

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2009

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
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FINANCIAL SECTION

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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, 2009, 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, 2009, were audited by other auditors whose report dated September 30, 2009, 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, 2009, 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 24, 2009, 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 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, 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 24, 2009

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, 2009. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

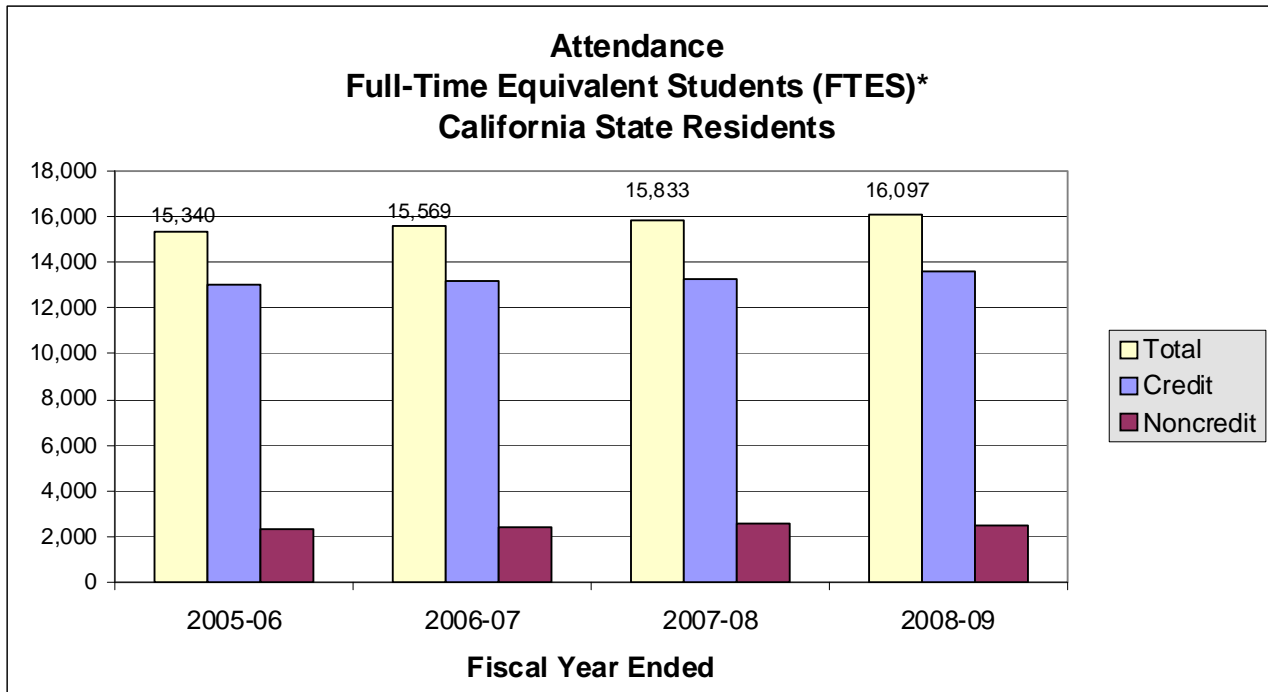
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

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 an optional section (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 2008-09 fiscal year, FTES was 16,097, an increase of 264 FTES or 1.7% 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 nonresidents also increased 16.8% from 1,870 FTES to 2,185 FTES.

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 2008-09 all of the District’s enrollment growth of \$1.5 million was funded. However, the growth funding was offset by

an allocation (\$1.1 million) of the system-wide property tax shortfall. The District also experienced growth in nonresident student enrollment with an increase in nonresident enrollment fees of \$1.8 million compared to the prior year.

Statement of Net Assets

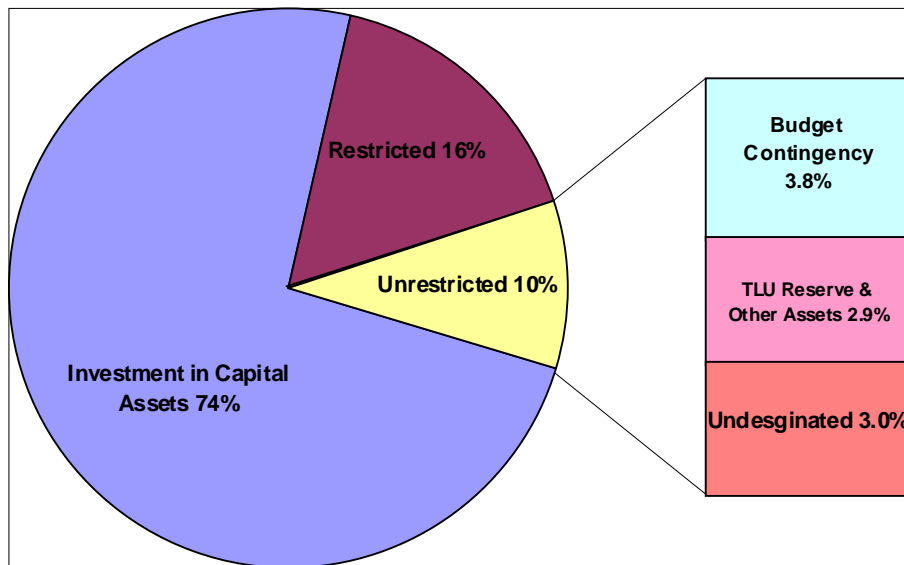
The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District.

