-4%
Total Liabilities	66,470	67,817	2%
Net Assets			
Invested in capital assets, net of related debt	84,328	89,031	6%
Restricted	18,699	24,137	29%
Unrestricted	11,095	14,952	35%
Total Net Assets	\$ 114,122	\$ 128,120	12%

- Cash and cash equivalents at June 30, 2010 consist of cash in the Santa Barbara County Treasury, \$70 million, and cash in banks, \$3 million. Of the \$70 million in the County Treasury, \$32.8 million was related to Measure V bond activity.
- Receivables consist mainly of receivables for state general apportionment, state and federal grants, and student enrollment fees which the district has earned but not yet received as of the fiscal year end. At June 30, 2010, the District was waiting to collect, \$9.7 million in state apportionment funds, \$5.8 million in

state restricted funds, \$1.4 million in student fees, \$1.5 million in restricted federal funds and \$1.1 million in local funds.

- Capital assets, net of depreciation, are the net historical values of land, buildings, construction in progress and equipment less accumulated depreciation. The District added net capital assets of \$19.9 million related to renovation of buildings, construction in progress and purchase of equipment. Depreciation expense of \$3.3 million was recognized during 2009-10. Additional detail about capital assets can be found in the notes to the financial statements.
- Accounts payable and accrued expenses consist of payables to vendors \$6.4 million, compensated absences and accrued payroll \$1.5 million.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when related costs are incurred.
- Non-current liabilities consist of the portion of compensated absences and teacher load units \$1.4 million that will be paid by the District in one year or later. In June 2008, the voters of the Santa Barbara Community College District approved bonds of \$77 million of which \$47 million has been issued. The unpaid balance of the bond and related accrued interest at June 30, 2010 was \$45.0 million. The District borrowed \$1.95 million from the California Energy Resources Conservation and Development Commission for the construction of a photovoltaic energy system. The unpaid balance of the loan at June 30, 2010 was 1.9 million. The District provides post-employment health care benefits to early retirees. The actuarially determined liability for Other Postemployment Benefits (OPEB) is \$0.7 million. The District's policy is to pay healthcare premiums for retirees as they fall due.

Net Assets June 30, 2009



The net assets are divided into three major categories. The first category, investment in capital assets of \$89.0 million, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets. These restricted net assets of \$24.1 million are available for expenditure by the District, but must be spent for purposes as determined by external entities that have placed time or purpose restrictions on the use of the

assets. The final category is unrestricted net assets composed of \$14.9 million held by the District. The unrestricted net assets of the District are available for any lawful purpose of the District.

Within the District's unrestricted net assets category, certain amounts are designated for specific purposes. In accordance with the District's principles of budget development, a contingency of \$4.7 million or 31% of unrestricted net assets is designated as a budget contingency. This budget contingency is based on 5% of budgeted unrestricted general fund expenditures. As specified in negotiated labor agreements, \$1.2 million is designated for covering the cost of compensation (teacher load units) banked by instructors to cover future sabbaticals or underloads. Net assets of \$4.3 million is designated to cover items of a noncash nature not readily available to meet fund expenditures and assets restricted for special purposes. The remaining \$4.7 million of unrestricted net assets is not designated for a specific purpose.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenue and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenue in accordance with the business-type activity reporting model adopted by the California community colleges.

	(in thousands)		
	2009	2010	Change
Revenues			
Operating revenues			
Net tuition and fees	\$ 15,011	\$ 16,906	13%
Grants and contracts, noncapital	34,683	39,696	14%
Auxiliary enterprise sales and charges	9,914	9,563	-4%
Total operating revenues	59,608	66,165	11%
Total operating expenses	132,249	136,466	3%
Operating Loss	(72,641)	(70,301)	-3%
Nonoperating revenues			
State apportionments, noncapital	49,030	46,678	-5%
Local property taxes, general purpose	21,243	21,548	1%
Local property taxes, special purpose	3,228	3,436	6%
State taxes and other revenues	4,033	3,191	-21%
Investment income	1,262	900	-29%
Interest expense	(1,323)	(2,343)	77%
Other nonoperating expense	(9)	4	-144%
Total nonoperating revenues	77,464	73,414	-5%
Income (loss) before capital revenues	4,823	3,113	-35%
Capital Revenues			
Apportionments and property taxes, capital	2,260	10,885	382%
Increase (Decrease) in Net Assets	7,083	13,998	98%
Net Assets-beginning of year	107,039	114,122	7%
Net Assets-end of year	\$ 114,122	\$ 128,120	12%

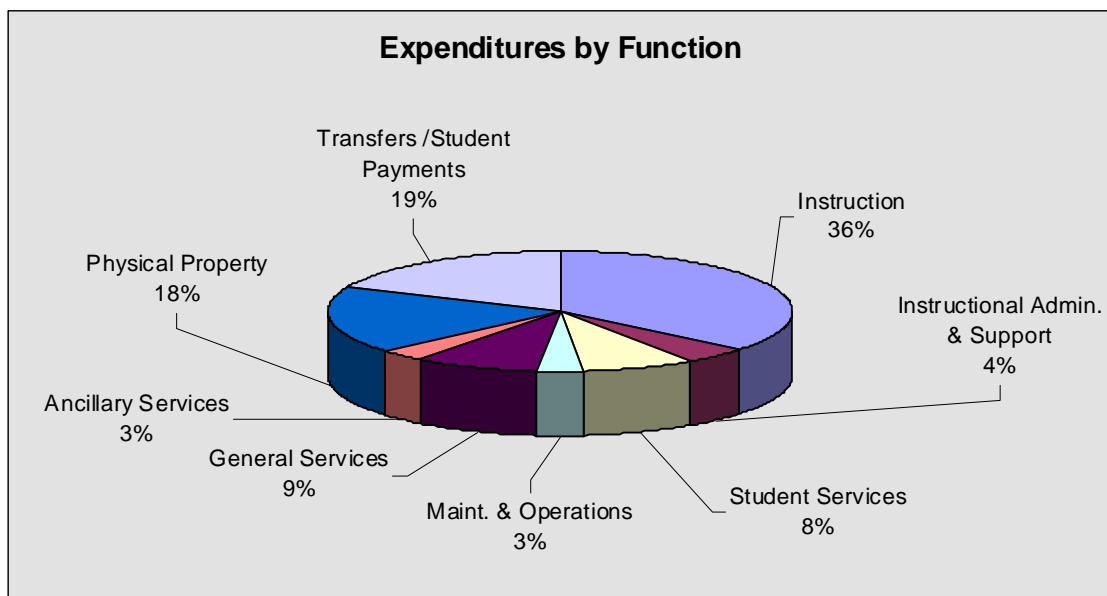
- Tuition and fees for 2009-10 are composed of enrollment fees of \$5.6 million, out-of-state and international student tuition of \$10.0 million and all other fees of \$1.3 million. Tuition and fees are stated net of Board of Governor fee waivers of \$2.9 million awarded to California resident students. Regular enrollment fees, set by the state for all community colleges, were \$26 per unit. District enrollment has increased 3.0% over the prior year.
- Auxiliary enterprise sales consist of Bookstore and Food Service sales.

- State apportionment, non-capital, is generated based on the workload measures (student attendance) reported to the State by the District. Although attendance increased, State apportionment declined (\$2.6) million due to a 3.39% reduction in funded workload measures.
- Local property taxes increased by \$0.3 million or 1%. Local property tax revenues are received through the Auditor-Controller's office of the County of Santa Barbara. The District also received \$3.4 million in local property tax assessed for bond payments related to the bond measure approved by the voters in June 2008.
- Grants and contract revenues relate to student financial aid and specific federal and state grants received for programs serving students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs. Major increases were in state categorical programs and in a statewide financial aid media campaign program.
- State taxes and other revenue consist primarily of \$2.4 million in lottery revenue, \$0.3 million for part-time faculty compensation, and \$0.2 million for basic skills program.

