

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2013

Santa Barbara Community College District
Financial Statements
June 30, 2013

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Financial Section



Independent Auditors' Report

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively the District's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Foundation for Santa Barbara City College, which is a discretely presented component unit of the District.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Foundation for Santa Barbara City College, which is a discretely presented component unit of the District. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation for Santa Barbara City College, is based solely on the report of the 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 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. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards* or the *California Community Colleges Contracted District Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the District as of June 30, 2013, and the changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 15 and the Schedule of Funding Progress for OPEB Obligation on page 38 be presented to supplement the basic financial statements. Such information, although not a basic part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information on pages 40 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 41 through 42 is presented for purposes of additional analysis as required by U.S Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Board of Trustees

Santa Barbara Community College District

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The supplementary information on pages 40 through 53 and the schedule of expenditures of federal awards on pages 41 through 42 are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 40 through 53 and the schedule of expenditures of federal awards on pages 41 through 42 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Glenn Burdette Attest Corporation
San Luis Obispo, California

December 9, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

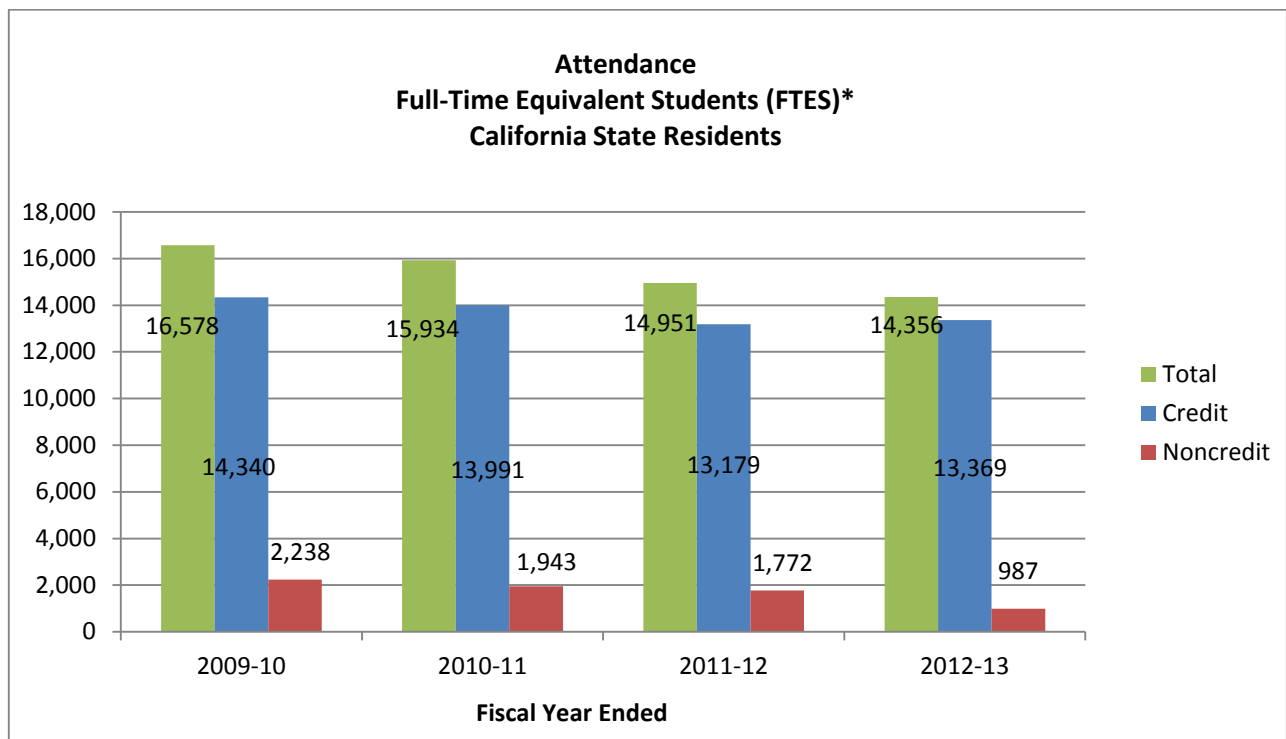
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

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 source of funding from the State of California is through apportionment, which is based on student attendance as measured by Full-Time Equivalent Students (“FTES”). During the 2012-13 fiscal year, FTES was 14,356, a decrease of (595) FTES or (3.98%) from the prior year.
- Enrollment of nonresident student at 2,482 FTES was 263 FTES or 11.9% more than the prior year.
- Credit enrollment has increased based on restoration of funds from Prop 30.
- Non-credit enrollment has decreased due to the conversion of non-credit courses to fee based courses within the Center for Lifelong Learning. Fee based courses do not contribute to FTES.



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

Statement of Net Position

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

	(in thousands)		
	2012	2013	Change
Assets			
Current assets			
Cash and cash equivalents	\$ 61,668	\$ 78,554	27%
Receivables	20,641	17,360	-16%
Inventory and other assets	1,397	1,711	23%
Total current assets	<u>83,706</u>	<u>97,625</u>	17%
Noncurrent assets			
Capital assets, net	120,466	124,098	3%
Total Assets	<u>204,172</u>	<u>221,723</u>	9%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	7,624	11,742	54%
Deferred revenue	10,016	10,772	8%
Interest payable	968	1,032	7%
Bond payable, current portion	180	285	58%
Loan payable, current portion	121	126	4%
Amounts held for others	53	58	9%
Total current liabilities	<u>18,962</u>	<u>24,015</u>	27%
Noncurrent liabilities			
Compensated absences-noncurrent portion	1,689	1,790	6%
Bond payable-noncurrent portion	44,625	59,340	33%
Net OPEB obligation	1,332	1,721	29%
Loan payable	1,696	1,570	-7%
Bond premium	529	1,779	236%
Total Liabilities	<u>68,833</u>	<u>90,215</u>	31%
Net Position			
Net investment in capital assets	83,936	77,606	-8%
Restricted	33,296	34,560	4%
Unrestricted	18,107	19,342	7%
Total Net Position	<u>\$ 135,339</u>	<u>\$ 131,508</u>	-3%

