

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2011

**Santa Barbara Community College District
Financial Statements
June 30, 2011**

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Santa Barbara Community College District

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Financial Section



Independent Auditors' Report on Financial Statements

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

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, 2011, 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, 2011, were audited by other auditors whose report dated October 20, 2011, 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, 2011, 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.

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Board of Trustees
Santa Barbara Community College District
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 7 through 13 and the Schedule of Funding Progress for OPEB Obligation on page 36 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Glenn Burdette
Certified Public Accountants
San Luis Obispo, California

November 10, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

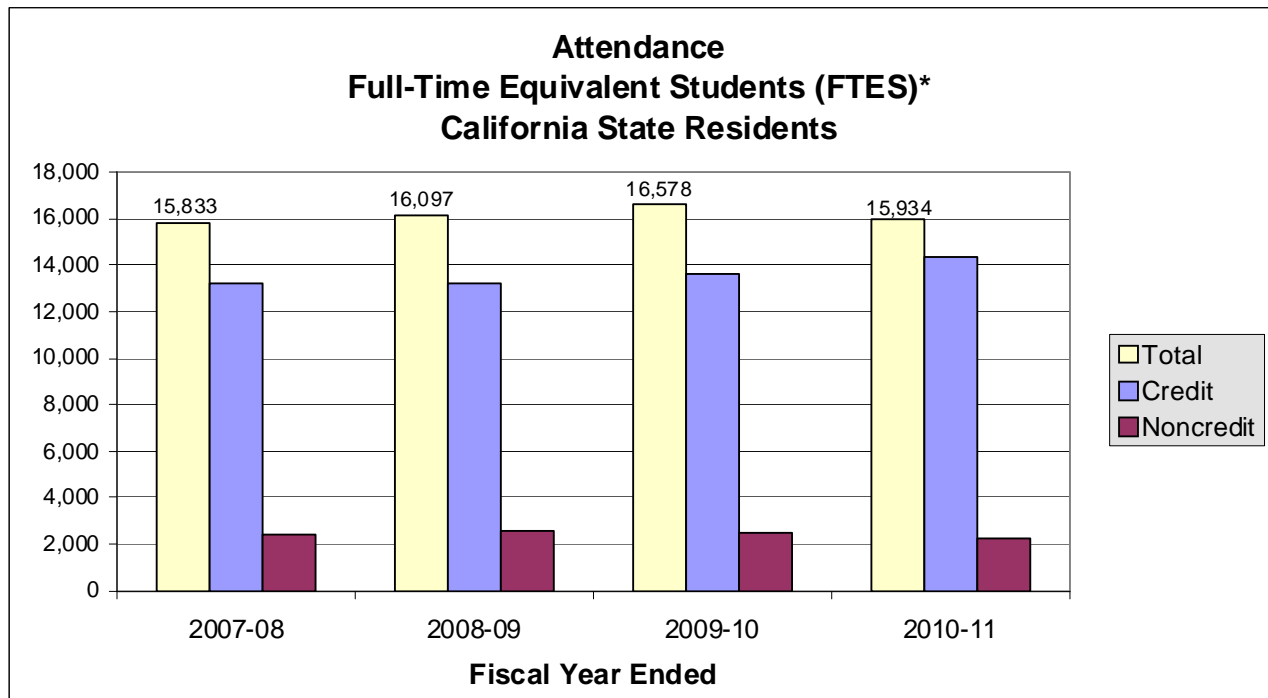
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

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

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

Financial Highlights

- The District’s primary funding source is apportionment received from the State of California. The main basis of this apportionment is student attendance as measured by Full-Time Equivalent Students (“FTES”). During the 2010-11 fiscal year, FTES was 15,934, an decrease of (644) FTES or (3.9%) from the prior year.



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

Enrollment of nonresident student at 2,194 FTES was 10 FTES or 0.5% more than the prior year.

In most years the District's growth in California resident FTES is funded by state apportionment awarded specifically for growth. Although the District's enrollment declined, because the State of California reduced workload measures due to funding reductions, the District was eligible for growth funding. In 2010-11 the District's enrollment growth of \$1.8 million was funded. However, the growth funding was offset by an allocation (\$0.4 million) of the system-wide deficit. Nonresident enrollment fees declined by (\$0.2 million) compared to the prior year due to enrollment fee rate decline.

Statement of Net Assets

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

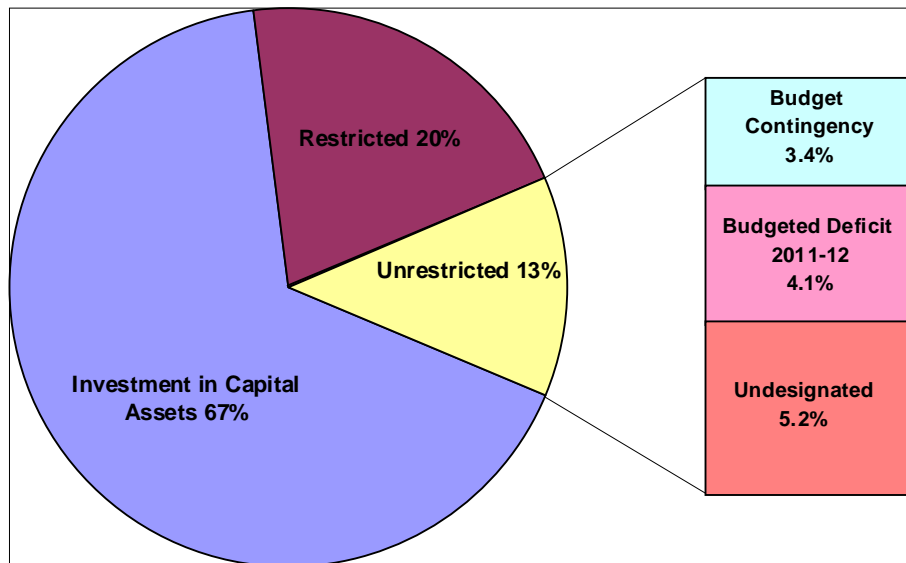
Summarized Statement of Net Assets As of June 30, 2010 and 2011

Assets	(in thousands)		
	2010	2011	Change
Assets			
Current assets			
Cash and cash equivalents	\$ 72,791	\$ 66,392	-9%
Receivables	19,531	17,075	-13%
Inventory and other assets	1,408	1,329	-6%
Total current assets	93,730	84,796	-10%
Noncurrent assets			
Capital assets, net	102,207	113,441	11%
Total Assets	\$ 195,937	\$ 198,237	1%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	\$ 8,242	\$ 7,232	-12%
Deferred revenue	7,866	8,295	5%
Interest payable	1,086	970	-11%
Bond payable, current portion	1,035	100	-90%
Loan payable, current portion	21	116	0%
Amounts held for others	38	46	21%
Total current liabilities	18,288	16,759	-8%
Noncurrent liabilities			
Compensated absences-noncurrent portion	1,434	1,751	22%
Bond payable-noncurrent portion	44,905	44,805	0%
Net OPEB obligation	682	958	40%
Loan payable	1,929	1,818	-6%
Bond premium	579	553	-4%
Total Liabilities	67,817	66,644	-2%
Net Assets			
Invested in capital assets, net of related debt	89,031	87,862	-1%
Restricted	24,137	27,023	12%
Unrestricted	14,952	16,708	12%
Total Net Assets	\$ 128,120	\$ 131,593	3%

- Cash and cash equivalents at June 30, 2011 consist of cash in the Santa Barbara County Treasury, \$61.7 million, and cash in banks, \$4.6 million. Of the \$61.7 million in the County Treasury, \$26.6 million was related to Measure V bond activity.