Operating Expenses (by natural classification)

Expenditures	(in thousands)		
	2009	2010	Change
Salaries	\$ 71,019	\$ 68,293	-4%
Employee Benefits	15,565	15,520	0%
Supplies, materials, other operating expenses	40,897	47,890	17%
Utilities	1,571	1,434	-9%
Depreciation	3,197	3,329	4%
Total operating expenses	\$ 132,249	\$ 136,466	3%

- Salaries declined by 4% as the District reduced part-time workers in keeping with the workload measure reduction in funding at the State level.
- Benefits remained level with the prior year.
- Supplies, materials and other operating expenses increased 17% due to increased disbursement of financial aid grants and loans and interest expense on borrowings.
- Utilities declined by 9% compared to the prior year. This decline represents the District's energy conservation projects and the mild winter of 2009-10.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and payment during the year. This statement also assists users in assessing the District's ability to meet its obligations as they come due and its need for external financing.

Statement of Cash Flows For the Year Ended June 30, 2010

	(in thousands)
Cash provided by (used in)	
Operating activities	\$ (67,093)
Noncapital financing activities	71,425
Capital financing activities	(11,091)
Investing activities	<u>335</u>
Net decrease in cash	(6,424)
Cash, Beginning of Year	<u>79,215</u>
Cash, End of Year	<u>\$ 72,791</u>

The primary operating receipts are student tuition and fees and federal, state, and local grants and contracts. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

While state apportionment and property taxes are the primary source for paying operating expenses, the business activity reporting model adopted by the California community colleges require that this source of revenue be shown as non-operating revenue as it comes from the general resources of the state and not from the primary users of the college's programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

The revenue to support operations exceeded the operating and non capital revenue by \$4.3 million. Capital expenditures exceed capital revenues by \$11.1 million. The District received \$6.9 million in state funds for the Drama/Music project. Capital project expenditures included pedestrian bridge seismic retrofit \$4.5 million, photovoltaic energy system \$1.3 million, Drama/Music building remodel \$10.1 million, and La Playa track and field replacement \$1.2 million.

Economic Factors That May Affect the Future

State Economy

- The economic position of the District is closely tied to that of the State of California as state determined revenue represent 63% of the total revenue of the District.
- The condition of community college finances is driven by Proposition 98, which in turn is dependent upon the California economy and state tax revenues. The economic recession continues to create budget pressures for schools. State revenues remain low as a result of economic conditions and depressed housing market. The failure of the State legislature to approve a timely budget forced school districts to find alternative cash resources until late October.

District Budget

- The enacted 2010-11 state budget does not include COLA.
- The enacted 2010-11 state budget does include 2.21% enrollment growth funding (\$126 million) and \$35 million to backfill categorical cuts imposed in 2009-10.

- The additional state funding will be paid for by deferring \$189 million of spring apportionment payments to July 2011.
- Interest revenue is reduced because of State's delayed budget and planned deferrals of funding during the spring months.
- The threat of mid-year state funding cuts is a possibility as the budget is believed to rely on many overly optimistic assumptions that will likely require mid-year cuts, overseen by the new governor.
- Contracts with labor bargaining units which were extended with no increases to salary schedules for fiscal year 2009-10, will be open for negotiations.

Santa Barbara Community College District
Statement of Net Assets
June 30, 2010

	District	Foundation for Santa Barbara City College
Assets		
Current assets:		
Cash in county treasury	\$ 69,800,988	\$
Cash on hand and in banks	2,964,599	1,374,551
Investments	25,480	1,834,285
Accounts receivable:		
Federal	1,531,676	
State	15,484,134	
Miscellaneous	2,515,858	
Prepaid expense	17,309	
Current portion of pledges receivable		843,428
Inventory	1,024,191	
Bond issuance costs, net of amortization	365,819	242,429
Total current assets	93,730,054	4,294,693
Noncurrent assets:		
Investments in commercial real estate, net		50,625
Pledges receivable-long term portion, net		921,320
Long-term investments		25,741,505
Assets held in FCCC-Osher		659,142
Assets held in charitable remainder trusts		5,921,290
Assets of pooled income fund		179,417
Contributions receivable from remainder trusts		3,190,042
Capital assets, net	102,207,314	29,105
Total noncurrent assets	102,207,314	36,692,446
Total assets	195,937,368	40,987,139

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

Santa Barbara Community College District
Statement of Net Assets
June 30, 2010
Page 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 6,365,308	\$ 650,095
Accrued wages	1,713,134	
Compensated absences and teacher load units, current portion	162,780	
Scholarships payable		434,150
Deferred revenues	7,866,584	
Interest payable	1,086,053	
Bond payable, current portion	1,035,000	
Loan payable, current portion	21,072	
Amounts held for others	38,366	
Total current liabilities	<u>18,288,297</u>	<u>1,084,245</u>
Noncurrent liabilities:		
Compensated absences and teacher load units, net of current portion	1,434,507	
Net OPEB obligation	681,720	
Loan payable, net of current portion	1,928,928	
Bond payable, net of current portion	44,905,000	
Bond premium, net of amortization	578,563	
Liability under unitrust agreements		3,532,883
Discount for future interest pooled income funds		131,566
Refundable advances-revocable split interest agreements		93,315
Total noncurrent liabilities	<u>49,528,718</u>	<u>3,757,764</u>
Total liabilities	<u>67,817,015</u>	<u>4,842,009</u>
Net Assets		
Investment in capital assets, net of related debt	89,030,746	
Permanently restricted		25,643,541
Temporarily restricted		7,270,322
Restricted for:		
Expendable:		
Scholarships and loans	228,599	
Capital projects	9,883,226	
Debt service	2,200,220	
Other special purposes	11,825,413	
Total restricted net assets	<u>24,137,458</u>	<u>32,913,863</u>
Unrestricted	<u>14,952,149</u>	<u>3,231,267</u>
Total net assets	<u>\$ 128,120,353</u>	<u>\$ 36,145,130</u>

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

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

	District	Foundation for Santa Barbara City College
Operating revenues:		
Tuition and fees	\$ 19,827,066	\$
Less: Scholarship discounts and allowances	(2,920,683)	
Net tuition and fees	16,906,383	
Grants and contracts, noncapital:		
Federal	25,631,386	
State	8,090,871	
Local	5,973,537	
Contributions and bequests		2,447,744
Interest and dividends		471,993
Gains and losses on investments		2,020,224
Other income		376,053
Change in value of split interest agreements		1,041,475
Auxiliary enterprise sales and charges	9,562,627	
Total operating revenues	66,164,804	6,357,489
Operating expenses:		
Salaries	68,292,992	
Employee benefits	15,519,608	
Supplies, materials, and other operating expenses and services	47,890,525	
Utilities	1,434,495	
Depreciation	3,328,820	
College programs and other designated disbursements		2,540,814
Scholarships and awards		802,597
Fundraising expense		519,981
Administrative expense	547,180	
Total operating expenses	136,466,440	4,410,572
Operating revenue (loss)	(70,301,636)	1,946,917
Nonoperating revenues and expenses:		
State apportionments, noncapital	46,677,813	
Local property taxes	24,983,614	
State taxes and other revenues	3,191,039	
Investment income, noncapital	334,693	
Investment income, capital	566,652	
Interest expense, capital asset-related debt	(2,343,069)	
Other nonoperating expense	3,880	
Total nonoperating revenues	73,414,622	
Income before other revenues, expenses, gains, or losses	3,112,986	1,946,917