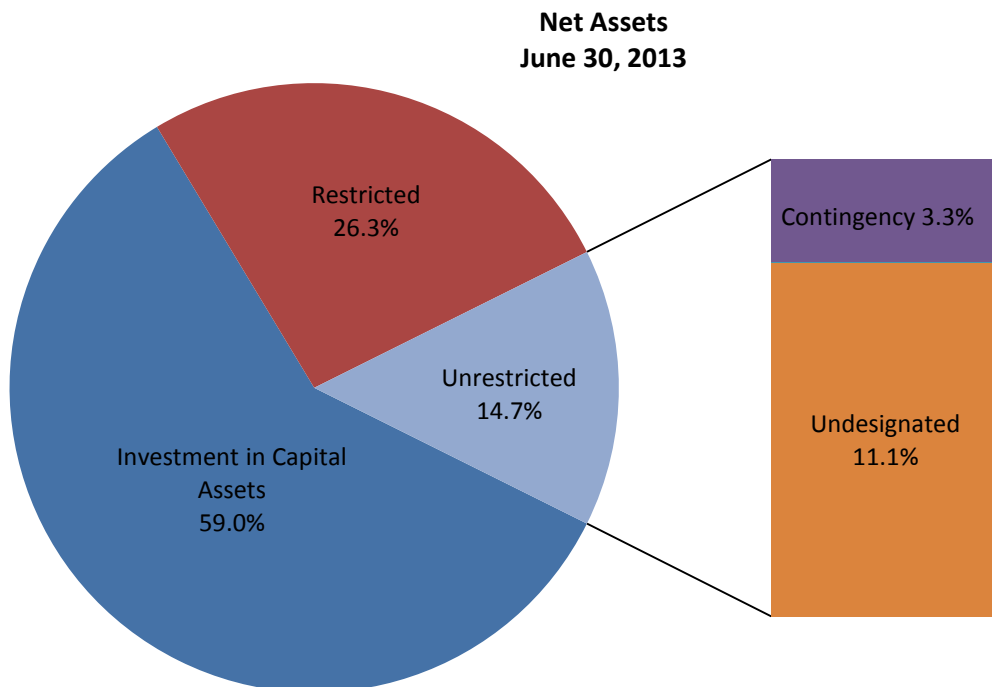
Assets

- Cash and cash equivalents at June 30, 2013 consist of cash in the Santa Barbara County Treasury, \$73.3 million, and cash in banks, \$5.2 million. Of the \$73.3 million in the County Treasury, \$23.3 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, 2013, the District was waiting to collect, \$9.5 million in state apportionment funds, \$3.8 million in state restricted funds, \$2.6 million in student fees, \$0.6 million in restricted federal funds and \$0.8 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 \$11.7 million made up of renovation of buildings \$3.1 million, construction in progress \$8.1 million and purchase of equipment \$0.5 million. Depreciation expense of \$4.3 million was recognized during 2012-13. Additional detail about capital assets can be found in the notes to the financial statements.

Liabilities

- Current liabilities consist of the portion of expenses that will be paid by the District in one year or less. Accounts payable and accrued expenses consist of payables to vendors \$5.8 million, accrued payroll \$4.5 million, compensated absences and teacher load units \$1.4 million, and bond interest payable of \$1.0 million.
- Deferred revenue of \$10.8 million 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 \$62 million has been issued. Of the \$62 million issued, \$15 million was issued in 2012-13. The total outstanding balance of the bond at June 30, 2013 was \$59.6 million with \$0.3 million due within one year and \$59.3 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, 2013 was \$1.7 million.
- The District provides post-employment health care benefits to early retirees. The actuarially determined liability for Other Postemployment Benefits (OPEB) is \$1.7 million. The District’s policy is to pay healthcare premiums for retirees as they fall due.



The net position is divided into three major categories. The first category, investment in capital assets of \$77.6 million (59.0% of total net position), provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net position. These restricted net position of \$34.6 million (26.3% of total net position) 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 position composed of \$19.3 million (14.7% of total net position) held by the District. The unrestricted net position of the District is available for any lawful purpose of the District.

Within the District's unrestricted net position category, certain amounts are designated for specific purposes. In accordance with the District's principles of budget development, \$4.4 million (3.3% of total net position) has been designated as a contingency. This contingency is based on 5% of budgeted unrestricted general fund expenditures. The remaining \$14.9 million (11.4% of total net position) of unrestricted net position is not designated for a specific purpose.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position 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)		
	2012	2013	Change
Operating Revenues			
Net tuition and fees	\$ 19,880	\$ 24,481	23%
Grants and contracts, noncapital	58,097	49,621	-15%
Auxiliary enterprise sales and charges	9,424	9,299	-1%
Total operating revenues	87,401	83,401	-5%
Total Operating Expenses	151,375	147,140	-3%
Operating loss	(63,974)	(63,739)	0%
Nonoperating Revenues			
State apportionments, noncapital	40,100	34,192	-15%
Local property taxes, general purpose	22,141	24,567	11%
Local property taxes, special purpose	3,467	3,531	2%
State taxes and other revenues	3,228	3,521	9%
Investment income	399	219	-45%
Interest expense	(2,295)	(2,347)	2%
Abandonment of construction in progress	-	(3,759)	100%
Other nonoperating expense	(16)	(17)	6%
Total nonoperating revenues	67,024	59,907	-11%
Income before capital revenues	3,050	(3,832)	-226%
Other Revenues and Expenses			
Local expenses, capital	696	-	-100%
Increase in Net Position	3,746	(3,832)	-202%
Net Position, beginning of year	131,593	135,339	3%
Net Position, end of year	\$ 135,339	\$ 131,508	-3%

- Tuition and fees for 2012-13 are composed of enrollment fees of \$9.8 million, out-of-state and international student tuition of \$13.5 million and all other fees of \$1.2 million. Tuition and fees are stated net of Board of Governor fee waivers of \$8.4 million awarded to California resident students. Regular enrollment fees, set by the state for all community colleges, were \$46 per unit. District enrollment has declined (2.3%) 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. State apportionment decreased (\$5.9) million due to a 1.2% reduction in funded workload targets and the shift of Redevelopment Agency revenues to local revenues.
- Local property taxes increased by \$2.4 million or 11.0%. The increase is due to a \$1.9 million shift of Redevelopment Agency revenue from the state apportionment classification to property taxes. Local property tax revenues are received through the Auditor-Controller's office of the County of Santa Barbara. The District received \$3.5 million of special purpose local property taxes, which are 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 decreases primarily were due to the decrease in a statewide financial aid media campaign program, for which the District is the fiscal agent.
- 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 homeowners exemption tax.