Assets	(in thousands)		
	2008	2009	Change
Current assets			
Cash and cash equivalents	\$ 32,017	\$ 79,215	147%
Receivables	10,115	14,359	42%
Inventory and other assets	954	1,466	54%
Total current assets	43,086	95,040	121%
Noncurrent assets			
Capital assets, net	79,961	85,552	7%
Total Assets	\$ 123,047	\$ 180,592	47%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 5,159	\$ 5,163	0%
Deferred revenue	8,411	9,724	16%
Interest payable		1,003	
Bond payable, current portion		1,060	100%
Amounts held for others	35	30	-14%
Total current liabilities	13,605	16,980	25%
Noncurrent liabilities			
Deferred revenue-noncurrent portion	494		-100%
Compensated absences-noncurrent portion	1,294	1,352	4%
Bond payable-noncurrent portion		45,940	100%
Interest payable		33	100%
Net OPEB obligation		371	100%
Loan payable		1,190	100%
Bon premium	615	604	100%
Total Liabilities	16,008	66,470	315%
Net Assets			
Invested in capital assets, net of related debt	79,961	84,328	5%
Restricted	14,870	18,699	26%
Unrestricted	12,208	11,095	-9%
Total Net Assets	107,039	114,122	7%
Total Liabilities and Net Assets	\$ 123,047	\$ 180,592	47%

- Cash and cash equivalents at June 30, 2009 consist of cash in the Santa Barbara County Treasury, \$76 million, and cash in banks, \$3 million.
- Receivables consist mainly of receivables from students for enrollment fees, state and federal grants, and general apportionment, which the district has earned but not yet received as of the fiscal year end. At June 20, 2009, the District was waiting to collect \$7.8 million in State apportionment funds, \$1.1 million in State lottery funds, and \$1.4 million in restricted federal funds. Students owed the District \$2.1 million.

- 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 \$8.7 million related to renovation of buildings, construction in progress and purchase of equipment. Depreciation expense of \$3.2 million was recognized during 2008-09. 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 \$3.3 million, compensated absences \$1.6 million and accrued payroll \$0.2 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 \$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 for facility improvement and renovation. Proceeds from the sales of \$47 million of the bonds are a liability of the District at June 30, 2009 as well as the related accrued interest expense of \$1.0 million. The District borrowed \$1.2 million from the California Energy Resources Conservation and Development Commission for the construction of a photovoltaic energy system.

**Net Assets
June 30, 2009**



The net assets are divided into three major categories. The first category, investment in capital assets of \$84.3 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 \$18.7 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 \$11.1 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 \$4.3 million or 39% 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, \$1.1 million is designated for covering the cost of compensation (teacher load units) banked by instructors to cover future sabbaticals or underloads. Fund balance of \$2.2 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 \$3.5 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 a non-operating revenue in accordance with the business-type activity reporting model adopted by the California community colleges.

	(in thousands)		
	2008	2009	Change
Revenues			
Operating revenues			
Net tuition and fees	\$ 12,302	\$ 15,011	22%
Grants and contracts, noncapital	31,292	34,683	11%
Auxiliary enterprise sales and charges	9,367	9,914	6%
Total operating revenues	52,961	59,608	13%
Total operating expenses	127,987	132,249	3%
Operating Loss	(75,026)	(72,641)	-3%
Nonoperating revenues			
State apportionments, noncapital	48,978	49,030	0%
Local property taxes, general purpose	20,003	21,243	6%
Local property taxes, special purpose		3,228	100%
State taxes and other revenues	3,467	4,033	16%
Investment income	726	1,262	74%
Interest expense		(1,323)	100%
Other nonoperating expense		(9)	100%
Total nonoperating revenues	73,174	77,464	6%
Income (loss) before capital revenues	(1,852)	4,823	-360%
Capital Revenues			
Apportionments and property taxes, capital	4,213	2,260	-46%
Increase (Decrease) in Net Assets	2,361	7,083	200%
Net Assets-beginning of year, restated	104,678	107,039	2%
Net Assets-end of year	\$ 107,039	\$ 114,122	7%

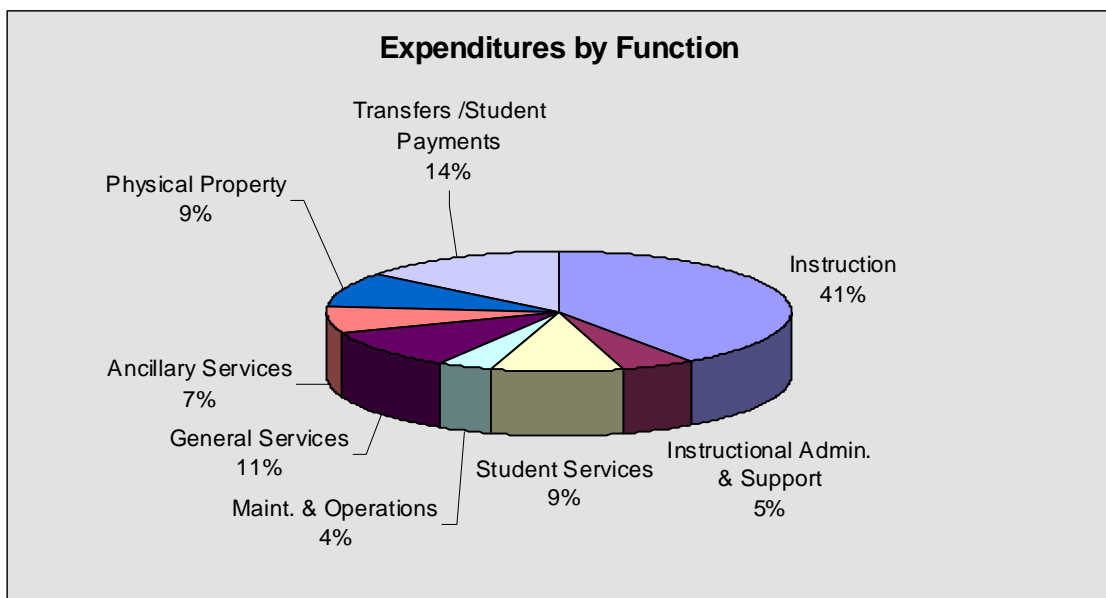
- Tuition and fees for 2008-09 are composed of enrollment fees of \$4.6 million, out-of-state and international student tuition of \$9.2 million and all other fees of \$1.4 million. Tuition and fees are stated net of Board of Governor fee waivers of \$2.6 million awarded to California resident students. Regular enrollment fees, set by the state for all community colleges, were \$20 per unit. District enrollment has increased 3.3% 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, principally attendance, reported to the State by the District. Although attendance increased, State apportionment was static due to due to a shortfall in property tax receipts on a state-wide level.