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

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010
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	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Other revenues:		
State revenues, capital	\$ 10,354,000	\$
Local revenues, capital	531,251	
Total other revenues	<u>10,885,251</u>	<u> </u>
Increase in net assets	13,998,237	1,946,917
Net assets, beginning of year	<u>114,122,116</u>	<u>34,198,213</u>
Net assets, end of year	<u><u>\$ 128,120,353</u></u>	<u><u>\$ 36,145,130</u></u>

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2010

Cash flows from operating activities:	
Tuition and fees	\$ 15,989,217
Federal grants and contracts	25,524,058
State grants and contracts	4,459,471
Local grants and contracts	6,995,300
Payments to employees for salaries	(68,226,941)
Payment for employee benefits	(15,208,908)
Payments to suppliers/utilities	(46,187,862)
Auxiliary enterprise sales and charges	9,562,627
Net cash used in operating activities	<u>(67,093,038)</u>
Cash flows from noncapital financing activities:	
State apportionment	46,677,813
Local property taxes	21,548,053
State taxes and other revenues	3,191,039
Student organization agency activity	8,609
Net cash provided by noncapital financing activities	<u>71,425,514</u>
Cash flows from capital and related financing activities:	
State apportionments for capital purposes	6,958,755
Local property taxes	3,435,561
Proceeds from capital debt	734,936
Bond interest and redemption	(3,333,688)
Interest on capital investments	566,652
Proceeds from sales of capital assets	993
Capital grants and gifts received	531,251
Purchases of capital assets	(19,985,396)
Net cash used in capital financing activities	<u>(11,090,936)</u>
Cash flows from investing activities:	
Investment income	334,693
Net cash provided by investing activity	<u>334,693</u>
Net decrease in cash	(6,423,767)
Cash - beginning of year	<u>79,214,834</u>
Cash - end of year	<u><u>\$ 72,791,067</u></u>

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2010
Page 2

Reconciliation of net operating loss to net cash used in operating activities:	
Operating loss	\$ (70,301,636)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,328,820
Changes in operating assets and liabilities:	
Accounts receivable	(1,776,879)
Prepaid expense	(6,634)
Inventory	48,868
Accounts payable	3,094,924
Accrued wages	(19,835)
Deferred revenues	(1,857,252)
Compensated absences and teacher load units	85,886
Net OPEB obligation	<u>310,700</u>
Net cash used in operating activities	<u><u>\$ (67,093,038)</u></u>

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

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies

The Reporting Entity

Santa Barbara Community College District (District) provides higher education in the County of Santa Barbara (County), in the State of California (State). The District consists of one community college with a continuing education division located in Santa Barbara, California.

For financial reporting purposes, the District includes all funds, which comprise the primary government and all component units in accordance with GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity." The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. One of the basic criteria for including a potential component unit is whether the nature and significance of the relationship between the reporting entity and the component unit are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has identified the Foundation for Santa Barbara City College as a discretely presented component unit for inclusion in the District's financial statements.

The Foundation for Santa Barbara City College (Foundation) is a legally separate, tax-exempt component unit of Santa Barbara Community College District. The Foundation provides financial support for various college-related programs including student scholarships and awards, general department and program support, equipment purchases and capital improvements, and faculty research and teaching activities. The Board of the Foundation is self-perpetuating and numbers no less than twenty-one but no more than forty-five directors. At least seven of the members of the Board are either trustees or members of the staff of the District. Although the District does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the District, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements.

During the year ended June 30, 2010, the Foundation distributed \$2,540,814 to the District for restricted purposes and distributed \$802,597 to students for scholarships and awards. Complete financial statements for the Foundation can be obtained from the Foundation's office at 721 Cliff Drive, Santa Barbara, CA 93109-2394.

Basis of Presentation

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 1: Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's basic financial statements provide a comprehensive look at its financial activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the years for which they are levied. Grants are recognized as revenue when all eligibility requirements imposed by the grantor have been met.

All intra-district transactions have been eliminated.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected not to apply FASB pronouncements issued after that date.

Budgets and Budgetary Accounting

By State law, the District's Governing Board must adopt and approve a tentative budget no later than July 1st, and adopt and approve a final budget no later than September 15th. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied this requirement.

These budgets are revised by the District's Governing Board and District Superintendent during the year to give consideration to unanticipated income and expenditures.

Receivables

Receivables consist of amounts due from federal, State and local governments, or private sources, in connection with reimbursement of allowable expenses based on a contract or agreement between the District and the funding source. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students' faculty and staff and the majority or each residing in the State of California. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

Inventory

Inventory, primarily bookstore merchandise, is carried at the lower of cost or market using the first-in, first-out ("FIFO") method. The cost is recognized as expense as the inventory is consumed.

Note 1: Summary of Significant Accounting Policies (Continued)

Prepaid Expense

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the basic financial statements.

Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of \$5,000 or more (for equipment) and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expenses are incurred. Depreciation of equipment and vehicles, facilities and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Expenditures for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Buildings and improvements	50 years
Portable buildings	15 years
Land improvements	10 years
Equipment and vehicles	8 years
Technology equipment	3 years

Deferred Revenues

Deferred revenues include revenues that were collected by the District as of June 30, 2010, but have not yet been earned including federal and State financial assistance and enrollment fees.

Noncurrent Liabilities

Noncurrent liabilities include amounts on compensated absences and teacher load units, net OPEB obligation, loan payable, and bond payable with maturities greater than one year.

Amounts Held for Others

Amounts held for others represent funds held by the District for student clubs.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 1: Summary of Significant Accounting Policies (Continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted - Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by the District.

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed restrictions or that expire by the passing of time.

Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward the restricted resources, and then towards the unrestricted resources.

Operating and Nonoperating Transactions

The District has classified its revenues and expenses as either operating or nonoperating. Revenues and expenses are classified according to the following criteria:

Operating: these revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, most federal, State and local grants and contracts and federal appropriations. Operating expenses include salaries, employee benefits, supplies, materials, services, utilities and depreciation.

Nonoperating: these revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources such as State appropriations and investment income. Nonoperating expenses include interest on capital asset-related debt.

Tuition and Fees

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between the tuition and fee charged by the District and the amount that is waived by the Board of Governor's Waiver (BOGW) on the student's behalf.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 1: Summary of Significant Accounting Policies (Continued)

Employee Retirement Plans

Qualified employees are covered under defined benefit retirement plans (State Teachers' Retirement System or Public Employees' Retirement System) maintained by agencies of the State of California. District contributions to these plans are paid or accrued currently based upon a statutorily required percentage of qualified employees' salaries.

Accrued Vacation, Compensated Absences, Teacher Load Units and Sick Leave Pay

Accumulated unpaid benefits for vacation and compensated absences are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations of the year in which they are to be paid. Teacher load units accumulate according to the terms of the teacher's contract and will be liquidated in future years as employees elect to use them. Accumulated teacher load units may be used to augment a teaching load up to the standard requirement or to augment sabbatical leave so that an instructor may receive full pay while on sabbatical. Accumulated teacher load units may be paid out in cash upon termination of employment.

Accumulated employee sick leave benefits are not recognized as liabilities of the District as the rights to these benefits do not vest. Benefits are recorded as expenditures in the period that sick leaves are taken.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits with banks, deposits in external investment pools, and short-term investments with an original maturity of three months or less from the date of acquisition.

At June 30, 2010, District cash consisted of the following:

Deposits:	
Cash on hand and in banks	\$ 2,964,599

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 2: Cash and Investments (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk in addition to the California Government Code collateral requirements. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation. All deposits held by financial institutions are fully insured or collateralized with securities, held by the pledging financial institutions' trust departments in the District's name.