Expenses	(in thousands)		
	2012	2013	Change
Salaries	\$ 67,830	\$ 67,057	-1%
Employee Benefits	17,210	17,415	1%
Supplies, materials, other operating expenses	60,899	56,965	-6%
Utilities	1,408	1,429	1%
Depreciation	4,028	4,274	6%
Total operating expenses	\$ 151,375	\$ 147,140	-3%

- Under Other Revenues and Expenses, the District reported project related expenses of \$3.8 million. During 2012-13 the District recorded a \$3.6 million write down for the abandonment of the School of Media Arts building project due to the loss of approximately \$10 million in state matching funds. This project had previously been reported in Capital Assets as Construction in Progress.
- Salaries and Benefits expenses were on par with the expenses in the prior year.
- Supplies, materials and other operating expenses decreased 6% due primarily to decreases in capital outlay and expenditures related to a State financial aid media campaign grant.
- Depreciation expense increased 6% due primarily to the capitalization of \$32 million worth of new buildings.

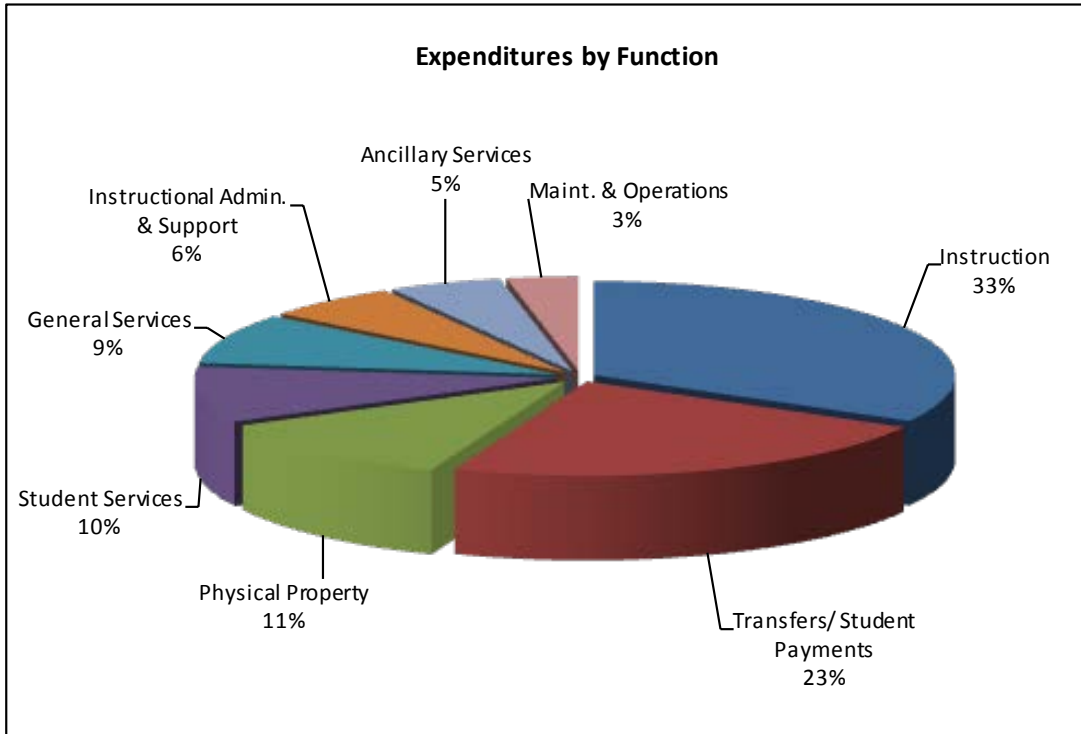


Chart Definitions

- Instruction: Consists of direct instructional expenses.
- Transfers/Student Payments: Primarily consists of financial aid payments to students.
- Physical Property: Non-capitalized construction and purchases of small equipment.
- Student Services: Includes admissions & records, counseling, and various categorical student service related expenses.
- General Services: Includes planning & policy making, general institutional services, and community services.
- Instructional Admin. & Support: Contains administrative expenses related to instruction, the library, and the learning resource center.
- Ancillary Services: Includes expenses related to the child development centers, food service, parking, and co-curricular related expenses.
- Maint. & Operations: Building maintenance, grounds maintenance, and custodial services.

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.

	(in thousands)	
	2012	2013
Cash provided by (used in)		
Operating activities	\$ (61,172)	\$ (50,983)
Noncapital financing activities	65,476	62,285
Capital financing activities	(9,222)	5,462
Investing activities	194	122
Net decrease in cash	(4,724)	16,886
Cash, beginning of year	66,392	61,668
Cash, end of year	<u>\$ 61,668</u>	<u>\$ 78,554</u>

The primary operating receipts are student tuition/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.

Cash provided by non-capital financing activities exceeded cash used in operating activities by \$11.3 million. Capital financing revenues exceed capital expenditures by \$5.5 million. Capital revenues included the issuance of \$15 million of Measure V Bonds. Capital expenditures included Humanities building modernization and swing space \$7.5 million, LED/Light retrofit \$1.5 Million, West Campus Classroom Building \$.5 Million, Learning Resource Center remodel \$0.6 million, and bond program administration \$0.1 million.