- Local property taxes increased by \$1.2 million or 6%. Local property tax revenues received through the Auditor-Controller's office of the County of Santa Barbara climbed due to local real estate values. The District also received \$3.2 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 \$2.5 million in lottery revenue, \$0.7 million for part-time faculty compensation, and \$0.6 million for basic skills program.

Operating Expenses (by natural classification)

Expenditures	(in thousands)		
	2008	2009	Change
Salaries	\$ 69,080	\$ 71,019	3%
Employee Benefits	14,773	15,565	5%
Supplies, materials, other operating expenses	39,635	40,897	3%
Utilities	1,604	1,571	-2%
Depreciation	2,895	3,197	10%
Total operating expenses	<u>\$ 127,987</u>	<u>\$ 132,249</u>	<u>3%</u>

- Salaries increased by 3% due to negotiated salary increases for salary step advancement and longevity, the addition of three new instructors, and additional part-time instructors.
- Benefits increased by 5% in keeping with the increase in salary expense plus the accrual of the post-employment health benefit obligation.
- Utilities declined by 2% compared to the prior year. This decline represents the District's energy conservation projects and the mild winter of 2008-09.



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, 2009

Cash provided by (used in)	
Operating activities	\$ (72,566)
Noncapital financing activities	74,300
Capital financing activities	44,959
Investing activities	505
Net increase in cash	47,198
Cash, Beginning of Year	32,017
Cash, End of Year	<u>\$ 79,215</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 \$1.7 million. Capital revenues exceed capital expenses by \$45 million. The District received \$47 million from the sales of bonds approved by voters in June 2008. The District also received \$2.0 million of state and local funding for capital projects. In addition, the District received \$3.2 million in local property tax assessed on property holders related to the voter approved bonds. Capital projects funded from these revenue sources include portable building swing space \$2.4 million, Physical Science building remodel \$1.4 million, School of Media Arts building \$1.8 million, Drama/Music building remodel \$0.9 million and photovoltaic energy system \$0.6 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 64% 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 will create budget pressures for schools. State revenues continue to decline as a result of economic conditions and depressed housing market. Reduction in the State budgeted revenue stream for community colleges is a possibility.

District Budget

- The enacted 2009-10 state budget does not include COLA or Growth funding.

- The enacted 2009-10 state budget contained significant cuts to the California Community College system with a 3.39% reduction to base workload measures commensurate with reductions in general apportionment revenues. The purpose of the workload adjustment is to align full-time equivalent student (FTES) workload with the reduced revenues provided by the state. The workload adjustment provision acknowledges that significant budget cuts will reduce the capacity of the District to offer courses and serve students and reduces workload expectation accordingly.
- The 2009-10 state funding for categorical programs has been reduced by cuts ranging from 34% to 46% after one-time receipt of Federal stimulus money from the American Recovery and Reinvestment Act of 2009.
- 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 property tax collections are reporting significant shortfalls for the first quarter of the fiscal year 2009-10.
- Contracts with labor bargaining units have been extended with no increases to salary schedules for fiscal year 2009-10.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
ASSETS		
Current Assets		
Cash in county treasury	\$ 76,188,573	\$
Cash on hand and in banks	2,962,215	4,565,083
Investments	64,046	516,064
Accounts receivable:		
Federal	1,424,348	
State	9,397,575	
Miscellaneous	3,537,621	
Prepaid expense	10,675	
Current portion of pledges receivable		758,466
Inventory	1,073,059	
Bond issuance costs, net of amortization	381,667	953,543
Total Current Assets	<u>95,039,779</u>	<u>6,793,156</u>
Noncurrent Assets		
Investments in commercial real estate, net		84,375
Pledges receivable-long term portion, net		884,640
Long-term investments		22,206,085
Assets held in charitable remainder trusts		5,389,290
Assets of pooled income fund		267,059
Contributions receivable from remainder trusts		3,092,484
Capital assets, net	85,551,731	40,293
Total Noncurrent Assets	<u>85,551,731</u>	<u>31,964,226</u>
Total Assets	<u>\$ 180,591,510</u>	<u>\$ 38,757,382</u>