At June 30, 2010, District investments consisted of the following:

Pooled Investment Funds:

Cash in County Treasury	\$ 69,800,988
Local Agency Investment Fund (LAIF)	\$ 25,480

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Santa Barbara County Treasury, an external investment pool. The County pools these funds with those of other governmental entities in the county and invests the cash. These pooled funds are carried at fair value. Interest is earned based on average daily balance and is deposited quarterly into participating funds. Any investment gains and losses are proportionately shared by all funds in the pool. The County is restricted by the California Government Code to invest in obligations issued by the United States Treasury; obligations, participations, or other instruments of or issued by a federal agency or a United States government sponsored enterprise; obligations of State and local agencies of this State; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term corporate notes; as well as other investments established by the California Government Code. The County's report discloses the required information in accordance with Governmental Accounting Standards Board Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Local Agency Investment Fund (LAIF)

The District maintained investments with the State of California Local Agency Investment Fund (LAIF). The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. State statutes, bond resolutions, and LAIF investment policy resolutions allow investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds and other investments. The LAIF's report discloses the required information in accordance with Governmental Accounting Standards Board Statements No. 3 and 40. Pooled investments are not required to be categorized by risk category.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2010
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Note 2: Cash and Investments (Continued)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices. Santa Barbara County Treasury pooled investment fund and the LAIF are unrated.

Concentration of Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District's investments in the Santa Barbara County Treasury represent 99.96% of total investments.

Note 3: Foundation Cash and Investments

Foundation cash and investments were presented at their aggregate fair value based on quoted market values, except real estate which is based on donated value less depreciation, and consisted of the following at June 30, 2010:

Cash and cash equivalents	\$ 1,877,677
Mutual funds	20,691,475
Equity securities	101,411
Alternative investments	6,938,920
Investment in real estate	<u>50,625</u>
Total	<u><u>\$ 29,660,108</u></u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 4: Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2010, is shown below:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance June 30, 2010</u>
Capital assets not being depreciated:					
Construction in progress	\$ 6,781,444	\$ 19,441,700	\$ 142,247	\$ (7,033,930)	\$ 19,046,967
Land	5,336,616				5,336,616
Total	<u>12,118,060</u>	<u>19,441,700</u>	<u>142,247</u>	<u>(7,033,930)</u>	<u>24,383,583</u>
Capital assets being depreciated:					
Buildings	102,058,486			7,033,930	109,092,416
Leasehold improvements	657,403				657,403
Equipment	<u>10,134,456</u>	685,943	76,315		<u>10,744,084</u>
Total	<u>112,850,345</u>	<u>685,943</u>	<u>76,315</u>	<u>7,033,930</u>	<u>120,493,903</u>
Less accumulated depreciation for:					
Buildings	30,831,556	2,726,279			33,557,835
Leasehold improvements	246,525	32,870			279,395
Equipment	<u>8,338,593</u>	<u>569,671</u>	75,322		<u>8,832,942</u>
Total	<u>39,416,674</u>	<u>3,328,820</u>	<u>75,322</u>		<u>42,670,172</u>
Total capital assets being depreciated, net	<u>73,433,671</u>	<u>(2,642,877)</u>	<u>993</u>	<u>7,033,930</u>	<u>77,823,731</u>
Capital assets, net	<u>\$ 85,551,731</u>	<u>\$ 16,798,823</u>	<u>\$ 143,240</u>	<u>\$ -</u>	<u>\$ 102,207,314</u>

Note 5: Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2010, is shown below:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Compensated absences	\$ 1,795,887	\$ 77,628	\$	\$ 1,873,515	\$ 1,464,858
Teacher load units	1,137,366	51,264		1,188,630	162,780
Net OPEB obligation	371,020	310,700		681,720	
General obligation bonds	47,000,000		1,060,000	45,940,000	1,035,000
Loan payable	<u>1,190,000</u>	<u>760,000</u>		<u>1,950,000</u>	<u>21,072</u>
Total	<u>\$ 51,494,273</u>	<u>\$ 1,199,592</u>	<u>\$ 1,060,000</u>	<u>\$ 51,633,865</u>	<u>\$ 2,683,710</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 6: Net Other Postemployment Benefits (OPEB) Obligation

Plan Description

The District provides post-employment health care benefits under a retirement incentive plan, the Early Retiree Health Benefit Plan (the Plan). The Plan is a single-employer defined benefit plan and is administered by the District. The Plan does not issue a stand-alone financial report. Under terms of the current agreement, the Plan is available to all regular salaried academic and classified employees age 55 or older who work 15 years. Retirees receive benefits until age 65. After age 65, retirees may continue insurance coverage through the District on a self-pay basis.

Funding Policy

The contribution requirements of the District are established by the District and the District's bargaining units. For the fiscal year ended June 30, 2010, the District contributed \$186,668, all of which was used for current premiums. Contributions ranged from \$312 to \$576 per month for forty-one retirees. The maximum contribution per year is \$5,755 for an individual participant.

As required by GASB 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost of one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits, therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost and Net OPEB Obligation

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 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 liabilities (or funding excess) over a period not to exceed thirty years.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 6: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

The following table shows components of the District’s annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation:

Annual Required Contributions	\$ 495,251
Interest on Net OPEB Obligation	18,551
Adjustment to Annual Required Contributions	<u>(16,434)</u>
Annual OPEB cost	497,368
Contributions made	<u>(186,668)</u>
Increase in Net OPEB Obligation	310,700
Net OPEB Obligation - beginning of year	<u>371,020</u>
 Net OPEB Obligation - end of year	 <u><u>\$ 681,720</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2010 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 567,960	\$ 196,940	34.7%	\$ 371,020
6/30/10	\$ 495,251	\$ 186,668	37.7%	\$ 681,720

GASB 45 was implemented prospectively.

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2010, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
8/1/10	\$ -	\$ 3,890,970	\$ 3,890,970	0.0%	\$ 45,009,948	8.6%

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectation and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

Note 6: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

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 the benefits 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. In the October 5, 2010 actuarial valuation as of August 1, 2010, the entry age normal actuarial cost method was used. The actuarial assumption included a five percent investment rate of return, based on long-term return on Plan assets, and the cost trend rate for health care of four percent. These assumptions reflect an implicit three percent general inflation assumption. The UAAL is being amortized at a level dollar method over thirty years. The remaining amortization period as of June 30, 2010 was thirty years.

Note 7: General Obligations Bonds Payable

On December 11, 2008, the District issued the Measure V general obligation bonds in the amount of \$47,000,000 with interest rates ranging from 3.5 to 5.75%. Principal and interest payments are due each February 1 and August 1 through August 1, 2033. At June 30, 2010, the bonds payable principal balance outstanding was \$45,940,000.