- Receivables consist mainly of receivables for state general apportionment, state and federal grants, and student enrollment fees which the district has earned but not yet received as of the fiscal year end. At June 30, 2011, the District was waiting to collect, \$11.4 million in state apportionment funds, 1.5 million in state restricted funds, \$3.4 million in student fees, \$1.2million in restricted federal funds and \$0.9 million in local funds.
- Capital assets, net of depreciation, are the net historical values of land, buildings, construction in progress and equipment less accumulated depreciation. The District added net capital assets of \$14.9 million related to renovation of buildings, construction in progress and purchase of equipment. Depreciation expense of \$3.7 million was recognized during 2010-11. 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 \$5.5 million, compensated absences and accrued payroll \$1.7 million.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when related costs are incurred.
- Non-current liabilities consist of the portion of compensated absences and teacher load units \$1.8 million that will be paid by the District in one year or later. In June 2008, the voters of the Santa Barbara Community College District approved bonds of \$77 million of which \$47 million has been issued. The total outstanding balance of the bond at June 30, 2011 was \$44.9 million with \$0.1 million due within one year and \$44.8 million due in greater than one year. The District borrowed \$1.95 million from the California Energy Resources Conservation and Development Commission for the construction of a photovoltaic energy system. The unpaid balance of the loan at June 30, 2011 was 1.8 million. The District provides post-employment health care benefits to early retirees. The actuarially determined liability for Other Postemployment Benefits (OPEB) is \$1.0 million. The District’s policy is to pay healthcare premiums for retirees as they fall due.

**Net Assets
June 30, 2011**



The net assets are divided into three major categories. The first category, investment in capital assets of \$87.9 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 \$27.0 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 \$16.7 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 \$4.4 million or 27% of unrestricted net assets is designated as a budget contingency. This budget contingency is based on 5% of budgeted unrestricted general fund expenditures. For the 2011-12 fiscal year, the Board of Trustees have approved a deficit budget utilizing \$5.4 million or 32% of net assets to cover the amount by which budget expenditures exceed budgeted revenues. The remaining \$6.8 million of unrestricted net assets is not designated for a specific purpose.

Statement of Revenues, Expenses and Changes in Net Assets

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

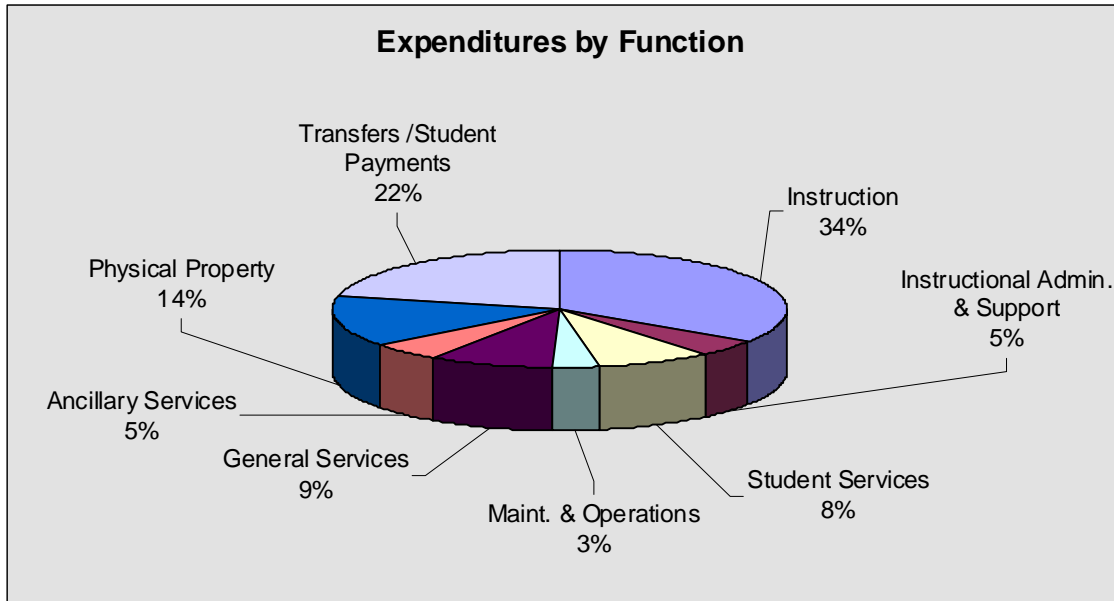
	(in thousands)		
	2010	2011	Change
Revenues			
Operating revenues			
Net tuition and fees	\$ 16,906	\$ 16,521	-2%
Grants and contracts, noncapital	39,696	47,099	19%
Auxiliary enterprise sales and charges	9,563	9,587	0%
Total operating revenues	<u>66,165</u>	<u>73,207</u>	11%
Total operating expenses	<u>136,466</u>	<u>145,603</u>	7%
Operating Loss	<u>(70,301)</u>	<u>(72,396)</u>	3%
Nonoperating revenues			
State apportionments, noncapital	46,678	47,987	3%
Local property taxes, general purpose	21,548	25,052	16%
Local property taxes, special purpose	3,436	0	-100%
State taxes and other revenues	3,191	3,233	1%
Investment income	900	604	-33%
Interest expense	(2,343)	(2,302)	-2%
Other nonoperating expense	4	41	925%
Total nonoperating revenues	<u>73,414</u>	<u>74,615</u>	2%
Income before capital revenues	3,113	2,219	-29%
Capital Revenues			
Apportionments and property taxes, capital	10,885	1,254	-88%
Increase in Net Assets	13,998	3,473	-75%
Net Assets-beginning of year	<u>114,122</u>	<u>128,120</u>	12%
Net Assets-end of year	<u>\$ 128,120</u>	<u>\$ 131,593</u>	3%

- Tuition and fees for 2010-11 are composed of enrollment fees of \$5.2 million, out-of-state and international student tuition of \$9.8 million and all other fees of \$1.5 million. Tuition and fees are stated net of Board of Governor fee waivers of \$4.3 million awarded to California resident students. Regular enrollment fees, set by the state for all community colleges, were \$26 per unit. District enrollment has declined (3.4%) from the prior year.
- Auxiliary enterprise sales consist of Bookstore and Food Service sales.
- State apportionment, non-capital, is generated based on the workload measures (student attendance) reported to the State by the District. Although attendance declined, State apportionment increased \$1.3 million due to a 3.39% reduction in funded workload targets.
- Local property taxes increased slightly by \$72,000 or 0.33%. Local property tax revenues are received through the Auditor-Controller's office of the County of Santa Barbara. The District also received \$3.4 million in local property tax assessed for bond payments related to the bond measure approved by the voters in June 2008.
- Grants and contract revenues relate to student financial aid and specific federal and state grants received for programs serving students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs. Major increases were in state categorical programs and in a statewide financial aid media campaign program.
- State taxes and other revenue consist primarily of \$2.5 million in lottery revenue, \$0.3 million for part-time faculty compensation, and \$0.2 million for basic skills program.