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

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 3,270,384	\$ 466,961
Accrued wages	311,117	
Compensated absences and teacher load units	1,581,113	
Scholarships payable		534,380
Deferred revenues	9,723,836	
Interest payable, current portion	1,002,917	
Bond payable, current portion	1,060,000	
Amounts held for others	29,757	
Total Current Liabilities	<u>16,979,124</u>	<u>1,001,341</u>
Noncurrent Liabilities		
Compensated absences and teacher load units	1,352,140	
Interest payable	33,483	
Net OPEB obligation	371,020	
Loan payable	1,190,000	
Bond payable, net of current portion	45,940,000	
Bond premium, net of amortization	603,627	
Liability under unitrust agreements		3,273,964
Discount for future interest pooled income funds		193,928
Refundable advances-revocable split interest agreements		89,936
Total Noncurrent Liabilities	<u>49,490,270</u>	<u>3,557,828</u>
Total Liabilities	<u>66,469,394</u>	<u>4,559,169</u>
Net Assets		
Investment in capital assets, net of related debt	84,361,731	
Temporarily restricted		6,439,055
Permanently restricted		24,135,972
Restricted for:		
Expendable:		
Scholarships and loans	173,137	
Capital projects	7,211,413	
Other special purposes	11,280,782	
Total restricted net assets	<u>103,027,063</u>	<u>30,575,027</u>
Unrestricted	<u>11,095,053</u>	<u>3,623,186</u>
Total Net Assets	<u>114,122,116</u>	<u>34,198,213</u>
Total Liabilities and Net Assets	<u>\$ 180,591,510</u>	<u>\$ 38,757,382</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

	District	Foundation for Santa Barbara City College
Operating Revenues		
Tuition and fees	\$ 17,572,766	\$
Less: Scholarship discount and allowances	(2,562,013)	
Net tuition and fees	15,010,753	
Grants and Contracts, noncapital:		
Federal	18,381,048	
State	9,443,410	
Local	6,858,897	
Contributions and bequests		6,549,083
Interest and dividends		514,271
Gains and losses on investments		(6,451,577)
Other income		275,458
Change in value of split interest agreements		(239,400)
Auxiliary enterprise sales and charges	9,914,262	
Total Operating Revenues	59,608,370	647,835
Operating Expenses		
Salaries	71,018,751	
Employee benefits	15,564,760	
Supplies, materials, and other operating expenses and services	40,897,680	
Utilities	1,571,442	
Depreciation	3,196,868	
College programs and other designated disbursements		2,914,017
Scholarships and awards		892,060
Fundraising expense		634,766
Administrative expense		641,812
Total Operating Expenses	132,249,501	5,082,655
Operating Loss	(72,641,131)	(4,434,820)
Nonoperating Revenues (Expenses)		
State apportionments, noncapital	49,029,535	
Local property taxes	24,471,571	
State taxes and other revenues	4,033,191	
Investment income - noncapital	504,695	
Investment income - capital	757,065	
Investment expense - capital asset-related debt	(1,323,299)	
Other nonoperating expense	(8,804)	
Total Nonoperating Revenues	77,463,954	

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009
PAGE 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Profit (Loss) Before Other Revenue, Expenses, Gains, or Losses	4,822,823	(4,434,820)
Capital Revenues (Expenses)		
State revenues	\$ 1,186,108	\$
Local revenues	<u>1,073,928</u>	
Total Capital Revenues	<u>2,260,036</u>	
Increase (Decrease) in Net Assets	7,082,859	(4,434,820)
Net Assets, Beginning of Year	<u>107,039,257</u>	<u>38,633,033</u>
Net Assets, End of Year	<u>\$ 114,122,116</u>	<u>\$ 34,198,213</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

	District
Cash Flows From Operating Activities	
Tuition and fees	\$ 15,593,746
Federal grants and contracts	18,056,677
State grants and contracts	6,409,418
Local grants and contracts	6,209,060
Payments to employees for salaries	(70,979,764)
Payment for employee benefits	(15,193,740)
Payments to suppliers/utilities	(42,575,820)
Auxiliary enterprise sales and charges	9,914,262
Net cash used by operating activities	(72,566,161)
Cash Flows From Noncapital Financing Activities	
State apportionment	49,029,535
Local property taxes	21,243,257
State taxes and other revenues	4,033,191
Student organization agency activity	(5,707)
Net cash provided by noncapital financing activities	74,300,276
Cash Flows From Capital and Related Financing Activities	
State apportionments for capital purposes	1,186,108
Local property taxes	3,228,314
Proceeds from capital debt	47,816,960
Bond interest and redemption	(315,664)
Interest on capital investments	757,065
Proceeds from sales of capital assets	8,809
Capital grants and gifts received	1,073,928
Purchases of capital assets	(8,796,658)
Net cash provided by capital financing activities	44,958,862
Cash Flows from Investing Activities	
Investment income	504,695
Net cash provided by investing activity	504,695
Net Increase in Cash and Cash Equivalents	47,197,672
Cash and Cash Equivalents - Beginning of Year	32,017,162
Cash and Cash Equivalents - End of Year	\$ 79,214,834

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
PAGE 2

Reconciliation of Net Operating Loss to Net Cash
Used by Operating Activities:

Operating loss	\$ (72,641,131)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	3,196,868
Changes in operating assets and liabilities:	
Receivables	(4,244,453)
Inventory	(120,736)
Prepaid expense	(9,349)
Accounts payable	23,387
Deferred revenue	819,246
Compensated balances	38,987
Net OPEB obligation	371,020
Net Cash Used by Operating Activities	<u>\$ (72,566,161)</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

Note 1 - Summary of Significant Accounting Policies

A. 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 nor 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, 2009, the Foundation distributed \$2,914,017 to the District for restricted purposes and distributed \$892,060 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.