Future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,035,000	\$ 2,343,900	3,378,900
2012	100,000	2,321,450	2,421,450
2013	180,000	2,316,550	2,496,550
2014	285,000	2,308,056	2,593,056
2015	445,000	2,293,813	2,738,813
2016-2020	4,545,000	10,919,031	15,464,031
2021-2025	9,340,000	9,112,750	18,452,750
2026-2030	14,760,000	6,043,788	20,803,788
2031-2034	<u>15,250,000</u>	<u>1,654,013</u>	<u>16,904,013</u>
Total	<u>\$ 45,940,000</u>	<u>\$ 39,313,351</u>	<u>\$ 85,253,351</u>

Note 8: Loan Payable

On June 21, 2007, the District signed a Promissory Note and Loan Agreement for \$1,950,000 with the State of California, Energy Resources Conservation and Development Commission ("Commission") in order to finance energy efficiency projects. The principal and interest at 3.95% per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2011. Interest only payments are due in December 2010 and June 2011. Loan funds are disbursed to the District on a reimbursement basis based on invoices submitted by the District. At June 30, 2010, disbursements of \$1,950,000 had been received by the District.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2010
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Note 8: Loan Payable (Continued)

Future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 21,072	\$ 175,993	\$ 197,065
2012	121,858	75,207	197,065
2013	126,921	70,143	197,064
2014	131,984	65,081	197,065
2015	137,248	59,816	
2016-2020	772,620	212,702	985,322
2021-2024	638,297	51,431	689,728
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,950,000</u>	<u>\$ 710,373</u>	<u>\$ 2,463,309</u>

Note 9: Unrestricted Net Assets

The following were Board of Trustees' designations of unrestricted net assets as of June 30, 2010:

Banked TLU's	\$ 1,188,630
Reserve for economic uncertainties	<u>4,696,612</u>
Total designated unrestricted net assets	5,885,242
Undesignated	<u>9,066,907</u>
	<u> </u>
Total unrestricted net assets	<u>\$ 14,952,149</u>

Note 10: Operating Leases

The District has entered into leases for equipment and facilities with lease terms in excess of one year. Future minimum lease payments under these agreements were as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2011	\$ 446,499
2012	219,024
2013	104,694
2014	90,863
2015	<u>7,363</u>
	<u> </u>
Total	<u>\$ 868,443</u>

Total rent expense of \$439,357 is included in other operating expenses and services for the year ended June 30, 2010.

Note 11: Employee Retirement Systems

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In general, academic employees are members of the California State Teachers' Retirement System, and classified employees are members of the California Public Employees' Retirement System.

Note 11: Employee Retirement Systems (Continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description: The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. 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 the CalSTRS, 7667 Folsom Boulevard, Sacramento, California 95826, or from their web site.

Funding Policy: Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll.

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$2,727,134, 2,871,788 and \$2,923,837, respectively, and equal 100% of the required contributions for each year.

California Public Employees' Retirement System (CalPERS)

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

Funding Policy: Active plan members in CalPERS are required to contribute 7% 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 rates for the year ended June 30, 2010, was 9.709%.

Annual Pension Cost: The contribution requirements of the plan members are established by State statute. The District's CalPERS contributions for the years ended June 30, 2010, 2009, and 2008 were \$1,999,379, \$2,005,556, and \$1,887,878, respectively, and equal 100% of the required contributions for each year.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2010

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Note 12: Joint Ventures (Joint Powers Agreements)

The District participates in a joint venture under a joint powers agreement (JPA) with the Alliance of Schools for Cooperative Insurance Programs (ASCIP). ASCIP was established to provide services necessary and appropriate for the development, operation and maintenance of a self-insurance system for primary general and automobile liability coverage protection for claims against the public educational agencies in California who make up the ASCIP membership.

The general and automobile liability coverage provides up to \$5,000,000 in limits less the District's self-insured retention (SIR) of \$25,000 per occurrence. Each member district is entitled to cast one vote to elect governing board representative(s) to represent the member district on ASCIP's governing board. The governing board is responsible for establishing premium rates and making budget and operational decisions for ASCIP independent of any influence by the District beyond their board member representation. Each member district shares surpluses and deficits proportionate to their participation in ASCIP.

For the fiscal year ended June 30, 2009 (the most recent data available), the JPA had revenues of \$164,463,276, expenses of \$167,424,949, nonoperating investment income of \$9,572,468, and ending net assets totaling \$91,336,923. The relationship between the District and ASCIP is such that ASCIP is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity".

The District participates in an additional banking JPA for workers' compensation self-insurance coverage through the Southern California Community College Districts Joint Powers Authority (SCCCD). SCCCDD provides workers' compensation coverage and a reserve to be used toward funding long-term retiree health insurance liabilities for its six member districts. Payments transferred to funds maintained under the JPA are expensed when made. Based upon an actuarial study, District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments. An actuarial study dated April 2009 estimated the present value of future post retirement medical benefits. A new actuarial study is planned for the upcoming year. The District's share of the JPA retained earnings balance at June 30, 2009 (the most recent data available) was \$7,258,898 and \$970,125 for the workers' compensation insurance fund and the retiree health insurance fund, respectively.

The JPA participates in the Protected Insurance Programs for Schools (PIPS), a pooled risk JPA. The purpose of the program is to provide workers' compensation insurance coverage at competitive group rates.

The relationship between the District and the SCCCDD is such that the SCCCDD is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity".

Note 12: Joint Ventures (Joint Powers Agreements) (Continued)

The District participates in a joint venture under a JPA with the Schools Excess Liability Fund (SELF). SELF was established to provide excess general and automobile liability coverage. The excess liability limits are designed to follow the primary liability limits provided by ASCIP. Coverage under the current program provides for the payment of covered claims incurred by the District up to \$20,000,000 per occurrence. The District absorbs the first \$5,000,000 of liability (which is comprised of the District’s SIR, ASCIP and SELF limits). Each member district is assessed a premium in accordance with the joint powers agreement.

The relationship between the District and SELF is such that the SELF is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, “The Financial Reporting Entity”.

Note 13: Operating Expenses by Functional Classifications

The District’s operating expenses by functional classifications for the year ended June 30, 2010, are as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 49,055,843	\$ 291,450	\$	\$	\$ 49,347,293
Instructional Administration	4,160,513	62,675			4,223,188
Instructional Support Services	1,829,240	24,460			1,853,700
Admissions and Records	900,007	4,924			904,931
Counseling and Guidance	4,029,990	11,237			4,041,227
Other Student Services	5,489,021	174,575			5,663,596
Operations and Maintenance	3,121,349	39,863	1,434,495		4,595,707
Planning and Policy Making	1,096,968	23,615			1,120,583
General Institutional Services	9,924,813	301,501			10,226,314
Community Services	268,594	2,193			270,787
Ancillary Services	3,911,352	510,671			4,422,023
Auxiliary Operations		72,383			72,383
Physical Property and Related Acquisitions	24,910	21,104,056			21,128,966
Transfers and Student Payments		25,266,922			25,266,922
Depreciation				3,328,820	3,328,820
Total	\$ 83,812,600	\$ 47,890,525	\$ 1,434,495	\$ 3,328,820	\$ 136,466,440

Note 14: Commitments and Contingencies

Categorical Awards and Allowances

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

Construction Contracts

The District has commitments of \$13,310,894 under various construction contracts, some of which are in the process of being completed.

Note 15: Self-Insurance Fund

The District has self-insurance for losses due to employment practices, environmental pollution and property losses due to earthquake, land subsidence, or flood. Payments are funded by the District. The District believes any claims incurred but not reported as of June 30, 2010, would not be material to the District's financial statements and no liability has been recorded for potential claims.

**Santa Barbara Community College District
Schedule of Funding Progress for OPEB Obligation
June 30, 2010**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/07	\$ -	\$ 4,110,034	\$ 4,110,034	0.0%	\$ 44,899,547	9.2%
8/1/10	\$ -	\$ 3,890,970	\$ 3,890,970	0.0%	\$ 45,009,948	8.6%

Supplementary Information

Principals:

David W. Phillips, CPA
David A. Bryson, CPA
Jeanne A. Potter, CPA
Daniel J. O'Hare, CPA
Kathi Niffenegger, CPA
Fred W. Bogart, CPA
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TAX AND BUSINESS ADVISORS

Emeritus:

Fred L. Glenn
Stephen A. Burdette
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

Independent Auditors' Report on Supplementary Information

Board of Trustees

Santa Barbara Community College District
Santa Barbara, California 93109-2394

We have audited the financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. 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 accounting principles generally accepted in the United States of America; the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the standards identified by the *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the business-type activities of Santa Barbara Community College District, which collectively comprise the District's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements and includes the following supplementary information:

- Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*
- Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records
- Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets
- Note to the Supplementary Information

Board of Trustees

Santa Barbara Community College District

Page 2

Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

November 15, 2010

**Santa Barbara Community College District
Organization
June 30, 2010**

The District was established in 1964 and operates one community college and one continuing education division.