Factors That May Affect the Future

Accreditation

- The District is accredited every six years by the Accrediting Commission of Community and Junior Colleges ("ACCJC"), a branch of the Western Association of Schools and Colleges. Being an accredited college is of critical importance. This status allows the District to provide federal financial aid to students, receive federal funding, grant degrees to students as coming from an accredited institution and articulate courses with other colleges and universities. In January 2010 the ACCJC reaffirmed the District's accreditation status.
- On March 26, 2012, ACCJC notified the District that it had been placed on warning status as a result of a complaint filed on June 28, 2011 regarding the accreditation standards dealing with the role and performance of the institution's governing board. As a result of the imposition of the warning, SBCC was required to submit a special report by March 15, 2013 demonstrating the college resolved the noted deficiencies, corrected any Standards violations and addressed three specific commission recommendations. The report was submitted on-time and was followed by a visit of ACCJC representatives on April 30, 2013.

On July 3, the Accrediting Commission for Community and Junior Colleges (ACCJC) notified SBCC that the college has been removed from warning status for being deficient in meeting the governance-related accreditation standards. The college has remained fully accredited since the warning, which is the lowest level of accreditation sanction, was issued in 2012 and it did not apply to the college's academic and student programs. SBCC will be required to file a follow-up report by March 14, 2014 which will be followed by a visit of ACCJC representatives. SBCC will receive its next comprehensive evaluation by ACCJC in fall 2015.

State Economy

- The economic position of the District is closely tied to that of the State of California. The District receives over half of its general unrestricted funding through state apportionments, local property taxes and student enrollment fees. These three sources comprise the District's general apportionment, the main funding support for California community colleges.
- Due to the ongoing national and state recession, California continues to feel the effects of the negative economic factors. The 2012-13 budget relied on voter approval of a November 2012, ballot initiative, Proposition 30, to fund essentially a stay-the-course budget for public education. Passage of the ballot initiative provided the Community College System with \$338.6 million or 7.3% in funding which equates to approximately 75,500 full-time equivalent students. Although this workload reduction restored the approximate 25% of the previous budget reductions, it is the intent the district will prioritize courses relating to transfer, career technical education and basic skills.

District Budget

- When state revenue budget estimates for property tax and student enrollment fees are not achieved, the shortfall is apportioned among all community college districts as a deficit factor when state revenue is allocated. The 2012-13 deficit factor for the District was \$2.0 million. A deficit factor of \$1.4 million was included in the District's 2013-14 adopted budget.
- The 2012-13 state revenue funding included a \$12.9 million inter-year deferral of revenue to 2013-14. The inter-year deferral plus intra-year deferrals will continue, although the level has declined to \$8.4 million from 2013-14 to 2014-15, with the improvement of the state budget and passage of Prop 30. The District currently has sufficient cash reserves to cover cash-flow during deferral periods without resorting to borrowing.
- The enacted 2013-14 state budget provides funding for COLA of 1.57%, and restoration of 2.19% for FTES.
- Two labor bargaining units, Instructors Association and CSEA, are working with expired contracts. The Teamster contract expires December 31, 2013. Negotiations for all bargaining units are substantially complete. Included in the 2013-14 budget are:
 - A 1.57% increase across all salary schedules.
 - A one-time pay out for all bargaining units of 3% of base salary or actual salary paid for fiscal 2012-13.
 - One step added to the Instructors Association salary schedule 10.
 - Stipends were increase for department chairs.
 - The equivalent of 4 full-time sabbaticals is funded for future years.
 - The estimated cost of a reclassification study and recalibration of the classified and management salary tables.
- During the fiscal year 2012-13, the Center for Lifelong Learning was in transition from the conversion of state funded classes to fee based classes. Starting with the budget year 2013-14, the Center for Lifelong Learning has become a Special Revenue Fund where the intent is to recover, in whole or in part, the cost of providing goods and services. The budgeted revenues and expenditures for the Center for Lifelong Learning are balanced at approximately \$1.7 million.

Santa Barbara Community College District
Statement of Net Position
June 30, 2013

	District	Foundation for Santa Barbara City College
Assets		
Current assets:		
Cash in county treasury	\$ 73,308,403	\$
Cash on hand and in banks	5,219,854	1,971,002
Investments	25,778	6,733,192
Accounts receivable:		
Federal	641,314	
State	13,314,835	
Miscellaneous	3,753,801	
Allowance for doubtful accounts	(350,000)	
Prepaid expenses	78,506	
Pledges receivable, current portion, net of allowance		926,527
Inventories	1,149,752	
Other assets		216,303
Bond issuance costs, net of amortization	483,116	
Total current assets	97,625,359	9,847,024
Noncurrent assets:		
Pledges receivable, net of current portion and allowance		790,368
Long-term investments		26,783,892
Assets held in FCCC-Osher		835,562
Assets held in charitable remainder trusts		6,884,361
Assets of pooled income fund		180,741
Contributions receivable from remainder trusts		3,872,553
Capital assets, net of accumulated depreciation	124,097,590	20,372
Total noncurrent assets	124,097,590	39,367,849
Total assets	221,722,949	49,214,873

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

Santa Barbara Community College District

Statement of Net Position

June 30, 2013

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	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 5,826,751	\$ 615,630
Accrued wages	2,056,690	
Accrued benefits	2,414,727	
Compensated absences and teacher load units	1,444,353	
Scholarships payable		677,675
Unearned revenues	10,772,143	
Interest payable, current portion	1,031,842	
Bonds payable, current portion	285,000	
Loan payable, current portion	126,068	
Amounts held for others	57,725	
Total current liabilities	<u>24,015,299</u>	<u>1,293,305</u>
Noncurrent liabilities:		
Compensated absences and teacher load units, net of current portion	1,790,404	
Net OPEB obligation	1,721,598	
Loan payable, net of current portion	1,570,297	
Bonds payable, net of current portion	59,340,000	
Bond premium, net of amortization	1,777,809	
Liability under unitrust agreements		4,028,391
Discount for future interest pooled income funds		137,634
Refundable advances - revocable split interest agreements		48,692
Total noncurrent liabilities	<u>66,200,108</u>	<u>4,214,717</u>
Total liabilities	<u>90,215,407</u>	<u>5,508,022</u>
Net Position		
Net investment in capital assets	77,605,776	
Temporarily restricted		14,086,900
Permanently restricted		27,136,998
Restricted for:		
Expendable:		
Scholarships and loans	226,880	
Capital projects	18,287,169	
Debt service	4,344,667	
Other special purposes	11,701,644	
Total restricted net position	<u>34,560,360</u>	
Unrestricted	<u>19,341,406</u>	<u>2,482,953</u>
Total net position	<u>\$ 131,507,542</u>	<u>\$ 43,706,851</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 Position
Year Ended June 30, 2013