B. 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, 2009

PAGE 2

Note 1 - Summary of Significant Accounting Policies (Continued)

C. 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.

D. 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.

E. 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. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

F. Inventory and Prepaid Expense

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.

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 1 - Summary of Significant Accounting Policies (Continued)

G. 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

H. Deferred Revenues

Deferred revenues include revenues that were collected by the District as of June 30, 2009, but have not yet been earned including federal and State financial assistance and enrollment fees.

I. Noncurrent Liabilities

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

J. Amounts Held for Others

Amounts held for others represent funds held by the District for the associated student government funds and student revolving funds.

K. 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.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
PAGE 4

Note 1 - Summary of Significant Accounting Policies (Continued)

K. Net Assets (Continued)

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.

L. 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.

M. 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.

N. 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.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
PAGE 5

Note 1 - Summary of Significant Accounting Policies (Continued)

O. 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.

P. 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.

Q. New Accounting Pronouncement

In June 2004, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 requires that governments account for, and report, the annual cost of other postemployment benefits (OPEB) and the outstanding obligation and commitments related to OPEB in the same manner as they currently do for pensions. The Statement does not require that governments fund their OPEB plans, only that they account for them and report them. OPEB generally consists of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including their beneficiaries in some cases. GASB 45 is effective for the District for the fiscal period beginning after December 15, 2007. See additional information in Note 7.

Note 2 - Cash and Cash Equivalents

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.

District cash at June 30, 2009, consists of the following:

Deposits:	
Cash on hand and in banks	\$ 2,962,215

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
PAGE 6

Note 2 - Cash and Cash Equivalents (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.

District investments at June 30, 2009, consist of the following:

Pooled Investment Funds:	
Cash in County Treasury	\$76,188,573
Local Agency Investment Fund (LAIF)	25,314
Certificate of Deposit	38,732

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, 2009
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Note 2 - Cash and Cash Equivalents (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 99.9% of total investments.

Note 3 - Foundation Cash and Investments

Foundation cash and investments at June 30, 2009, are presented at their aggregate fair value based on quoted market values, except real estate which is based on donated value less depreciation, and consist of the following at June 30, 2009:

Cash and cash equivalents	\$ 5,079,991
Mutual funds	19,726,476
Equity securities	101,536
Alternative investments	2,379,229
Investment in real estate	<u>84,375</u>
	<u>\$27,371,607</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
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Note 4 - Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2009, is shown below:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets not being depreciated:					
Construction in progress	\$ 7,602,712	\$ 4,136,470	\$ 54,875	\$ (4,902,863)	\$ 6,781,444
Land	5,336,616				5,336,616
Totals	<u>12,939,328</u>	<u>4,136,470</u>	<u>54,875</u>	<u>(4,902,863)</u>	<u>12,118,060</u>
Capital assets being depreciated:					
Buildings	92,941,097	4,214,526		4,902,863	102,058,486
Leasehold improvements	657,403				657,403
Equipment	9,732,209	500,537	98,290		10,134,456
Totals	<u>103,330,709</u>	<u>4,715,063</u>	<u>98,290</u>	<u>4,902,863</u>	<u>112,850,345</u>
Less accumulated depreciation for:					
Buildings	28,356,703	2,474,853			30,831,556
Leasehold improvements	213,655	32,870			246,525
Equipment	7,738,929	689,145	89,481		8,338,593
Totals	<u>36,309,287</u>	<u>3,196,868</u>	<u>89,481</u>		<u>39,416,674</u>
Total capital assets being depreciated, net	<u>67,021,422</u>	<u>1,518,195</u>	<u>8,809</u>	<u>4,902,863</u>	<u>73,433,671</u>
Capital assets, net	<u>\$ 79,960,750</u>	<u>\$ 5,654,665</u>	<u>\$ 63,684</u>	<u>\$ -</u>	<u>\$ 85,551,731</u>

Note 5 - Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2009, is shown below:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	\$ 1,624,015	\$ 171,872	\$	\$ 1,795,887	\$ 1,421,852
Teacher load units	1,120,253	17,113		1,137,366	159,261
Net OPEB obligation		371,020		371,020	
General obligation bonds		47,000,000		47,000,000	1,060,000
Loan payable	595,000	595,000		1,190,000	
Totals	<u>\$ 3,339,268</u>	<u>\$ 48,155,005</u>	<u>\$</u>	<u>\$ 51,494,273</u>	<u>\$ 2,641,113</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 6 - Net Other Postemployment Benefits (OPEB) Obligation

A. 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.

B. 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, 2009, the District contributed \$196,940, all of which was used for current premiums. Contributions ranged from \$210 to \$576 per month for forty-three retirees. The maximum contribution per year is \$5,755 for an individual participant.

As required by GASB 45, 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.

C. Annual OPEB Cost and Net OPEB Obligation/(Asset)

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 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. The following table shows components of the District's annual OPEB cost for the fiscal year ended June 30, 2009, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

Annual Required Contributions	\$ 567,960
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contributions	-
Annual OPEB cost	<u>567,960</u>
Contributions made	<u>(196,940)</u>
Increase in Net OPEB Obligation	<u>371,020</u>
Net OPEB Obligation - beginning of year	<u>-</u>
Net OPEB Obligation - end of year	<u>\$ 371,020</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
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Note 6 - Net Other Postemployment Benefits (OPEB) Obligation (Continued)

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, 2009 are 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

GASB 45 was implemented prospectively.

D. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2009, the end of the first year of GASB 45 applicability, 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>
7/1/07	\$ -	\$ 4,110,034	\$ 4,110,034	0.0%	\$44,899,547	9.2%

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 will be presented as required supplementary information following the notes to the financial statements beginning in the subsequent fiscal year, in order to present multiyear trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. 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 December 7, 2007, actuarial valuation, 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 3.0 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, 2009 was 30 years.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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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. The first principal payment is not due until August 1, 2009. At June 30, 2009, the bonds payable principal balance outstanding was \$47,000,000.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,060,000	\$ 2,385,800	\$ 3,445,800
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
2015-2019	3,750,000	11,140,994	14,890,994
2020-2024	8,315,000	9,558,775	17,873,775
2025-2029	13,680,000	6,781,181	20,461,181
2030-2033	18,595,000	2,542,444	21,137,444
	<u>\$ 47,000,000</u>	<u>\$ 41,699,150</u>	<u>\$ 88,699,150</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, 2009, disbursements of \$1,190,000 had been received by the District.

Future minimum payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	\$ -	\$ -
2011		122,014	122,014
2012	71,148	50,864	122,012
2013	78,584	43,430	122,014
2014	81,717	40,295	122,012
2015-2019	460,067	149,998	610,065
2020-2023	498,484	49,391	547,875
Total	<u>\$ 1,190,000</u>	<u>\$ 455,992</u>	<u>\$ 1,645,992</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
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Note 9 - Unrestricted Net Assets

The following are Board of Trustees' designations of unrestricted net assets as of June 30, 2009:

Banked TLU's	\$ 1,137,366
Reserve for economic uncertainties	<u>4,307,072</u>
Total designated unrestricted net assets	5,444,438
Undesignated	<u>5,650,615</u>
 Total unrestricted net assets	 <u><u>\$ 11,095,053</u></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 are as follows:

<u>Year Ending June 30.</u>	<u>Lease Payments</u>
2010	\$ 348,755
2011	284,862
2012	118,949
2013	<u>6,574</u>
 Total	 <u><u>\$ 759,140</u></u>

Total rent expense of \$409,487 is included in other operating expenses and services for the year ended June 30, 2009.

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.

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 2008-2009 was 8.25% of annual payroll.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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Note 11 - Employee Retirement Systems (Continued)

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$2,871,788, \$2,923,837, and \$2,680,020, 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, 2009, was 9.428%.

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, 2009, 2008, and 2007 were \$2,005,556, \$1,887,878, and \$1,681,618, respectively, and equal 100% of the required contributions for each year.

Note 12 - Joint Ventures (Joint Powers Agreements)

- A. 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.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

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

For the fiscal year ended June 30, 2008 (the most recent data available), the JPA had revenues of \$169,046,612, expenses of \$160,805,930, nonoperating investment income of \$11,619,191, and ending net assets totaling \$84,726,128. 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".

- B. 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, 2008 (the most recent data available) was \$6,994,330 and \$937,463 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".

- C. 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".

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009
PAGE 15

Note 13 - Natural Classification with Functional Classifications

The District's operating expenses by functional classifications for the year ended June 30, 2009, are as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 50,950,720	\$ 2,335,693	\$	\$	\$ 53,286,413
Instructional Administration	4,367,710	604,183			4,971,893
Instructional Support Services	1,811,464	168,075			1,979,539
Admissions and Records	869,197	20,137			889,334
Counseling and Guidance	4,321,241	97,751			4,418,992
Other Student Services	5,575,934	1,226,519			6,802,453
Operations and Maintenance	3,165,780	301,718	1,571,442		5,038,940
Planning and Policy Making	1,118,399	126,060			1,244,459
General Institutional Services	10,251,227	2,250,748			12,501,975
Community Services	259,003	24,148			283,151
Ancillary Services	3,866,359	5,596,769			9,463,128
Auxiliary Operations		1,752			1,752
Physical Property and Related Acquisitions	26,477	9,262,647			9,289,124
Transfers and Student Payments		18,881,481			18,881,481
Depreciation				3,196,868	3,196,868
Total	\$ 86,583,511	\$ 40,897,680	\$ 1,571,442	\$ 3,196,868	\$132,249,501

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 \$19,779,488 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, 2009, would not be material to the District's financial statements and no liability has been recorded for potential claims.

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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David J. Merlo, CPA



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 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, 2009, and have issued our report thereon dated November 24, 2009. 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
- 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 24, 2009

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
ORGANIZATION
JUNE 30, 2009

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

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
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, 2009

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>General Fund</u>		
<u>U.S. Department of Labor:</u>		
Passed through California Department of Education (CDE):		
Workforce Investment Act:		
Associated Degree Nursing (RN) Programs	17.258 *	\$ 543,532
Total U.S. Department of Labor		<u>543,532</u>
 <u>U.S. Department of Education:</u>		
Passed through California Department of Education (CDE):		
Adult Education and Family Literacy	84.002A	482,868
Vocational and Applied Technology Training Act:		
Vocational And Technical Training	84.048	676,336
Technology Preparation	84.048	81,405
Student Financial Aid Cluster:		
Supplemental Educational Opportunity Grant (SEOG)	84.007 *	211,600
Pell Grant Program	84.063 *	6,901,417
Federal Family Education Loan (FFELP)	84.032 *	8,058,256
Federal Work Study	84.033 *	314,827
Childcare Access Means Parents in School	84.335A	35,912
Total U.S. Department of Education		<u>16,762,621</u>
 <u>U.S. Department of Health and Human Services:</u>		
Passed through California Department of Education (CDE):		
Temporary Assistance for Needy Families	93.558	36,397
Pre-Kindergarten Resource Contract/Child Development	93.575	2,027
Total U.S. Department of Health and Human Services		<u>38,424</u>
 <u>U.S. Department of Agriculture:</u>		
Passed through California Department of Education (CDE):		
Child Care Food Program	10.558	24,258
Total U.S. Department of Agriculture		<u>24,258</u>
Total Expenditures of Federal Awards		<u>\$ 17,368,835</u>

* Major federal award program.