Board of Trustees

Name	Office	Term Expires
Dr. Kathryn O. Alexander	President	2010
Dr. Joe W. Dobbs	Vice-President	2010
Mrs. Sally Green	Member	2010
Mr. Morris M. Jurkowitz	Member	2012
Ms. Joan M. Livingston	Member	2012
Mr. Desmond O'Neill	Member	2010
Mr. Luis A. Villegas	Member	2012

Administration

Dr. Andreea M. Serban
SUPERINTENDENT/PRESIDENT

Dr. Jack Friedlander
EXECUTIVE VICE-PRESIDENT, EDUCATIONAL PROGRAMS

Mr. Joseph Sullivan
VICE-PRESIDENT, BUSINESS SERVICES

Dr. Orfelía R. Arellano
VICE-PRESIDENT, CONTINUING EDUCATION

Ms. Susan Ehrlich
VICE-PRESIDENT, HUMAN RESOURCES AND LEGAL AFFAIRS

Dr. Paul Bishop
VICE PRESIDENT, INFORMATION TECHNOLOGY

Santa Barbara Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:		
Passed through California Department of Education (CDE):		
Workforce Investment Act:		
Associated Degree Nursing (RN) Programs	17.258	\$ 549,954
Total U.S. Department of Labor		<u>549,954</u>
U.S. Department of Education:		
Passed through California Department of Education (CDE):		
Adult Education and Family Literacy		
	84.002A *	491,412
Vocational and Applied Technology Training Act:		
Vocational and Technical Training	84.048	571,475
Technology Preparation	84.048	67,750
Student Financial Aid Cluster:		
Supplemental Educational Opportunity Grant (SEOG)	84.007 *	173,400
Federal Family Education Loan (FFELP) **	84.032 *	10,492,457
Federal Work Study	84.033 *	389,325
Pell Grant Program **	84.063 *	11,492,001
Academic Competiveness Grant **	84.375 *	106,337
Childcare Access Means Parents in School	84.335A	7,182
State Fiscal Stabilization Funds - Education State Grants, American Recovery and Reinvestment Act	84.394 *	368,490
Total U.S. Department of Education		<u>24,159,829</u>
U.S. Department of Health and Human Services:		
Passed through California Department of Education (CDE):		
Temporary Assistance for Needy Families	93.558	45,465
Pre-Kindergarten Resource Contract/Child Development	93.575	500
Total U.S. Department of Health and Human Services		<u>45,965</u>
U.S. Department of Agriculture:		
Passed through California Department of Education (CDE):		
Child Care Food Program	10.558	26,291
Total U.S. Department of Agriculture		<u>26,291</u>
National Science Foundation:		
NSF Mobile Media	47.076	66,321
Total National Science Foundation		<u>66,321</u>
Total expenditures of federal awards		<u>\$ 24,848,360</u>

* Major federal award program.

** No cash is received for this program and it is not accounted for as revenues and expenditures on the District's financial statements. However, they are recognized as expenditures for the purposes of this schedule.

See independent auditors' report on supplementary information.

See accompanying note to supplementary information.

**Santa Barbara Community College District
Schedule of Workload Measures for State General
Apportionment – Annual (Actual) Attendance
Year Ended June 30, 2010**

	<u>Reported Data</u>
A. Credit Full-Time Equivalent Student (FTES)	
1. Weekly census	11,128.89
2. Daily census	518.35
3. Actual hour of attendance	1,103.54
4. Independent study/work experience	365.73
5. Summer 2009	1,216.36
6. Summer 2010	6.89
	6.89
Total	14,339.76
 B. Noncredit FTES	
1. Actual hour of attendance	1,881.51
2. Summer 2009	356.47
3. Summer 2010	-
4. Independent study/work experience	-
	-
Total	2,237.98

There were no audit adjustments to the reported data.

*See independent auditors' report on supplementary information.
See accompanying note to supplementary information.*

**Santa Barbara Community College District
 Reconciliation of Annual Financial and Budget Report (CCFS-311)
 With the District's Accounting Records
 Year Ended June 30, 2010**

	Fiduciary Fund Type
	Expendable Trusts
June 30, 2010, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	\$ 2,500,677
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	(38,366)
June 30, 2010, Audited Financial Statements Fund Balance	\$ 2,462,311

*See independent auditors' report on supplementary information.
 See accompanying note to supplementary information.*

Santa Barbara Community College District
Annual Financial and Budget Report (CCFS-311) and
Reconciliation with the Statement of Net Assets and
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

Description	General Fund	Enterprise Fund Bookstore	Special Revenue Funds	
			Food Service	Child Development
Revenues:				
Federal revenues	\$ 2,540,112	\$	\$ 9,065	\$ 10,136
State revenues	57,188,146			204,922
Local revenues	42,527,937	6,903,266	2,659,361	291,222
Total revenues	<u>102,256,195</u>	<u>6,903,266</u>	<u>2,668,426</u>	<u>506,280</u>
Expenditures:				
Academic salaries	43,121,779			321,627
Classified salaries	22,810,247	777,321	910,713	199,977
Employee benefits	14,653,586	220,931	174,817	157,231
Supplies and materials	2,706,925	4,920,629	1,278,252	33,433
Other operating expenses and services	10,243,257	404,824	109,259	1,291
Capital outlay	420,384		19,022	116
Total expenditures	<u>93,956,178</u>	<u>6,323,705</u>	<u>2,492,063</u>	<u>713,675</u>
Excess (deficiency) of revenues over expenditures	8,300,017	579,561	176,363	(207,395)
Net other financing sources (uses)	<u>(1,897,404)</u>	<u>(436,102)</u>	<u>(11,905)</u>	<u>266,003</u>
Net increase (decrease) in fund balance	6,402,613	143,459	164,458	58,608
Beginning fund balance - June 30, 2009	<u>16,483,214</u>	<u>5,386,810</u>	<u>315,393</u>	<u>112,182</u>
Ending fund balance - June 30, 2010	<u>\$ 22,885,827</u>	<u>\$ 5,530,269</u>	<u>\$ 479,851</u>	<u>\$ 170,790</u>
Reconciliation to change in net assets:				
Net change in fund balance	\$ (3,337,651)			
Change in:				
Prepaid supplies	(25,479)			
Bond issuance costs	(15,848)			
Capital assets	19,984,403			
Depreciation expense	(3,261,718)			
Amounts held for others	(8,609)			
Compensated absences and teacher load units	(128,892)			
Bond premium	25,064			
Bond interest payable	17,667			
Net OPEB obligation	(310,700)			
Bond principal payments	1,060,000			
Change in net assets	<u>\$ 13,998,237</u>			

See independent auditors' report on supplementary information.

See accompanying note to supplementary information.