Operating Expenses (by natural classification)

Expenditures	(in thousands)		
	2010	2011	Change
Salaries	\$ 68,293	\$ 67,842	-1%
Employee benefits	15,520	15,988	3%
Supplies, materials, other operating expenses	47,890	56,666	18%
Utilities	1,434	1,455	1%
Depreciation	3,329	3,652	10%
Total operating expenses	<u>\$ 136,466</u>	<u>\$ 145,603</u>	<u>7%</u>

- Salaries declined by 1% as the District reduced part-time workers in keeping with the workload measure reduction in funding at the State level.
- Benefits increase by 3% due to increases in the health insurance benefits and contribution rate to California Public Employees' Retirement System (CalPERS).
- Supplies, materials and other operating expenses increased 18% due to increased disbursement of financial aid grants and loans and interest expense on borrowings.
- Utilities increased by 1% compared to the prior year.



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, 2011

	(in thousands)
Cash provided by (used in)	
Operating activities	\$ (66,214)
Noncapital financing activities	72,844
Capital financing activities	(13,269)
Investing activities	240
Net decrease in cash	<u>(6,399)</u>
Cash, Beginning of Year	72,791
Cash, End of Year	<u><u>\$ 66,392</u></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 \$6.6 million. Capital expenditures exceed capital revenues by \$13.3 million. The District received \$0.6 million in state funds for the Drama/Music project. Capital project expenditures included Drama/Music building remodel \$9.0 million, La Playa track and field replacement \$1.1 million, Humanities building modernization \$0.9 million, network infrastructure \$0.6 million, and Pershing Park softball field upgrade \$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 59% of the total revenue of the District.
- The condition of community college finances is driven by Proposition 98, which in turn is dependent upon the California economy and state tax revenues. The economic recession continues to create budget pressures for schools. State revenues remain low as a result of economic conditions and depressed housing market. The failure of the State legislature to approve a timely budget forced school districts to find alternative cash resources until late October.

District Budget

- The enacted 2011-12 state budget includes a \$400 million cut to base apportionments offset by \$110 million in increased fee revenue owing to an increase in fees from \$26 to \$36 per unit for a net apportionment reduction of \$290 million (about 4.9%). The impact of the cuts for the District is a workload reduction of \$4.3 million in state apportionment.
- The enacted 2011-12 state budget included \$129 million in new deferrals, bringing the total deferral for the system to \$961 million (about 17% of the budget). For the District the deferral will total \$12.8 million.
- The enacted 2011-12 state budget provides no funding for either growth or COLA, nor restoration of the categorical program reductions that were enacted in the 2009 Budget Act.
- The enacted 2011-12 state budget contains midyear trigger actions if revenues do not materialize at the levels assumed in the budget. State revenues are below forecast and community colleges are advised to prepare for mid-year cuts of \$127 million or about 2.3%.
- Contracts with labor bargaining units were extended with increases to health and welfare benefits, but no increases to salary schedules for fiscal year 2011-12.

Santa Barbara Community College District
Statement of Net Assets
June 30, 2011

	District	Foundation for Santa Barbara City College
Assets		
Current assets:		
Cash in county treasury	\$ 61,745,570	\$
Cash on hand and in banks	4,620,478	1,028,447
Investments	25,605	1,864,353
Accounts receivable:		
Federal	1,240,183	
State	12,983,944	
Miscellaneous	2,850,949	
Prepaid expense	20,033	
Current portion of pledges receivable		816,468
Inventory	958,760	
Bond issuance costs, net of amortization	349,971	439,691
Total current assets	84,795,493	4,148,959
Noncurrent assets:		
Investments in commercial real estate, net		16,875
Pledges receivable-long term portion, net		983,494
Long-term investments		30,346,003
Assets held in FCCC-Osher		831,071
Assets held in charitable remainder trusts		6,896,963
Assets of pooled income fund		188,355
Contributions receivable from remainder trusts		3,743,985
Capital assets, net	113,441,386	18,615
Total noncurrent assets	113,441,386	43,025,361
Total assets	198,236,879	47,174,320

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

Santa Barbara Community College District

Statement of Net Assets

June 30, 2011

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	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 5,471,604	\$ 405,585
Accrued wages	255,175	
Compensated absences and teacher load units	1,504,693	
Scholarships payable		539,375
Deferred revenues	8,295,120	
Interest payable, current portion	969,674	
Bond payable, current portion	100,000	
Loan payable, current portion	116,386	
Amounts held for others	45,904	
Total current liabilities	<u>16,758,556</u>	<u>944,960</u>
Noncurrent liabilities:		
Compensated absences and teacher load units	1,750,945	
Net OPEB obligation	958,362	
Loan payable, net of current portion	1,817,596	
Bond payable, net of current portion	44,805,000	
Bond premium, net of amortization	553,499	
Liability under unitrust agreements		4,109,196
Discount for future interest pooled income funds		140,778
Refundable advances-revocable split interest agreements		97,236
Total noncurrent liabilities	<u>49,885,402</u>	<u>4,347,210</u>
Total liabilities	<u>66,643,958</u>	<u>5,292,170</u>
Net Assets		
Investment in capital assets, net of related debt	86,943,551	
Temporarily restricted		12,376,004
Permanently restricted		26,271,675
Restricted for:		
Expendable:		
Scholarships and loans	169,320	
Capital projects	15,250,272	
Debt service	2,292,492	
Other special purposes	10,229,274	
Total restricted net assets	<u>27,941,358</u>	<u>38,647,679</u>
Unrestricted	<u>16,708,012</u>	<u>3,234,471</u>
Total net assets	<u>\$ 131,592,921</u>	<u>\$ 41,882,150</u>

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

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

	District	Foundation for Santa Barbara City College
Operating revenues:		
Tuition and fees	\$ 20,826,945	\$
Less: Scholarship discount and allowances	(4,305,955)	
Net tuition and fees	16,520,990	
Grants and contracts, noncapital:		
Federal	32,136,066	
State	8,752,663	
Local	6,210,384	
Contributions and bequests		3,902,145
Interest and dividends		458,211
Gains and losses on investments		4,271,031
Other income		328,815
Change in value of split interest agreements		1,172,313
Auxiliary enterprise sales and charges	9,586,716	
Total operating revenues	73,206,819	10,132,515
Operating expenses:		
Salaries	67,842,390	
Employee benefits	15,988,231	
Supplies, materials, and other operating expenses and services	56,666,417	
Utilities	1,454,827	
Depreciation	3,651,569	
College programs and other designated disbursements		2,260,161
Scholarships and awards		930,290
Fundraising expense		615,070
Administrative expense	589,974	
Total operating expenses	145,603,434	4,395,495
Operating Loss	(72,396,615)	5,737,020
Nonoperating revenues and expenses		
State apportionments, noncapital	47,986,896	
Local property taxes	25,051,775	
State taxes and other revenues	3,233,283	
Investment income - noncapital	239,626	
Investment income - capital	364,106	
Investment expense - capital asset-related debt	(2,301,586)	
Other nonoperating revenue	40,511	
Total nonoperating revenues	74,614,611	
Income before other revenue, expenses, gains, or losses	2,217,996	5,737,020

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

Santa Barbara Community College District
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
Page 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Other revenues and expenses:		
Capital State revenues	\$ 693,000	\$
Capital local revenues	<u>561,572</u>	
Total other revenues	<u>1,254,572</u>	
Increase in net assets	3,472,568	5,737,020
Net assets, beginning of year	<u>128,120,353</u>	<u>36,145,130</u>
Net assets, end of year	<u><u>\$ 131,592,921</u></u>	<u><u>\$ 41,882,150</u></u>

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2011

Cash flows from operating activities:

Tuition and fees	\$ 17,488,621
Federal grants and contracts	32,427,559
State grants and contracts	10,713,758
Local grants and contracts	5,875,293
Payments to employees for salaries	(67,641,998)
Payment for employee benefits	(15,711,589)
Payments to suppliers/utilities	(58,952,241)
Auxiliary enterprise sales and charges	<u>9,586,716</u>
Net cash used in operating activities	<u>(66,213,881)</u>

Cash flows from noncapital financing activities:

State apportionment	47,986,896
Local property taxes	21,616,318
State taxes and other revenues	3,233,283
Student organization agency activity	<u>7,538</u>
Net cash provided by noncapital financing activities	<u>72,844,035</u>

Cash flows from capital and related financing activities:

State apportionments for capital purposes	693,000
Local property taxes	3,435,457
Debt interest and redemption	(3,494,047)
Interest on capital investments	364,106
Capital grants and gifts received	561,572
Nonoperating revenue	56,359
Purchases of capital assets	<u>(14,885,641)</u>
Net cash used in capital financing activities	<u>(13,269,194)</u>

Cash flows from investing activities:

Investment income	<u>239,626</u>
Net cash provided by (used in) investing activity	<u>239,626</u>

Net decrease in cash (6,399,414)

Cash - beginning of year 72,791,067

Cash - end of year \$ 66,391,653

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2011
Page 2

Reconciliation of net operating loss to net cash used by operating activities:

Operating loss	\$ (72,396,615)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,651,569
Changes in operating assets and liabilities:	
Receivables	2,456,592
Prepaid expense	(2,724)
Inventory	65,431
Accounts payable	(893,704)
Deferred revenue	428,536
Compensated balances	200,392
Net OPEB obligation	<u>276,642</u>
Net cash used in operating activities	<u>\$ (66,213,881)</u>

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

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2011

Note 1: The Reporting Entity

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

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

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

During the year ended June 30, 2011, the Foundation distributed \$2,260,161 to the District for restricted purposes and distributed \$930,290 to students for scholarships and awards. Complete financial statements for the Foundation can be obtained from the Foundation's office at 721 Cliff Drive, Santa Barbara, CA 93109-2394.

Note 2: Summary of Significant Accounting Policies

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, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

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

All intra-district transactions have been eliminated.

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

Budgets and Budgetary Accounting

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

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

Receivables

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

Inventory

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Prepaid Expense

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

Capital Assets

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

The following estimated useful lives are used to compute depreciation:

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

Deferred Revenues

Deferred revenues include revenues that were collected by the District as of June 30, 2011, but have not yet been earned including Federal and State financial assistance and enrollment fees.

Noncurrent Liabilities

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

Amounts Held for Others

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Net Assets

The District's net assets are classified as follows:

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

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

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

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

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

Operating and Nonoperating Transactions

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

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

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

Tuition and Fees

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Employee Retirement Plans

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

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

Accumulated unpaid benefits for vacation and compensated absences are recognized as liabilities of the District. The accumulated benefits will be liquidated in future years as employees elect to use them. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations of the year in which they are to be paid. Teacher load units accumulate according to the terms of the teacher's contract and will be liquidated in future years as employees elect to use them. Accumulated teacher load units may be used to augment a teaching load up to the standard requirement or to augment sabbatical leave so that an instructor may receive full pay while on sabbatical. Accumulated teacher load units may be paid out in cash upon termination of employment. Accumulated employee sick leave benefits are not recognized as liabilities of the District as the rights to these benefits do not vest. Benefits are recorded as expenditures in the period that sick leaves are taken.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Events subsequent to June 30, 2011 have been evaluated through November 10, 2011, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Cash and Investments

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

At June 30, 2011, District cash consisted of the following:

Deposits:	
Cash on hand and in banks	\$ 4,620,478

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 3: Cash and Investments (Continued)

Custodial Credit Risk - Deposits

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

At June 30, 2011, District investments consisted of the following:

Pooled Investment Funds:	
Cash in County Treasury	\$ 61,745,570
Local Agency Investment Fund (LAIF)	25,605

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, 2011
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Note 3: Cash and Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

Note 4: Foundation Cash and Investments

At June 30, 2011, Foundation cash and investments were presented at their aggregate fair value based on quoted market values, except real estate which is based on donated value less depreciation, and consisted of the following:

Cash and cash equivalents	\$ 1,473,984
Mutual funds	23,690,781
Equity securities	100,380
Alternative investments	8,804,729
Investment in real estate	<u>16,875</u>
	<u>\$ 34,086,749</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 5: Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2011, is shown below:

	Balance June 30, 2010	Additions	Reductions	Transfers	Balance June 30, 2011
Capital assets not being depreciated:					
Construction in progress	\$ 19,046,967	\$ 14,411,490	\$ 70,451	\$ (5,606,665)	\$ 27,781,341
Land	5,336,616				5,336,616
Totals	<u>24,383,583</u>	<u>14,411,490</u>	<u>70,451</u>	<u>(5,606,665)</u>	<u>33,117,957</u>
Capital assets being depreciated:					
Buildings	109,092,416			5,606,665	114,699,081
Leasehold improvements	657,403				657,403
Equipment	10,744,084	544,602	6,141		11,282,545
Totals	<u>120,493,903</u>	<u>544,602</u>	<u>6,141</u>	<u>5,606,665</u>	<u>126,639,029</u>
Less accumulated depreciation for:					
Buildings	33,557,835	3,094,654			36,652,489
Leasehold improvements	279,395	32,870			312,265
Equipment	8,832,942	524,045	6,141		9,350,846
Totals	<u>42,670,172</u>	<u>3,651,569</u>	<u>6,141</u>		<u>46,315,600</u>
Total capital assets being depreciated, net	<u>77,823,731</u>	<u>(3,106,967)</u>	<u>70,451</u>	<u>5,606,665</u>	<u>80,323,429</u>
Capital assets, net	<u>\$ 102,207,314</u>	<u>\$ 11,304,523</u>	<u>\$ 153,184</u>	<u>\$ -</u>	<u>\$ 113,441,386</u>

Note 6: Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2011, is shown below:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Compensated absences	\$ 1,873,515	\$ 134,679	\$	\$ 2,008,194	\$ 1,355,438
Teacher load units	1,188,630	58,814		1,247,444	149,255
Net OPEB obligation	681,720	276,642		958,362	
General obligation bonds	45,940,000		1,035,000	44,905,000	100,000
Loan payable	1,950,000	(16,018)		1,933,982	116,386
Totals	<u>\$ 51,633,865</u>	<u>\$ 454,117</u>	<u>\$ 1,035,000</u>	<u>\$ 51,052,982</u>	<u>\$ 1,721,079</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 7: Net Other Postemployment Benefits (OPEB) Obligation

Plan Description

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

Funding Policy

The contribution requirements of the District are established by the District and the District's bargaining units. For the fiscal year ended June 30, 2011, the District contributed \$215,746, all of which was used for current premiums. Contributions ranged from \$312 to \$576 per month for 44 retirees. The maximum contribution per year is \$5,755 for an individual participant.

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

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

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 7: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

The following table shows components of the District’s annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation:

Annual Required Contributions	\$ 495,251
Interest on Net OPEB Obligation	34,086
Adjustment to Annual Required Contributions	<u>(30,195)</u>
Annual OPEB cost	499,142
Contributions made	<u>(222,500)</u>
Increase in Net OPEB Obligation	276,642
Net OPEB Obligation - beginning of year	<u>681,720</u>
Net OPEB Obligation - end of year	<u><u>\$ 958,362</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2011 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/09	\$ 567,960	\$ 196,940	34.7%	\$ 371,020
6/30/10	\$ 497,368	\$ 186,668	37.5%	\$ 681,720
6/30/11	\$ 499,142	\$ 222,500	44.6%	\$ 958,362

GASB 45 was implemented prospectively.

Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2011, was as follows:

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

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

Note 7: Net Other Postemployment Benefits (OPEB) Obligation (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the October 5, 2010 actuarial valuation as of August 1, 2010, the entry age normal actuarial cost method was used. The actuarial assumption included a five percent investment rate of return, based on long-term return on Plan assets, and the cost trend rate for health care of four percent. These assumptions reflect an implicit three percent general inflation assumption. The UAAL is being amortized at a level dollar method over thirty years. The remaining amortization period as of June 30, 2011 was twenty-nine years.

Note 8: General Obligations Bonds Payable

On December 11, 2008, the District issued the Measure V general obligation bonds in the amount of \$47,000,000 with interest rates ranging from 3.5 to 5.75%. Principal and interest payments are due each February 1 and August 1 through August 1, 2033. At June 30, 2011, the bonds payable principal balance outstanding was \$44,905,000.

At June 30, 2011, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 100,000	\$ 2,321,450	\$ 2,421,450
2013	180,000	2,316,550	2,496,550
2014	285,000	2,308,056	2,593,056
2015	445,000	2,293,813	2,738,813
2016	565,000	2,272,906	2,837,906
2017-2021	5,440,000	10,645,825	16,085,825
2022-2026	10,410,000	8,619,000	19,029,000
2027-2031	15,750,000	5,246,062	20,996,062
2032-2034	<u>11,730,000</u>	<u>945,788</u>	<u>12,675,788</u>
	<u>\$ 44,905,000</u>	<u>\$ 36,969,450</u>	<u>\$ 81,874,450</u>

Note 9: 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 which totaled \$1,950,000. At June 30, 2011, the outstanding principal balance on the loan payable was \$1,933,982.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2010
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Note 9: Loan Payable (Continued)

At June 30, 2011, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 116,386	\$ 75,460	\$ 191,846
2013	121,232	70,615	191,847
2014	126,067	65,779	191,846
2015	131,097	60,750	191,847
2016	136,177	55,669	191,846
2017-2020	601,787	165,598	767,385
2021-2024	701,236	63,603	764,839
Total	<u>\$ 1,933,982</u>	<u>\$ 557,474</u>	<u>\$ 2,491,456</u>

Note 10: Unrestricted Net Assets

At June 30, 2011 Board of Trustees' designations of unrestricted net assets were as follows:

Banked TLU's	\$ 1,247,444
Reserve for economic uncertainties	<u>4,448,217</u>
Total designated unrestricted net assets	5,695,661
Undesignated	<u>11,012,351</u>
Total unrestricted net assets	<u>\$ 16,708,012</u>

Note 11: Operating Leases

The District has entered into leases for equipment and facilities with lease terms in excess of one year. At June 30, 2011, future minimum lease payments under these agreements were as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2012	\$ 443,127
2013	137,064
2014	90,863
2015	<u>7,363</u>
Total	<u>\$ 678,417</u>

Total rent expense of \$379,095 is included in other operating expenses and services for the year ended June 30, 2011.

Note 12: 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.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 12: Employee Retirement Systems (Continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description: The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS, 7667 Folsom Boulevard, Sacramento, California 95826, or from their web site.

Funding Policy: Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25% of annual payroll.

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$2,888,443, \$2,727,134 and \$2,871,788, 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, 2011, was 10.707%.

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, 2011, 2010, and 2009 were \$2,166,996, \$1,999,379, and \$2,005,556, respectively, and equal 100% of the required contributions for each year.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 13: Joint Ventures (Joint Powers Agreements)

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

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

For the fiscal year ended June 30, 2010 (the most recent data available), the JPA had revenues of \$172,368,727, expenses of \$162,916,342, nonoperating investment income of \$5,165,500, and ending net assets totaling \$105,954,808. The relationship between the District and ASCIP is such that ASCIP is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39, "The Financial Reporting Entity".

The District participates in an additional banking JPA for workers' compensation self-insurance coverage through the Southern California Community College Districts Joint Powers Authority (SCCCD). SCCCDD provides workers' compensation coverage and a reserve to be used toward funding long-term retiree health insurance liabilities for its six member districts. Payments transferred to funds maintained under the JPA are expensed when made. Based upon an actuarial study, District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments. An actuarial study dated April 2009 estimated the present value of future post retirement medical benefits. A new actuarial study is planned for the upcoming year. The District's share of the JPA retained earnings balance at June 30, 2010 (the most recent data available) was \$7,414,481 and \$1,001,491 for the workers' compensation insurance fund and the retiree health insurance fund, respectively.

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

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

Note 13: Joint Ventures (Joint Powers Agreements) (Continued)

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

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

Note 14: Operating Expenses by Functional Classifications

The District’s operating expenses by functional classifications for the year ended June 30, 2011, are as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 48,419,562	\$ 1,643,298	\$	\$	\$ 50,062,860
Instructional Administration	4,219,537	354,839			4,574,376
Instructional Support Services	1,968,851	111,315			2,080,166
Admissions and Records	949,100	15,915			965,015
Counseling and Guidance	4,271,782	36,048			4,307,830
Other Student Services	5,295,564	1,398,961			6,694,525
Operations and Maintenance	3,087,993	193,751	1,454,827		4,736,571
Planning and Policy Making	1,115,132	116,409			1,231,541
General Institutional Services	10,252,228	1,531,350			11,783,578
Community Services	285,259	20,546			305,805
Ancillary Services	3,940,019	2,775,370			6,715,389
Auxiliary Operations		329,874			329,874
Physical Property and Related Acquisitions	25,594	16,719,113			16,744,707
Transfers and Student Payments		31,419,628			31,419,628
Depreciation				3,651,569	3,651,569
Total	\$ 83,830,621	\$ 56,666,417	\$ 1,454,827	\$ 3,651,569	\$145,603,434

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2011

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Note 15: 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 \$4,123,617 under various construction contracts, some of which are in the process of being completed.

Note 16: 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, 2011, would not be material to the District's financial statements and no liability has been recorded for potential claims.

Santa Barbara Community College District
Schedule of Funding Progress for OPEB Obligation
June 30, 2011

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

Supplementary Information

Independent Auditors' Report on Supplementary Information

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

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, 2011, and have issued our report thereon dated November 10, 2011. 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 Expenditures of State Awards
- Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records

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Board of Trustees

Santa Barbara Community College District

Page 2

- 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

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
Certified Public Accountants
San Luis Obispo, California

November 10, 2011

**Santa Barbara Community College District
Organization
June 30, 2011**

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

Board of Trustees

Name	Office	Term Expires
Dr. Peter Haslund	President	2014
Mr. Luis A. Villegas	Vice-President	2012
Ms. Marty Blum	Member	2014
Ms. Marsha Croninger	Member	2014
Mr. Morris M. Jurkowitz	Member	2012
Ms. Joan M. Livingston	Member	2012
Ms. Lisa Macker	Member	2014