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, 2009

	<u>Reported Data</u>
A. Credit California Resident Full-Time Equivalent Student (FTES)	
1. Weekly census	10,670.68
2. Daily census	413.67
3. Actual hour of attendance	1,206.05
4. Independent study/work experience	395.81
5. Summer 2008	901.37
6. Summer 2009	10.77
	13,598.35
Total	13,598.35
B. Noncredit California Resident FTES	
1. Actual hour of attendance	2,165.82
2. Summer 2008	333.14
3. Summer 2009	-
4. Independent study/work experience	-
	2,498.96
Total	2,498.96

There were no audit adjustments to the reported data.

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, 2009

	<u>Fiduciary Fund Type</u>
	<u>Expendable Trusts</u>
June 30, 2009, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	\$ 2,418,935
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	<u>(29,757)</u>
June 30, 2009, Audited Financial Statements Fund Balance	<u>\$ 2,389,178</u>

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, 2009

Description	General Fund	Enterprise Fund Bookstore	Special Revenue Funds	
			Food Service	Child Development
<u>Revenues</u>				
Federal Revenues	\$ 2,204,985	\$	\$ 1,535	\$ 35,912
State Revenues	61,767,179			188,674
Local Revenues	40,571,388	7,335,306	2,578,956	329,192
Total revenues	<u>104,543,552</u>	<u>7,335,306</u>	<u>2,580,491</u>	<u>553,778</u>
<u>Expenditures</u>				
Academic Salaries	43,871,203			328,071
Classified Salaries	24,754,536	707,680	924,827	217,374
Employee Benefits	14,635,881	220,265	176,391	160,800
Supplies and Materials	2,546,425	5,299,132	1,233,201	31,869
Other Operating Expenses and Services	9,699,284	600,607	115,697	2,070
Capital Outlay	588,665			1,200
Total expenditures	<u>96,095,994</u>	<u>6,827,684</u>	<u>2,450,116</u>	<u>741,384</u>
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	8,447,558	507,622	130,375	(187,606)
<u>Net Other Financing Sources (Uses)</u>	(3,173,464)	(347,838)		220,325
<u>Net Increase (Decrease) in Fund Balance</u>	5,274,094	159,784	130,375	32,719
<u>Beginning Fund Balance - June 30, 2008</u>	11,209,120	5,227,026	185,018	79,463
<u>Ending Fund Balance - June 30, 2009</u>	<u>\$ 16,483,214</u>	<u>\$ 5,386,810</u>	<u>\$ 315,393</u>	<u>\$ 112,182</u>
Reconciliation to Increase in Net Assets				
Net Increase in Fund Balance	\$ 50,198,914			
Change in:				
Prepaid supplies	(3,324)			
Bond issuance costs	381,667			
Capital assets	8,787,849			
Depreciation expense	(3,121,404)			
Amounts held for others	5,707			
Compensated absences and teacher load units	(188,986)			
Bond proceeds	(47,000,000)			
Bond premium	(603,627)			
Bond interest payable	(1,002,917)			
Net OPEB obligation	(371,020)			
Increase in Net Assets	<u>\$ 7,082,859</u>			

See accompanying note to supplementary information.

Capital Projects Funds	Internal Service Funds	Revenue Bond Construction Fund	Bond Interest & Redemption Fund	Fiduciary Funds Group	Total
\$	\$	\$	\$	\$ 16,138,615	\$ 18,381,047
1,186,109		47,000,000		550,283	110,692,245
<u>1,373,532</u>	<u>40,076</u>	<u>466,269</u>	<u>3,485,381</u>	<u>2,672,953</u>	<u>58,853,053</u>
<u>2,559,641</u>	<u>40,076</u>	<u>47,466,269</u>	<u>3,485,381</u>	<u>19,361,851</u>	<u>187,926,345</u>
		7,837			44,207,111
		18,238			26,622,655
		402			15,193,739
1,775		4,614		749,851	9,866,867
165,703	129,146	101,523		1,097,239	11,911,269
<u>5,963,118</u>	<u>3,117</u>	<u>4,135,519</u>		<u>18,185</u>	<u>10,709,804</u>
<u>6,130,596</u>	<u>132,263</u>	<u>4,268,133</u>	<u>-</u>	<u>1,865,275</u>	<u>118,511,445</u>
(3,570,955)	(92,187)	43,198,136	3,485,381	17,496,576	69,414,900
<u>2,002,717</u>			<u>(334,306)</u>	<u>(17,583,420)</u>	<u>(19,215,986)</u>
(1,568,238)	(92,187)	43,198,136	3,151,075	(86,844)	50,198,914
<u>11,391,515</u>	<u>909,800</u>			<u>2,505,779</u>	<u>31,507,721</u>
<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>

Reconciliation to Ending Net Assets

Ending Fund Balance	\$ 81,706,635
Prepaid supplies	110,191
Capital assets, net of accumulated depreciation	83,864,197
Bond issuance costs, net of accumulated amortization	381,667
Amounts held for others	(29,757)
Compensated absences and teacher load units	(2,933,253)
Bond payable	(47,000,000)
Bond premium, net of accumulated amortization	(603,627)
Bond interest payable	(1,002,917)
Net OPEB obligation	(371,020)
Ending Net Assets	<u>\$114,122,116</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2009

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2009, 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
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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, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2009. 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

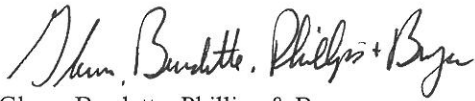
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies 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.