Capital Projects Funds	Internal Service Funds	Revenue Bond Construction Fund	Bond Interest & Redemption Fund	Fiduciary Funds Group	Total
\$ 10,354,000	\$	\$	\$	\$ 23,072,073	\$ 25,631,386
615,158	148,405	483,738	16,253	566,655	68,329,976
<u>10,969,158</u>	<u>148,405</u>	<u>483,738</u>	<u>3,444,214</u>	<u>1,810,364</u>	<u>58,883,665</u>
				<u>25,449,092</u>	<u>152,845,027</u>
22,436					43,465,842
					24,698,258
2,344					15,208,909
454		62		608,815	9,548,570
400,623	209,320	41,846		372,298	11,782,718
<u>13,900,530</u>		<u>8,338,687</u>		<u>43,787</u>	<u>22,722,526</u>
<u>14,326,387</u>	<u>209,320</u>	<u>8,380,595</u>		<u>1,024,900</u>	<u>127,426,823</u>
(3,357,229)	(60,915)	(7,896,857)	3,460,467	24,424,192	25,418,204
1,092,075			(3,426,072)	(24,342,450)	(28,755,855)
(2,265,154)	(60,915)	(7,896,857)	34,395	81,742	(3,337,651)
<u>9,823,277</u>	<u>817,613</u>	<u>43,198,136</u>	<u>3,151,075</u>	<u>2,418,935</u>	<u>81,706,635</u>
<u>\$ 7,558,123</u>	<u>\$ 756,698</u>	<u>\$ 35,301,279</u>	<u>\$ 3,185,470</u>	<u>\$ 2,500,677</u>	<u>\$ 78,368,984</u>

Reconciliation to ending net assets:

Ending fund balance	\$ 78,368,984
Prepaid supplies	84,712
Capital assets, net of accumulated depreciation	100,586,882
Bond issuance costs, net of accumulated amortization	365,819
Amounts held for others	(38,366)
Compensated absences and teacher load units	(3,062,145)
Bond payable	(45,940,000)
Bond premium, net of accumulated amortization	(578,563)
Bond interest payable	(985,250)
Net OPEB obligation	(681,720)
Ending net assets	<u>\$ 128,120,353</u>

Santa Barbara Community College District
Note to Supplementary Information
June 30, 2010

Note 1: Purpose of Schedules

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2010, was conducted in accordance with OMB Circular A-133 which requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and State requirements, the Schedule of Expenditures of Federal Awards was prepared by the District.

General: The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Basis of Accounting: The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the District's basic financial statements.

Schedule of Workload Measures for State General Apportionment

Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the District's annual source of State funding. This schedule includes only the apportionment generating FTES of California residents.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records

This schedule provides the information necessary to reconcile the fund equity of all funds reported on the Form CCFS-311 to the District's accounting records in accordance with the State Budget and Accounting Manual.

Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

A reconciliation is provided to reconcile the CCFS-311, which is on a modified accrual basis of accounting to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets, which are on the accrual basis of accounting.

Other Independent Auditors' Reports

Principals:

David W. Phillips, CPA
David A. Bryson, CPA
Jeanne A. Potter, CPA
Daniel J. O'Hare, CPA
Kathi Niffenegger, CPA
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CERTIFIED PUBLIC ACCOUNTANTS
TAX AND BUSINESS ADVISORS

Emeritus:

Fred L. Glenn
Stephen A. Burdette
Bradford M. Hair, CPA

Keith V. Lapp (1932-2008)

**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***

Board of Trustees

Santa Barbara Community College District
Santa Barbara, California 93109-2394

We have audited the financial statements of the business-type activities of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2010, which comprise the District's basic financial statements and have issued our report thereon dated November 15, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Foundation for Santa Barbara City College, as described in our report on the District's financial statements. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Board of Trustees

Santa Barbara Community College District

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the District in a separate letter dated November 15, 2010.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, 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.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

November 15, 2010

Principals:

David W. Phillips, CPA
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**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**

Board of Trustees

Santa Barbara Community College District
Santa Barbara, California 93109-2394

Compliance

We have audited the compliance of Santa Barbara Community College District (the District) 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 its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit 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 the District's management. Our responsibility is to express an opinion on the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 10.2.

Board of Trustees

Santa Barbara Community College District

Page 2

Internal Control Over Compliance

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

A 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 a 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 over compliance 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.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the District in a separate letter dated November 15, 2010.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, 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.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

November 15, 2010

Principals:

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Independent Auditors' Report on State Compliance Requirements

Board of Trustees

Santa Barbara Community College District

Santa Barbara, California 93109-2394

We have audited the basic financial statements of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual (CDAM)*:

Program Area Tested

Compliance Requirement

Salaries of Classroom Instructors

Each District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education (CEE) in accordance with Section 84362 of the Education Code.

Apportionment for Instructional Service Agreements/Contracts

The District can claim FTES for classes given through instructional service agreements/contracts provided certain requirements are met. These requirements include a written agreement, instruction of approved programs, publishing of courses, qualification of instructors and control, supervision and responsibility over the educational programs.

State General Apportionment Required Data Elements

Each District shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment: Credit Full-time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance and apprenticeship courses, noncredit FTES in actual hour of attendance and distance education courses.

Board of Trustees
Santa Barbara Community College District
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Program Area Tested

Compliance Requirement

Residency Determination For Credit Courses

Each District must act to ensure that only the attendance of California residents is claimed for State support for credit classes.

Students Actively Enrolled

Each District shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

Concurrent Enrollment of K-12 Students in Community College Credit Courses

The District can claim FTES for the attendance of K-12 pupils who take courses offered by the District under concurrent enrollment if the District receives parental consent, courses are held in facilities open to the general public, courses are approved by the District, the instructor teaching the course meets the minimum qualifications, and instruction was conducted under the immediate supervision of a responsible District employee.

Uses of Matriculation Funds

Districts are required to use local funds to support at least 75 percent of the matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and local funded portions, must be consistent with the District's State-approved matriculation plan and identifiable within the ten activities claimable against State matriculation funds. This 25 percent State funds, 75 percent local funds ratio applies district-wide not per college or within individual activity groups.

GANN Limit Calculation

Each District's adopted annual financial and budget report shall include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code Division 9 (commencing with Section 7900). The calculation and adoption shall be verified by certified public accountants as part of annual financial audits.

Enrollment Fees

Districts are required to report the total amount the students should have paid for enrollment fees for purposes of determining their share of apportionments annually.

CalWORKS - Use of State and Federal TANF Funding

Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

Program Area Tested

Compliance Requirement

Scheduled Maintenance Program

Funds provided by the State must be to supplement, not supplant, District deferred maintenance funds. This is defined as the amount spent in 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and the District's match for the Scheduled Maintenance Program for the year being audited.

Open Enrollment

Districts shall adopt by resolution a policy related to open courses, in addition a statement of this policy shall be published in the official catalog, and/or schedule of classes, and addenda to the schedules of classes for which full-time equivalent students is reported for State apportionment. Each District shall file a copy of the statement with the Chancellor.

Minimum Conditions – Standards of Scholarship

As a minimum condition to receive State aid, each District must adopt regulations consistent with the "Standards of Scholarship" contained in the CCR, Title 5 and publish statements of those regulations under appropriate headings in their catalogs. This ensures that students have meaningful access to information concerning such standards. Districts must comply with the adopted regulations.

Student Fee – Instructions Materials and Health Fees

Districts are allowed to require students to provide various types of instructional materials. The governing board of the Districts must have adopted policies or regulations that specify the conditions under which such materials will be required. Districts are permitted to require students to purchase instructional materials from them only under limited circumstances. With respect to health fees, the Districts must advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions.

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Board of Trustees

Santa Barbara Community College District

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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, Santa Barbara Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported and which are described in the accompanying schedule of findings and questioned costs as item 10.3.

This report is intended solely for the information and use of the District's management, the Board of Trustees, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education, 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.