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, 2011

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:			
Passed through California Department of Education (CDE):			
Workforce Investment Act:			
Associated Degree Nursing (RN) Programs	17.258*	10-109-008	\$ 12,874
Associated Degree Nursing (RN) Programs	17.258*	09-109-008	465,177
ARRA - Economic Stimulus Allied Health	17.258*	09-127	77,724
Passed through SB County Social Services:			
ARRA - Workforce Investment Board Contract	17.258* (30%)	CN11472	71,189
Passed through County of San Luis Obispo			
ARRA - CA Clean Energy Workforce Training Program	17.258* (40%)	FWIASFP09-2C2A	92,496
Total U.S. Department of Labor			<u>719,460</u>
U.S. Department of Energy			
Passed through County of San Luis Obispo			
CA Clean Energy Workforce Training Program	81.041 (60%)	FWIASFP09-2C2A	138,744
Total U.S. Department of Energy			<u>138,744</u>
U.S. Department of Education:			
Passed through California Department of Education (CDE):			
Adult Education and Family Literacy	84.002A	42-69294	471,604
Higher Education - Institutional Aid	84.031S	P031S100152	137,305
Vocational and Applied Technology Training Act:			
Vocational And Technical Training	84.048*	10-C01-053	521,532
Technology Preparation	84.048*	10-139-650	69,708
State Fiscal Stabilization:			
ARRA - State Fiscal Stabilization	84.394	S394A090005	41,851
ARRA - On the Job Training Dept. of Rehabilitation	84.390	7BF-212-3152	218
Student Financial Aid:			
Academic Competiveness Grant	84.375*		111,200
Supplemental Educational Opportunity Grant (SEOG)	84.007*		180,284
Pell Grant Program	84.063*		14,912,291
Federal Direct Loans	84.268*		14,003,180
Federal Work Study	84.033*		413,223
Total U.S. Department of Education			<u>30,862,396</u>

*Major federal award program.

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

Santa Barbara Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
Page 2

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Passed through California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	\$ 34,987
Foster and Kinship Care	93.658 (45%)	21603	55,437
ARRA - IT Professionals Health Care Consortium	93.721*	90CC0076/01	261,426
Total U.S. Department of Health and Human Services			<u>351,850</u>
U.S. Department of Agriculture:			
Passed through California Department of Education (CDE):			
Child Care Food Program	10.558	04381	23,809
Total U.S. Department of Agriculture			<u>23,809</u>
National Science Foundation			
National Science Foundation Mobile Media	47.076		51,782
Passed through Santa Clarita Community College:			
National Science Foundation CREATE Renewable Energy	47.076	1002653	4,657
Passed through University of CA Santa Barbara:			
Social, Behavioral and Economic Sciences Nanotechnology	47.075	SES-0924646	8,409
National Science Foundation INSET	47.041	EEC-0754874	7,798
Total U.S. Department of Education and Human Resources			<u>72,646</u>
Total Expenditures of Federal Awards			<u>\$ 32,168,905</u>

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

**Santa Barbara Community College District
Schedule of Expenditures of State Awards
Year Ended June 30, 2011**

<u>Program</u>	<u>Program Revenues</u>			
	<u>Cash Received</u>	<u>Prior Year Deferral</u>	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>
Adult Basic ED ESL Grant	\$ 192,622	\$ 124,652		\$ 153,421
BFAP Board Financial Assistance	476,300			3,137
BFAP Board Financial Asst. Carryover		17,378		
Cal-SOAP State General Funds	43,007			
Cal Works	125,371			
California Articulation		79		
CARE	66,947			
Child Development Training	7,575	2,557		
Non Credit Matriculation Carryover		87,409		
Disabled Students Programs	746,993			
Economic Development HWI	80,642			28,607
Enrollment Growth ADN Programs	75,337		14,350	
Extended Opportunity Program and Services	748,321			
Faculty/Staff Professional Development		14,025		6,776
Fin Aid Media Carryover	290,737			
Financial Aid Media Campaign	2,800,000		39,639	
Foster Parent Grant	49,483		18,785	
Statewide Strategic Hub	60,000			3,324
Lottery	30,880	523,031	309,675	
MESA Program	37,875			3,661
MESA Program Carry Forward	12,291			
Credit Matriculation	435,840			
Non-Credit Matriculation	421,330			
Staff Diversity	7,817	15,735		7,529
CTE Workplace Innovation		91,634		
CTE Comm. Collaborative		310,000		205,338
CTE Community Collaborative	400,000	182,858		400,000
CTE Comm. Collaborative		79,000		49,054
CTE Comm. Collaborative	130,000	98,136		130,000
Strategic Leadership Coordination	103,500		16,290	
Child Development Program	134,890			
Childcare Tax Bailout	28,275			
CalGRANT	541,429		9,563	
Total	\$ 8,047,462	\$ 1,546,494	\$ 408,302	\$ 990,847

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

Santa Barbara Community College District
Schedule of Expenditures of State Awards
Year Ended June 30, 2011
Page 2

<u>Program</u>	<u>Total Revenue</u>	<u>Program Expenditures</u>
Adult Basic ED ESL Grant	\$ 163,853	\$ 163,853
BFAP Board Financial Assistance	473,163	473,163
BFAP Board Financial Asst. Carryover	17,378	17,378
Cal-SOAP State General Funds	43,007	43,007
Cal Works	125,371	125,371
California Articulation	79	79
CARE	66,947	66,947
Child Development Training	10,132	10,132
Non Credit Matriculation Carryover	87,409	87,409
Disabled Students Programs	746,993	746,993
Economic Development HWI	52,035	52,035
Enrollment Growth ADN Programs	89,687	89,687
Extended Opportunity Program and Services	748,321	748,321
Faculty/Staff Professional Development	7,249	7,249
Fin Aid Media Carryover	290,737	290,737
Financial Aid Media Campaign	2,839,639	2,839,639
Foster Parent Grant	68,268	68,268
Statewide Strategic Hub	56,676	56,676
Lottery	863,586	388,231
MESA Program	34,214	34,214
MESA Program Carry Forward	12,291	12,291
Credit Matriculation	435,840	435,840
Non-Credit Matriculation	421,330	421,330
Staff Diversity	16,023	16,023
CTE Workplace Innovation	91,634	91,634
CTE Comm. Collaborative	104,662	104,662
CTE Community Collaborative	182,858	182,858
CTE Comm. Collaborative	29,946	29,946
CTE Comm. Collaborative	98,136	98,136
Strategic Leadership Coordination	119,790	119,790
Child Development Program	134,890	134,890
Childcare Tax Bailout	28,275	28,275
CalGRANT	550,992	544,977
	<hr/>	<hr/>
Total	<u>\$ 9,011,411</u>	<u>\$ 8,530,041</u>

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

**Santa Barbara Community College District
Schedule of Workload Measures for State General
Apportionment – Annual (Actual) Attendance
Year Ended June 30, 2011**

	Reported Data
A. Credit Full-Time Equivalent Student (FTES)	
1. Weekly census	10,952.40
2. Daily census	451.02
3. Actual hour of attendance	1,199.66
4. Independent study/work experience	324.68
5. Summer 2010	1,060.92
6. Summer 2011	1.99
Total	13,990.67
B. Noncredit FTES	
1. Actual hour of attendance	1,801.73
2. Summer 2010	141.42
3. Summer 2011	-
4. Independent study/work experience	-
Total	1,943.15

Supplemental Information

C. Basic Skills courses and Immigrant Education	
1. Noncredit	735.74
2. Credit	1,041.18

CCFS20 addendum

CDCP Noncredit FTES	811.82
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Centers FTEs

1. Noncredit	1,943.88
2. Credit	84.05

There were no audit adjustments to the reported data.