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*.

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 24, 2009

Principals:

David W. Phillips, CPA
David A. Bryson, CPA
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**Independent Auditors' Report on Compliance with Requirements
Applicable to 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 are applicable to each of its major federal programs for the year ended June 30, 2009. 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, 2009. 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 items 09.2 and 09.3.

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 control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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.

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 24, 2009

Principals:
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Keith V. Lapp (1932-2008)

CERTIFIED PUBLIC ACCOUNTANTS
TAX AND BUSINESS ADVISORS

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, 2009, and have issued our report thereon dated November 24, 2009. 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 *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office:

<u>Program Area Tested</u>	<u>Compliance Requirement</u>
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.

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.

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, 2009.

Board of Trustees
Santa Barbara Community College District
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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 24, 2009

FINDINGS AND RECOMMENDATIONS

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.032, 84.033, 84.063 17.258	Student Financial Aid Cluster Workforce Investment Act: Associated Degree Nursing (RN) Programs

- (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, 2009
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Section II - Financial Statement Findings

Finding 09.1 – Lack of Segregation of Duties over Cafeteria Cash Disbursements

Criteria: There are generally four phases for an accounting process or operation: authorization, custody, record keeping and reconciliation. A well-designed system of internal control contemplates the allocation of duties among personnel such that each of these four functions would be performed by a different person.

Condition: During documentation of the controls over Cafeteria cash disbursements, we identified that the same employee has approval authority, has custody of blank checks and handles record keeping.

Cause and Effect: Adequate segregation of duties over Cafeteria cash disbursements can help to mitigate human error and risk of misappropriation.

Questioned Costs: None.

Recommendation: We recommend 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 recommend that the District implement compensating controls where segregation of duties is impractical.

District Response: The District has changed the assignment of duties for Food Service accounting to match the segregation used for recordkeeping, custodianship of checks and approval responsibilities used for other funds of the District. Reconciliations have not been the responsibility of the Food Service accountant and that will continue to be the case.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009
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Section III - Federal Award Findings and Questioned Costs

Finding 09.2 – Student Financial Aid Cluster, Return of Title IV Funds

Condition: During testing of Student Financial Aid Cluster Special Tests and Provisions, Return of Title IV Funds, we identified students who were omitted in error from the District’s calculation of return of Title IV funds. Based on further investigation and discussion with Financial Aid staff, this occurred due to incorrect parameters in the system query used to identify students who had withdrawn during the period of enrollment.

Cause and Effect: The omission of students from the District’s calculation of return of Title IV funds resulted in under-reporting of the return of Title IV funds. In addition, the District was not in compliance with required timeframes for the determination of withdrawal date and return of Title IV funds.

Questioned Costs: Financial Aid staff analyzed the student population to identify students who had been omitted from the original calculations. The additional amounts of return of Title IV funds were \$20,540 for Fall 2007, \$24,765 for Spring 2008, and \$688 for Summer 2008.

Recommendation: We recommend that the District update the parameters in the system query used to identify students who had withdrawn during the period of enrollment. We further recommend 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.

District Response: The Financial Aid staff corrected the parameter values for the Banner process/report that determines the students subject to the Return to Title IV calculation at the end of a semester. Financial aid recipients with completion values of “W” (withdrawal), “NC” (not completed), and “F” (fail) are subject to Return to Title IV calculation. The parameter set was corrected starting with the Spring 2009 semester.

For prior applicable quarters, the Financial Aid staff analyzed the student population to identify students who had been omitted from the original calculation. The additional amounts due were \$20,540.03 Fall 2007, \$24,764.52 Spring 2008, and \$688.10 Summer 2008. These corrections have been submitted to the Department of Education through the Common Origination Disbursement (COD) system or to the ELM loan system.

The Banner query parameters have been set to default to the correct inclusive parameter set. Financial Aid staff has been trained to recognize the correct parameter set and to make sure the default is correctly invoked. Additionally, the Fiscal Services staff who process the return of Title IV funds to the Federal government compare the amounts returned to expected values. Values outside of the expected value range will be investigated.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009
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Section III - Federal Award Findings and Questioned Costs (Continued)

Finding 09.3 – Verification of Suspended or Debarred Parties under OMB Circular A-133

Criteria: OMB A-133 prohibits school districts from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

Condition: During our discussion with District accounting staff, we noted that the District does not have a formal 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. During our internal control testing of major programs and expenditures of federal awards, we did not identify any instances where the District contracted with or provided subawards to parties that are suspended or debarred or whose principals are suspended or debarred.

Cause and Effect: If the District was to contract with or provide a subaward to a party that is suspended or debarred or whose principals are suspended or debarred, this would result in noncompliance and could impact the District’s federal funding.

Questioned Costs: None.

Recommendation: We recommend 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.

District Response: The District has implemented procedures to verify that vendors for contracts in excess of \$25,000 and all subawards charged to Federal grants have not been suspended or debarred per the Excluded Parties List System at www.epls.gov.

Section IV - State Compliance Findings and Questioned Costs

None.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009

There were no findings for the year ended June 30, 2008.