	District	Foundation for Santa Barbara City College
Operating revenues:		
Tuition and fees	\$ 32,929,470	\$
Less: Scholarship discount and allowances	(8,448,341)	
Net tuition and fees	24,481,129	
Grants and contracts, noncapital:		
Federal	34,265,912	
State	8,418,956	
Local	6,935,855	
Contributions and bequests		5,515,379
Interest and dividends		330,706
Gains and losses on investments		2,991,284
Other income		568,750
Change in value of split interest agreements		529,718
Auxiliary enterprise sales and charges	9,299,475	
Total operating revenues	83,401,327	9,935,837
Operating expenses:		
Salaries	67,056,896	
Employee benefits	17,415,324	
Supplies, materials, and other operating expenses and services	56,965,279	
Utilities	1,428,684	
Depreciation	4,274,018	
College programs and other designated disbursements		3,052,981
Scholarships and awards		1,217,014
Fundraising expense		870,576
Administrative expense		575,244
Total operating expenses	147,140,201	5,715,815
Operating income (loss)	(63,738,874)	4,220,022
Nonoperating revenues and expenses:		
State apportionments, noncapital	34,192,082	
Local property taxes	28,098,082	
State taxes and other revenues	3,521,152	
Investment income, noncapital	122,513	
Investment income, capital	96,614	
Interest expense, capital asset-related debt	(2,347,532)	
Abandonment of construction in progress	(3,758,914)	
Other nonoperating revenue (expense)	(16,907)	
Total nonoperating revenues and expenses	59,907,090	
Increase (decrease) in net position	(3,831,784)	4,220,022
Net position - beginning of year	135,339,326	39,486,829
Net position - end of year	\$ 131,507,542	\$ 43,706,851

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2013

	District
Cash flows from operating activities:	
Tuition and fees	\$ 25,746,174
Federal grants and contracts	34,326,210
State grants and contracts	11,896,136
Local grants and contracts	6,511,054
Payments to employees for salaries	(63,145,527)
Payment for employee benefits	(17,026,059)
Payments to suppliers/utilities	(58,590,220)
Auxiliary enterprise sales and charges	9,299,475
Net cash used in operating activities	(50,982,757)
Cash flows from noncapital financing activities:	
State apportionment	34,192,082
Local property taxes	24,567,150
State taxes and other revenues	3,521,152
Student organization agency activity	4,412
Net cash provided by noncapital financing activities	62,284,796
Cash flows from capital and related financing activities:	
Local property taxes	3,530,932
Proceeds from issuance of debt	15,000,000
Debt interest and redemption	(1,335,659)
Interest on capital investments	96,614
Nonoperating expense	(165,900)
Purchases of capital assets	(11,664,359)
Net cash provided by capital financing activities	5,461,628
Cash flows from investing activities:	
Investment income	122,513
Net cash provided by investing activity	122,513
Net increase in cash	16,886,180
Cash - beginning of year	61,667,855
Cash - end of year	\$ 78,554,035

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2013
Page 2

	<u>District</u>
Reconciliation of net operating loss to net cash used in operating activities:	
Operating loss	\$ (63,738,874)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	4,274,018
Changes in operating assets and liabilities:	
Accounts receivable, net	3,281,173
Prepaid expense	(61,546)
Inventories	(103,866)
Accounts payable	309,155
Accrued wages	1,495,519
Accrued benefits	2,414,728
Compensated absences and teacher load units	1,121
Unearned revenues	756,550
Net OPEB obligation	389,265
Net cash used in operating activities	<u>\$ (50,982,757)</u>

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

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2013

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 Statements No. 39 and 61. 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.

During the year ended June 30, 2013, the Foundation distributed \$3,052,981 to the District for restricted purposes and distributed \$1,217,014 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).

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

Page 2

Note 2: Summary of Significant Accounting Policies (Continued)

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.

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.

Accounts Receivable

Accounts receivable 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. When receivables are determined to be uncollectible, a direct write-off is recorded.

Inventories

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

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the Statement of Net Position.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

Page 3

Note 2: Summary of Significant Accounting Policies (Continued)

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

Unearned Revenues

Unearned revenues include revenues that were collected by the District as of year-end, 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, 2013

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Note 2: Summary of Significant Accounting Policies (Continued)

Net Position

The District's net position is classified as follows:

Net investment in capital assets: 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 position subject to externally imposed stipulations that they be maintained permanently by the District.

Restricted - Expendable: Net position subject to externally imposed restrictions or that expires by the passing of time.

Unrestricted: Net position that is not subject to externally imposed stipulations. Unrestricted net position 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 classifies its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating: Operating 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: Nonoperating 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 position. Scholarship discounts and allowances represent the difference between the tuition and fees 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, 2013

Page 5

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.

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, 2013, District cash consisted of the following:

Deposits:	
Cash on hand and in banks	\$ 5,219,854

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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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, 2013, District investments consisted of the following:

Pooled Investment Funds:	
Cash in County Treasury	\$ 73,308,403
Local Agency Investment Fund (LAIF)	\$ 25,778

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 GASB 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 GASB 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, 2013
Page 7

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. At June 30, 2013, the District's investments in the Santa Barbara County Treasury represented 99.96% of total investments.