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

Santa Barbara Community College District
Reconciliation of Annual Financial and Budget Report (CCFS-311)
With the District's Accounting Records
Year Ended June 30, 2011

	Fiduciary Fund Type
June 30, 2011, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	Expendable Trusts \$ 2,515,328
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	 <u>(45,904)</u>
June 30, 2011, Audited Financial Statements Fund Balance	 <u>\$ 2,469,424</u>

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

Santa Barbara Community College District
Annual Financial and Budget Report (CCFS-311) and
Reconciliation with the Statement of Net Assets and
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

Description	General Fund	Enterprise Fund Bookstore	Special Revenue Funds	
			Food Service	Child Development
Revenues:				
Federal Revenues	\$ 2,936,409	\$	\$ 3,993	\$ 23,809
State Revenues	58,585,465			163,165
Local Revenues	42,512,230	6,676,418	2,910,298	271,182
Total revenues	<u>104,034,104</u>	<u>6,676,418</u>	<u>2,914,291</u>	<u>458,156</u>
Expenditures:				
Academic Salaries	42,358,871			319,018
Classified Salaries	23,082,448	720,232	943,217	193,542
Employee Benefits	15,130,279	231,270	182,311	163,931
Supplies and Materials	2,982,585	4,798,078	1,451,312	32,235
Other Operating Expenses and Services	11,395,287	564,170	145,847	15,787
Capital Outlay	483,720		42,131	
Total expenditures	<u>95,433,190</u>	<u>6,313,750</u>	<u>2,764,818</u>	<u>724,513</u>
Excess (deficiency) of revenues over expenditures	8,600,914	362,668	149,473	(266,357)
Net other financing sources (uses)	<u>(9,022,450)</u>	<u>(151,043)</u>	<u>(24,435)</u>	<u>271,535</u>
Net increase (decrease) in fund balance	(421,536)	211,625	125,038	5,178
Ending fund balance - June 30, 2010	<u>22,885,827</u>	<u>5,530,269</u>	<u>479,851</u>	<u>170,790</u>
Ending fund balance - June 30, 2011	<u>\$ 22,464,291</u>	<u>\$ 5,741,894</u>	<u>\$ 604,889</u>	<u>\$ 175,968</u>
Reconciliation to Increase in Net Assets				
Net Decrease in Fund Balance	\$ (9,034,866)			
Change in:				
Prepaid supplies	27,244			
Bond issuance costs	(15,848)			
Capital assets	14,885,641			
Depreciation expense	(3,590,233)			
Amounts held for others	(7,538)			
Deferred Revenue	600,989			
Compensated absences and teacher load units	(193,493)			
Bond premium	25,064			
Bond interest payable	17,250			
Net OPEB obligation	(276,642)			
Bond principal payment	1,035,000			
Increase in Net Assets	<u>\$ 3,472,568</u>			

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

Capital Projects Funds	Internal Service Funds	Revenue Bond Construction Fund	Bond Interest & Redemption Fund	Fiduciary Funds Group	Total
\$	\$	\$	\$	\$	\$
693,000			18,465	29,171,855	32,136,066
758,045	59,031	223,992	3,435,457	550,992	60,011,087
1,451,045	59,031	223,992	3,453,922	1,642,873	58,489,526
				31,365,720	150,636,679
8,882		22,687			42,709,458
1,034		2,765			24,939,439
		2,755		562,493	15,711,590
239,561	105,438	144,056		322,106	9,829,458
3,516,337		14,621,923		15,841	12,932,252
3,765,814	105,438	14,794,186		900,440	18,679,952
					124,802,149
(2,314,769)	(46,407)	(14,570,194)	3,453,922	30,465,280	25,834,530
7,886,526			(3,378,900)	(30,450,629)	(34,869,396)
5,571,757	(46,407)	(14,570,194)	75,022	14,651	(9,034,866)
7,558,123	756,698	35,301,279	3,185,470	2,500,677	78,368,984
\$ 13,129,880	\$ 710,291	\$ 20,731,085	\$ 3,260,492	\$ 2,515,328	\$ 69,334,118

Reconciliation to Ending Net Assets

Ending Fund Balance	\$ 69,334,118
Prepaid supplies	111,956
Capital assets, net of accumulated depreciation	111,882,290
Bond issuance costs, net of accumulated amortization	349,971
Amounts held for others	(45,904)
Deferred Revenue	600,989
Compensated absences and teacher load units	(3,255,638)
Bond payable	(44,905,000)
Bond premium, net of accumulated amortization	(553,499)
Bond interest payable	(968,000)
Net OPEB obligation	(958,362)
Ending Net Assets	\$ 131,592,921

Santa Barbara Community College District
Note to Supplementary Information
June 30, 2011

Note 1: Purpose of Schedules

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2011, 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 – Annual (Actual) Attendance

Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance 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



**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

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, 2011, which comprise the District's basic financial statements and have issued our report thereon dated November 10, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Foundation for Santa Barbara City College, as described in our report on the District's financial statements. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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Board of Trustees

Santa Barbara Community College District

Page 2

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2011.

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
Certified Public Accountants
San Luis Obispo, California

November 10, 2011



**Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

Compliance

We have audited the compliance of Santa Barbara Community College District (the District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

We noted certain matters that we reported to management of the District in a separate letter dated November 10, 2011.

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
Certified Public Accountants
San Luis Obispo, California

November 10, 2011

Independent Auditors' Report on State Compliance Requirements

Board of Trustees
Santa Barbara Community College District
Santa Barbara, California

We have audited the basic financial statements of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 10, 2011. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

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

Program Area Tested	Compliance Requirement
Salaries of Classroom Instructors	Each District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education (CEE) in accordance with Section 84362 of the Education Code.
Apportionment for Instructional Service Agreements/Contracts	The District can claim FTES for classes given through instructional service agreements/contracts provided certain requirements are met. These requirements include a written agreement, instruction of approved programs, publishing of courses, qualification of instructors and control, supervision and responsibility over the educational programs.

Board of Trustees
Santa Barbara Community College District
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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, alternative attendance accounting procedure and apprenticeship courses, noncredit FTES in actual hour of attendance, independent study 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.

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.

Board of Trustees
Santa Barbara Community College District
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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.

Program Area Tested

Compliance Requirement

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.

Economic Workforce Development (EWD)

In addition to complying with standard grant conditions, the District must comply with all state laws and regulations concerning subcontracts and grand amendments, including authorization by the Chancellor’s Office and competitive bidding processes.

Extended Opportunity Programs and Services (EOPS)

The District is required to expend EOPS funds to provide services that are specifically designed to supplement the college’s existing support programs and to help EOPS eligible students to complete their educational goal.

Disabled Students Programs and Services (DSPS)

The District should provide services and programs to integrate the disabled student into the general college program; provide educational intervention leading to vocational preparation, transfer or general education; and increase independence and referral of students to community resources most appropriate to their needs. Students must have verifiable disabilities and student-count data must be submitted annually to document eligible DSPS students served.

Cooperative Agencies Resources for Education (CARE)

The District must provide education and support services and activities for the academically under-prepared, welfare-dependent, single head-of-household student population under the supplemental component of EOPS.

Board of Trustees
Santa Barbara Community College District
Page 4

Preference for Veterans and Qualified Spouses for Federal Funded Qualified Training Programs

Under the federal Jobs for Veterans Act, District program administrators are required to (1) provide eligible persons preference and information regarding benefit and services obtained through entities and service providers and (2) ensure eligible persons are informed of their employment –related rights and benefits.

Program Area Tested

Compliance Requirement

To Be Arranged Hours (TBA)

Districts are required to list TBA hours in the schedule of classes and describe them in the course outline. Districts need to track TBA hour participation carefully and make sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of the census point for the particular course.