Glenn, Burdette, Phillips & Bryson

Certified Public Accountants

A Professional Corporation

San Luis Obispo, California

November 15, 2010

Findings and Recommendations

**Santa Barbara Community College District
 Schedule of Audit Findings and Questioned Costs
 Year Ended June 30, 2010**

Section I: Summary of Auditors' Results

Financial Statements

(a) Type of auditors' report issued: **Unqualified.**

(b) Internal control over financial reporting:

- Material weakness(es) identified: **No.**
- Significant deficiency(ies) identified not considered to be significant weaknesses: **No.**

(c) Noncompliance material to financial statements noted: **No.**

Federal Awards

(d) Internal control over major programs:

- Material weakness(es) identified: **No.**
- Significant deficiency(ies) identified not considered to be material weaknesses: **No.**

(e) Type of auditors' report issued on compliance for major programs: **Unqualified.**

(f) Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a): **No.**

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.002A	Adult Education and Family Literacy
84.007, 84.032, 84.033, 84.063, 84.375	Student Financial Aid Cluster
84.394A	State Fiscal Stabilization Funds – Education Grants, American Recovery and Reinvestment Act

(g) Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

(h) Auditee qualified as low-risk auditee: **Yes.**

State Awards

(i) Internal control over State programs:

- Material weakness(es) identified? **No.**
- Significant deficiency(ies) identified not considered to be material weaknesses? **No.**

(j) Type of auditors' report issued on compliance for State programs: **Unqualified.**

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2010
Page 2

Section II: Financial Statement Findings

None.

Section III: Federal Award Findings and Questioned Costs

Finding 10.2: Proper Reporting of Federal Awards in the Schedule of Expenditures of Federal Awards and Recording in the General Ledger

Criteria: All federal awards should be reported in the Schedule of Expenditures of Federal Awards (SEFA). In addition, all federal awards should be recorded as federal revenue in the general ledger.

Condition: During the Single Audit in accordance with OMB Circular A-133, we identified one federal award that had not been reported in the SEFA. In addition, while reconciling total federal expenditures per the SEFA to total federal revenue per the general ledger, we identified two federal awards that were incorrectly recorded as state revenue in the general ledger. These two federal grants had been properly reported in the SEFA.

Cause and Effect: The errors occurred because the District did not perform a reconciliation of total federal expenditures per the SEFA to total federal revenue per the general ledger. As a result of the federal award not being reported in the SEFA, the SEFA was understated by approximately \$106,000. This was identified and corrected in the accompanying SEFA during the Single Audit, therefore, this did not impact the determination of major programs. As a result of the two federal awards that were recorded as state revenue in the general ledger, federal revenue was understated and state revenue overstated by approximately \$27,000.

Questioned Costs: None.

Recommendation: We recommend that the District enhance policies and procedures to ensure that all federal grants are properly reported in the SEFA and that all grants are properly recorded in the general ledger based on funding source. In addition, we recommend that the District perform a reconciliation of total federal expenditures per the SEFA to total federal revenue per the general ledger as part of the year-end close process.

District Response: The District has instituted a procedure for reconciling federal award revenue to expenditures. This procedure will assure that all expenditures of federal awards will be properly reported. In the case of the \$106,000 award initially omitted from the SEFA, this award was the Academic Competiveness Grant for student financial aid. The accounting administration for student financial aid is handled by personnel separate from those responsible for other types of federal awards. In addition to reconciling the federal award revenue to expenditures, the District will involve all accounting personnel administering federal awards in the preparation of the schedule of expenditures of federal awards.

Section III: Federal Award Findings and Questioned Costs (Continued)

With regard to the error of recording federal revenue in the state revenue category, the District has instituted a more rigorous procedure to review all new grant awards for proper categorization of revenue. When grants do not come directly from the Federal government, but rather are passed through intermediary institutions, it is sometimes difficult to determine the origin of the funding source. For example, The U.S. Department of Agriculture passes the Child Care Food Program funds of \$26,291 through the California Department of Education. The State Department of Education is the contact for all grant administration. Fiscal reports are filed with and payments are received from the State Department of Education. The other award misclassified as a state revenue fund was \$500 Pre-Kindergarten Resources Contract from the U.S. Department of Health and Human Services which was passed through the California Department of Education. The District's procedure includes a more rigorous review of grant contracts to identify the primary source of funding and the Federal CFDA number that is required for appropriate reporting of Federal awards.

Section IV - State Compliance Findings and Questioned Costs

Finding 10.3: Student's Actively Enrolled

Criteria: A community college district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section) in accordance with the provisions of CCR, Title 5 Sections 58003.1, 58004, 58005 and 58051. For daily census procedure courses, the correct census day should be that nearest one-fifth of the number of sessions for which the course is scheduled to meet, exclusive of mandatory or local holidays.

Condition: During our testing in accordance with State compliance requirements related to students actively enrolled, we identified one course with an incorrect census date. Upon further investigation, it was determined that there was one additional course with an incorrect census date.

Cause and Effect: Census dates are determined automatically by the District's Banner software. The errors in census dates were due to unusual scheduling (i.e. irregular course meeting dates) of the courses. By using the incorrect census date in the District's claim for State apportionment, the District was not in compliance with open enrollment requirements.

Questioned Costs: Based on our review of District attendance records, there was no impact on FTES claimed for one of the courses as the headcount would have been the same if the correct census date had been used. For the other course, the headcount would have been higher if the correct census date had been used; as a result, FTES was under claimed by 0.03 FTES.

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2010
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Section IV - State Compliance Findings and Questioned Costs (Continued)

Recommendation: We recommend that the District continue to work with their Banner software consultant to implement software corrections to ensure that similar errors in census date determination do not occur.

District Response: A team of analysts from District's Information Technology Department and the office of Institutional Assessment, Research, and Planning has analyzed this issue. The exact cause has been identified in the Banner student information system software, and the rare conditions under which the problem occurs are known. If a class has an attendance accounting type of "Daily", and if it has a series of meetings that have gaps between them of a week or more, this sometimes causes the census date to be calculated incorrectly. Depending on the timing of enrollments into the course, this may in turn affect the census headcount, which would have an effect on the attendance full-time equivalent student ("FTES"). In the case of the course, Earth & Planetary Science 105, Topics in Astronomy: Recent NASA Missions, offered in Spring 2010, the course had 8 meeting days meeting days (1 meeting in January, 1 meeting in February, and 2 meetings each in March, April and May). The gaps in the meeting dates caused the calculation of attendance FTES to be understated by 0.03 FTES. In the case of the course Honors 100: Honors Colloquium offered in Spring 2010, although the census date was incorrectly computed, the census headcount was not affected, and thus the FTES were correct. Our analysis showed that there are no other cases of this particular problem in fiscal year 2009-10. An upgrade to the Banner software is currently undergoing tests to insure that the problem is corrected. A consultant with extensive knowledge of attendance accounting rules and their implementation in the Banner system will be on site the week of December 6, 2010, to work with the District analysts in verifying that the software is correctly computing census dates and related data items.

**Santa Barbara Community College District
Schedule of Status of Prior Audit Findings
Year Ended June 30, 2010**

<u>Finding / Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented</u>
<p>Finding 09.1: We recommended that the District evaluate the current assignment of duties including authorization, custody, record keeping and reconciliation over Cafeteria cash disbursements and segregate these duties to the best of their ability. Further, we recommended that the District implement compensating controls where segregation of duties is impractical.</p>	<p>Implemented</p>	
<p>Finding 09.2: We recommended that the District update the parameters in the system query used to identify students who had withdrawn during the period of enrollment. We further recommended that the District implement compensating controls to help to identify, in a timely manner, any future errors in the calculation of the return of Title IV funds.</p>	<p>Implemented</p>	
<p>Finding 09.3: We recommended that the District develop and implement a policy to verify that a party and/or their principals are not suspended or debarred prior to contracting with or making a subaward to that party that involves the use of federal funds.</p>	<p>Implemented</p>	