Note 4: Foundation Investments

At June 30, 2013, Foundation 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	\$ 5,303,936
Marketable funds	25,768,713
Equity securities	100,380
Alternative investments	<u>3,179,617</u>
Total	<u>\$ 34,352,646</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

Page 8

Note 5: Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2013, is shown below:

	Balance June 30, 2012	Additions	Reductions	Transfers	Balance June 30, 2013
Capital assets not being depreciated:					
Construction in progress	\$ 34,601,705	\$ 8,123,736	\$ (3,758,914)	\$ (28,983,665)	\$ 9,982,862
Land	5,336,616				5,336,616
Totals	<u>39,938,321</u>	<u>8,123,736</u>	<u>(3,758,914)</u>	<u>(28,983,665)</u>	<u>15,319,478</u>
Capital assets being depreciated:					
Buildings	118,416,374	3,061,541		28,983,665	150,461,580
Leasehold improvements	657,403				657,403
Equipment	10,750,681	479,082	(15,876)		11,213,887
Totals	<u>129,824,458</u>	<u>3,540,623</u>	<u>(15,876)</u>	<u>28,983,665</u>	<u>162,332,870</u>
Less accumulated depreciation for:					
Buildings	39,986,842	3,709,050			43,695,892
Leasehold improvements	345,135	32,870			378,005
Equipment	8,964,639	532,098	(15,876)		9,480,861
Totals	<u>49,296,616</u>	<u>4,274,018</u>	<u>(15,876)</u>		<u>53,554,758</u>
Capital assets being depreciated, net	<u>80,527,842</u>	<u>(733,395)</u>	<u>-</u>	<u>28,983,665</u>	<u>108,778,112</u>
Capital assets, net	<u>\$ 120,466,163</u>	<u>\$ 7,390,341</u>	<u>\$ (3,758,914)</u>	<u>\$ -</u>	<u>\$ 124,097,590</u>

Note 6: Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2013, is shown below:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Compensated absences	\$ 2,049,528	\$	\$ (79,364)	\$ 1,970,164	\$ 1,275,662
Teacher load units	1,184,108	80,485		1,264,593	168,691
Net OPEB obligation	1,332,333	389,265		1,721,598	
General obligation bonds	44,805,000	15,000,000	(180,000)	59,625,000	285,000
Loan payable	<u>1,817,596</u>		<u>(121,231)</u>	<u>1,696,365</u>	<u>126,068</u>
Long-term liabilities	<u>\$ 51,188,565</u>	<u>\$ 15,469,750</u>	<u>\$ (380,595)</u>	<u>\$ 66,277,720</u>	<u>\$ 1,855,421</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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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, 2013, the District contributed \$220,707, all of which was used for current premiums. Contributions ranged from \$345 to \$576 per month for 43 retirees. The maximum contribution per year is \$5,755 for an individual participant.

As required by GASB Statement No. 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 Statement No. 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 Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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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, 2013, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation:

Annual required contribution (ARC)	\$ 602,368
Interest on net OPEB obligation	66,617
Adjustment to ARC	<u>(59,013)</u>
Annual OPEB cost	609,972
Contributions made	<u>(220,707)</u>
Increase in net OPEB obligation	389,265
Net OPEB obligation - beginning of year	<u>1,332,333</u>
Net OPEB obligation - end of year	<u><u>\$ 1,721,598</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, 2013 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 499,142	\$ 222,500	44.6%	\$ 958,362
6/30/12	\$ 607,837	\$ 233,866	38.5%	\$ 1,332,333
6/30/13	\$ 609,972	\$ 220,707	36.2%	\$ 1,721,598

Funded Status and Funding Progress

The funded status of the Plan as of August 1, 2012, the most recent valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
8/1/12	\$ -	\$ 3,967,021	\$ 3,967,021	0.0%	\$ 43,980,343	9.0%

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.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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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 September 13, 2012 actuarial valuation as of August 1, 2012, the entry age normal actuarial cost method was used. The actuarial assumption included a 5% investment rate of return, based on long-term return on Plan assets, and the cost trend rate for health care of 3%. These assumptions reflect an implicit 3% general inflation assumption. The UAAL is being amortized at a level dollar method over 30 years. The remaining amortization period as of June 30, 2013 was 29 years.

Note 8: Bonds Payable

On December 11, 2008, the District issued 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, 2013, the bond payable principal balance outstanding on the 2008 issuance was \$44,625,000.

At June 30, 2013, future minimum payments on the 2008 issuance were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 285,000	\$ 2,308,056	\$ 2,593,056
2015	445,000	2,293,812	2,738,812
2016	565,000	2,272,906	2,837,906
2017	735,000	2,240,687	2,975,687
2018	925,000	2,195,038	3,120,038
2019-2023	7,335,000	9,963,375	17,298,375
2024-2028	12,585,000	7,456,075	20,041,075
2029-2033	17,625,000	3,493,219	21,118,219
2034	<u>4,125,000</u>	<u>108,281</u>	<u>4,233,281</u>
Totals	<u>\$ 44,625,000</u>	<u>\$ 32,331,449</u>	<u>\$ 76,956,449</u>

On March 2, 2013, the District issued Measure V general obligation bonds in the amount of \$15,000,000 with interest rates ranging from 1.25 to 5.00%. Principal and interest payments are due each February 1 and August 1 through August 1, 2038. The first principal payment is not due until August 1, 2014. At June 30, 2013, the bond payable principal balance outstanding on the 2013 issuance was \$15,000,000.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2013
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Note 8: Bonds Payable (Continued)

At June 30, 2013, future minimum payments on the 2013 issuance were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 394,888	\$ 394,888	\$ 394,888
2015	1,295,000	515,525	1,810,525
2016	1,260,000	489,975	1,749,975
2017	495,000	473,663	968,663
2018	380,000	467,575	847,575
2019-2023	1,995,000	2,174,450	4,169,450
2024-2028	2,410,000	1,743,500	4,153,500
2029-2033	2,885,000	1,271,750	4,156,750
2034-2038	3,480,000	645,150	4,125,150
2039	800,000	20,000	820,000
Totals	<u>\$ 15,000,000</u>	<u>\$ 8,196,476</u>	<u>\$ 23,196,476</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, 2012. Interest only payments were due in December 2011 and June 2012. 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, 2013, the outstanding principal balance on the loan payable was \$1,696,365.