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, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported and which are described in the accompanying schedule of findings and questioned costs as items 11.1, 11.2, 11.3 and 11.4. The District’s response to the findings identified in our examination 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
Certified Public Accountants
San Luis Obispo, California

November 10, 2011

Findings and Recommendations

**Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2011**

Section I: Summary of Auditors' Results

Financial Statements

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

(b) Internal control over financial reporting:

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

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

Federal Awards

(d) Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.048	Vocational and Applied Technology Training Act
84.007, 84.268, 84.033, 84.063, 84.375	Student Financial Aid Cluster
17.258, 17.260	Workforce Investment Act (WIA) Cluster
93.721	IT Professionals Health Care Consortium

(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, 2011
Page 2

Section II: Financial Statement Findings

None.

Section III: Federal Award Findings and Questioned Costs

None.

Section IV: State Compliance Findings and Questioned Costs

Finding 11.1: Students Actively Enrolled

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

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

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

Questioned Costs: Based on our review of District attendance records, there was no impact on FTES claimed for four of the courses as the headcount would have been the same if the correct census date had been used. For the other course, the headcount would have been lower if the correct census date had been used resulting in an overstatement of FTES of 0.69. This error however was identified prior to the submission of the final annual CCF-320 apportionment report and therefore the proper amount of FTEs was claimed for this course.

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

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2011
Page 3

Section IV: State Compliance Findings and Questioned Costs (Continued)

District Response: During the June 2011 auditor visit, we were notified of a finding that our Fall 2010 CSMT (Cosmetology) 124 CRN 35550 had an incorrect census date in the Banner Student Information System. Banner showed an incorrect census date of 11/17/2010, whereas the correct census date is 11/12/2010 (this is a Daily Census class with 45 meetings, so the census date falls on the 9th class meeting, which would be 11/11/2010, but since it is Veteran's day, it becomes 11/12/2010). With incorrect census date, census enrollment headcount was 20, whereas the correct census date enrollment headcount should be 19, based on a detailed examination of the individual registration dates and status codes for this class.

It was determined that this error was caused by a bug in our Banner software, in a particular customized software module, and that the problem occurs only in certain combinations of class scheduling configurations and date ranges. These combinations are infrequent.

Because this problem was discovered before we submitted our final annual CCFS-320 apportionment report, we used the corrected headcount when computing the FTES claimed for this section, resulting in an adjustment of 0.69 FTES over the Banner-calculated FTES. Thus no extra FTES were claimed because of this issue. All other sections of Cosmetology were examined, as were sections that had similar scheduling characteristics. Four other sections of identically-scheduled Cosmetology were found to have the same census date error, but a detailed examination of the individual class rosters and registration status dates showed that the census headcounts were not affected.

During the week of September 12, 2011, District personnel and a consultant specializing in Banner software corrected and thoroughly tested the affected software module. We are confident the problem has been corrected. We will, however, examine the 2011-2012 records carefully to double-check that the issue does not recur.

Finding 11.2: To Be Arranged Hours (TBA)

Criteria: Districts are required to list TBA hours in the office schedule of classes and official course catalog or their addendums, and describe them in the course outline in accordance with the provisions of CCR, Title Five Sections 58102 and 58104.

Condition: During our testing in accordance with State compliance requirements related to TBA, we identified ten courses that did not identify the required TBA hours in the published official course catalog. We further identified nine courses selected that did not have the required TBA hours published in the official class schedules.

Cause and Effect: The District is required to identify TBA courses in both the official course catalog and class schedules therefore the District was not in compliance.

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2011
Page 4

Section IV: State Compliance Findings and Questioned Costs (Continued)

Questioned Costs: None.

Recommendation: We recommend that the District include in the office course catalog, official class schedules and any addendums, the TBA hour requirements for those courses with TBA hours in order to be in compliance.

District Response: The Scheduling Office understands the need to publish TBA hours in the class schedule and college catalog. The Spring 2012 Class Schedule to be published in November 2011, has been designed to print the TBA hours.

TBA hours will be identified in the next printing of the college catalog scheduled for the summer of 2012.

Finding 11.3: Cooperative Agencies Resources for Education (CARE)

Criteria: District is to provide services under the CARE program to students who meet eligibility requirements under the provisions of CCR, Title Five Sections 56204 and 56220 and CARE Program Guidelines.

Condition: During our testing in accordance with State compliance requirements related to CARE eligibility, we identified one student who was improperly determined to be eligible under the program. This was due to an old CARE application from this student who previously was eligible. The student left the District and upon re-entry was automatically considered eligible without proper review and updating of eligibility requirements.

Cause and Effect: The District served an ineligible student and therefore was not in compliance. Based on our testwork and inquiries with District personnel, we were able to determine that this student did not receive any financial assistance under this program.

Questioned Costs: None.

Recommendation: We recommend that on an annual basis, the District review eligibility for all students continuing under the CARE program to ensure that ineligible students do not receive benefits.

District Response: The review of student eligibility for Cooperative Agencies Resources for Education (CARE) is completed three times per year by the CARE Student Program Advisor (SPA). A second review for eligibility of new student files is completed by the EOPS/CARE Director. This specific file was processed by the SPA and placed in the filing cabinet without forwarding the file for a second eligibility review. To prevent this from happening again, in addition to the already in place second eligibility review, a comparison of all files in the filing cabinet to the CARE data base in Banner is now occurring.

Section IV - State Compliance Findings and Questioned Costs (Continued)

Finding 11.4: Board Approval of Credit and Noncredit Courses

Criteria: Districts are required to obtain Board approval of credit courses after receiving approval by the District's curriculum committee for apportionment funding.

Condition: During our testing in accordance with State compliance requirements related to State General Apportionment Funding, we were unable to obtain Board approvals for 5 credit courses selected for testwork. Of the sample selected, the District was able to provide Board approvals for a significant majority of the sample selected. For those board approvals obtained and reviewed, we noted that most relate to periods subsequent to 1990 and have been retained in conjunction with CCR, Title 5, Section 59023 and the District's current policies and procedures relating to retention of documents, including Class 1 documents.

Cause and Effect: Under the provisions of CCR, Title 5, Section 59023, minutes of the board or committees thereof are considered to be Class 1- Permanent Records and should be retained indefinitely.

Questioned Costs: None.

Recommendation: We recommend that the District ensure that records listed under the provisions of CCR, Title 5, Section 59023 are retained in order to be in compliance.

District Response: Beginning in the year 2000, all minutes of board or committee meetings have been maintained in both printed and electronic format. It happens that the 5 courses for which board approval could not be found were all from the early 1980's. The records from this period are in paper format only and stored in a boxed archive. Unfortunately, a manual search of these records failed to locate the required board approvals within the allotted time and available resources.

**Santa Barbara Community College District
Schedule of Status of Prior Audit Findings
Year Ended June 30, 2011**

<u>Finding / Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented</u>
<p>Finding 10.2: We recommend that the District enhance policies and procedures to ensure that all federal grants are properly reported in the SEFA and that all grants are properly recorded in the general ledger based on funding source. In addition, we recommend that the District perform a reconciliation of total federal expenditures per the SEFA to total federal revenue per the general ledger as part of the year-end close process.</p>	<p>Implemented</p>	
<p>Finding 10.3: We recommend that the District continue to work with their Banner software consultant to implement software corrections to ensure that similar errors in census date determination do not occur.</p>	<p>Partially Implemented</p>	<p>See current year finding 11.1.</p>