At June 30, 2013, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 126,068	\$ 65,779	\$ 191,847
2015	131,097	60,750	191,847
2016	136,177	55,669	191,846
2017	141,758	50,088	191,846
2018	147,413	44,434	191,847
2019-2023	830,007	129,225	959,232
2024	183,845	5,454	189,299
Totals	<u>\$ 1,696,365</u>	<u>\$ 411,399</u>	<u>\$ 2,107,764</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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Note 10: Unrestricted Net Position

At June 30, 2013, Board of Trustees' designations of unrestricted net position were as follows:

Banked TLU's	\$ 1,264,593
Reserve for economic uncertainties	<u>4,378,817</u>
Total designated unrestricted net position	5,643,410
Undesignated	<u>13,697,996</u>
Total unrestricted net position	<u>\$ 19,341,406</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, 2013, future minimum lease payments under these agreements were as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2014	\$ 361,533
2015	52,537
2016	<u>5,757</u>
Total	<u>\$ 419,827</u>

Total rent expense of \$288,422 was included in other operating expenses and services for the year ended June 30, 2013.

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.

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.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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Note 12: Employee Retirement Systems (Continued)

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 the year ended June 30, 2013 was 8.25% of annual payroll.

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$2,840,440, \$2,945,639 and \$2,888,443, respectively, and equaled 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, 2013, was 11.417%.

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, 2013, 2012, and 2011 were \$2,213,852, \$2,193,811 and \$2,166,996, respectively, and equaled 100% of the required contributions for each year.

Note 13: Joint Ventures (Joint Powers Agreements)

Alliance of Schools for Cooperative Insurance Programs (ASCIP)

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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

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, 2012 (the most recent data available), the JPA had revenues of \$183,649,717, expenses of \$174,073,579, non-operating investment income of \$2,774,321, and ending net position totaling \$124,383,404. 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 Statements No. 39 and 61.

Southern California Community College Districts Joint Powers Authority (SCCCD)

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, 2011 (the most recent data available) was \$7,406,382 and \$1,020,170 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 Statements No. 39 and 61.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2013

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

Schools Excess Liability Fund (SELF)

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 Statements No. 39 and 61.

Note 14: Operating Expenses by Functional Classifications

The District’s operating expenses by functional classifications for the year ended June 30, 2013, were as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 47,066,717	\$ 1,283,233	\$	\$	\$ 48,349,950
Instructional administration	6,364,065	474,827			6,838,892
Instructional support services	2,003,916	117,495			2,121,411
Admissions and records	780,869	9,823			790,692
Counseling and guidance	5,200,032	125,027			5,325,059
Other student services	5,467,659	2,575,649			8,043,308
Operations and maintenance	3,086,337	229,542	1,428,684		4,744,563
Planning and policy making	1,044,264	147,494			1,191,758
General institutional services	8,289,748	1,957,561			10,247,309
Community services	1,244,143	112,235			1,356,378
Ancillary services	3,865,840	3,123,637			6,989,477
Auxiliary operations		505,429			505,429
Physical property and related acquisitions	58,630	12,539,359			12,597,989
Transfers and student payments		33,763,968			33,763,968
Depreciation				4,274,018	4,274,018
Totals	\$ 84,472,220	\$ 56,965,279	\$ 1,428,684	\$ 4,274,018	\$ 147,140,201

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

At June 30, 2013, the District had commitments of \$8,564,716 under various construction contracts, some of which were 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, 2013, would not be material to the District's financial statements and no liability was recorded for potential claims.

Note 17: Subsequent Events

Events subsequent to June 30, 2013 have been evaluated through December 9, 2013, which is the date the financial statements were available to be issued.

In February 2013, the District signed a Promissory Note and Loan Agreement for \$750,000 with the State of California, Energy Resources Conservation and Development Commission ("Commission") in order to finance energy efficiency projects. The principal and interest at 1.0% per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2015. Loan proceeds were not received by the District until October 2013 therefore no related loan payable was recorded in the financial statements at June 30, 2013.

Santa Barbara Community College District
Schedule of Funding Progress for OPEB Obligation
June 30, 2013

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability (AAL)</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%
8/1/12	\$ -	\$ 3,967,021	\$ 3,967,021	0.0%	\$ 43,980,343	9.0%

See independent auditors' report.

Supplementary Information

**Santa Barbara Community College District
Organization
June 30, 2013**

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

Board of Trustees

Name	Office	Term Expires
Ms. Marty Blum	President	2014
Ms. Lisa Macker	Vice-President	2014
Ms. Marsha Croninger	Member	2014
Ms. Peter O. Haslund	Member	2014
Ms. Veronica Gallardo	Member	2016
Ms. Marianne Kugler	Member	2016
Mr. Craig Nielsen	Member	2016

Administration

Dr. Lori Gaskin
SUPERINTENDENT/PRESIDENT

Dr. Jack Friedlander
EXECUTIVE VICE-PRESIDENT, EDUCATIONAL PROGRAMS

Mr. Joseph Sullivan
VICE-PRESIDENT, BUSINESS SERVICES

Ms. Patricia English
VICE-PRESIDENT, HUMAN RESOURCES

Dr. Paul Bishop
VICE PRESIDENT, INFORMATION TECHNOLOGY

Santa Barbara Community College District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Commerce:		
Passed through Foundation of California Community Colleges		
California Connects - ARRA	11.557	\$ 3,805
Total U.S. Department of Commerce		<u>3,805</u>
U.S. Department of Veterans Affairs:		
Post 9/11 Veterans Educational Assistance	64.028	995
Total U.S. Department of Veterans Affairs		<u>995</u>
U.S. Department of Labor:		
Passed through California Department of Education (CDE):		
Passed through SB County Social Services:		
Workforce Investment Act Youth Activities	17.259	3,356
Total U.S. Department of Labor		<u>3,356</u>
U.S. Department of Education:		
Passed through California Department of Education (CDE):		
Adult Education and Family Literacy *	84.002A	444,399
Higher Education - Institutional Aid - Title V Yr 2	84.031S	534,352
Higher Education - Institutional Aid - Title V Yr 3	84.031S	101,698
Higher Education - Institutional Aid - STEM	84.031C	490,446
UCLA Aging Education Project	84.116	28,982
Passed through California State University Channel Islands		
Higher Education - Institutional Aid - ACCESO	84.031C	47,000
Higher Education - Institutional Aid - ACCESO - Yr 2	84.031C	1,712
Vocational and Applied Technology Training Act:		
Vocational And Technical Training	84.048	444,129
Technology Preparation	84.048	49,389
Perkins IB Regional Consortia South Central Region	84.048A	150,000
Student Financial Aid:		
Supplemental Educational Opportunity Grant (SEOG) *	84.007	259,532
Pell Grant Program *	84.063	17,176,831
Federal Direct Loans *	84.268	13,903,226
Federal Work Study *	84.033	370,598
Total U.S. Department of Education		<u>\$ 34,002,294</u>

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, 2013

Page 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services:		
Passed through California Department of Education (CDE):		
Temporary Assistance for Needy Families	93.558	\$ 36,777
Foster and Kinship Care	93.658 (45%)	59,030
Pre-Kindergarten Resource Contract/Child Development	93.575	26,836
IT Professionals Health Care Consortium Yr 2 - ARRA	93.721	65,260
Total U.S. Department of Health and Human Services		<u>187,903</u>
U.S. Department of Agriculture:		
Passed through California Department of Education (CDE):		
Child Care Food Program	10.558	26,003
Total U.S. Department of Agriculture		<u>26,003</u>
National Science Foundation		
Passed through Santa Clarita Community College:		
National Science Foundation CREATE Renewable Energy	47.076	143
Passed through University of CA Santa Barbara:		
National Science Foundation INSET	47.041	8,085
Total National Science Foundation		<u>8,228</u>
 Total expenditures of federal awards		 <u>\$ 34,232,584</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 State Financial Awards
Year Ended June 30, 2013

<u>Program</u>	<u>Program Revenues</u>			
	<u>Cash</u> <u>Received</u>	<u>Prior Year</u> <u>Deferral</u>	<u>Accounts</u> <u>Receivable</u>	<u>Unearned</u> <u>Revenues</u>
Adult Basic ED ESL Grant	\$ 206,091	\$ 136,739	\$	\$ 59,737
BFAP Board Financial Assistance	538,412			
Cal Works	130,665			
CARE	69,275			
Child Development Training	7,500			
Disabled Students Programs	804,361	1,189		
Economic Development HWI (odd year)		32,856	53,761	
Enrollment Growth ADN Programs (even year)	75,337		14,350	
Enrollment Growth ADN Programs (odd year)	28,134	54,826		
Extended Opportunity Program and Services	749,716			
Faculty/Staff Professional Development		5,662		2,162
Financial Aid Media Campaign (even year)		423,541	1,566,432	
Financial Aid Media Campaign (odd year)	2,800,000			
Foster Parent Grant (55%)	52,494		20,685	
Statewide Strategic Hub (odd year)			12,631	
Statewide Strategic Hub C/F (even year)	60,000		40,000	
Lottery	100,461	532,341	411,977	654,371
MESA Program (odd year)	12,625	158		
MESA Program (even year)	30,300			7,066
Credit Matriculation	433,355			
Non-Credit Matriculation	421,330			
Staff Diversity	7,817	10,167		5,988
CTE Comm. Collaborative	123,405	224,349		244,286
CTE Comm. Collaborative		275,175		
CTE Comm. Collaborative		128,790		
CTE Comm. Collaborative	290,267			287,762
Strategic Leadership Coord (even year)	103,500		933	
Strategic Leadership Coord (odd year)		92,031	12,541	
Child Development Program	68,543			
Childcare Tax Bailout	28,275			
CalGRANT	744,670		60,743	
Totals	<u>\$ 7,886,533</u>	<u>\$ 1,917,824</u>	<u>\$ 2,194,053</u>	<u>\$ 1,261,372</u>

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

Santa Barbara Community College District
Schedule of State Financial Awards
Year Ended June 30, 2013
Page 2

<u>Program</u>	<u>Total Revenue</u>	<u>Program Expenditures</u>
Adult Basic ED ESL Grant	\$ 283,093	\$ 283,093
BFAP Board Financial Assistance	538,412	538,412
Cal Works	130,665	130,665
CARE	69,275	69,275
Child Development Training	7,500	7,500
Disabled Students Programs	805,550	805,550
Economic Development HWI (odd year)	86,617	86,617
Enrollment Growth ADN Programs (even year)	89,687	89,687
Enrollment Growth ADN Programs (odd year)	82,960	82,960
Extended Opportunity Program and Services	749,716	749,716
Faculty/Staff Professional Development	3,500	3,500
Financial Aid Media Campaign (even year)	1,989,973	1,989,973
Financial Aid Media Campaign (odd year)	2,800,000	2,800,000
Foster Parent Grant (55%)	73,179	73,179
Statewide Strategic Hub (odd year)	12,631	12,631
Statewide Strategic Hub C/F (even year)	100,000	100,000
Lottery	390,408	390,408
MESA Program (odd year)	12,783	12,783
MESA Program (even year)	23,234	23,234
Credit Matriculation	433,355	433,355
Non-Credit Matriculation	421,330	421,330
Staff Diversity	11,996	11,996
CTE Comm. Collaborative	103,468	103,468
CTE Comm. Collaborative	275,175	275,175
CTE Comm. Collaborative	128,790	128,790
CTE Comm. Collaborative	2,505	2,505
Strategic Leadership Coord (even year)	104,433	104,433
Strategic Leadership Coord (odd year)	104,572	104,572
Child Development Program	68,543	68,543
Childcare Tax Bailout	28,275	28,275
CalGRANT	<u>805,413</u>	<u>805,413</u>
Totals	<u><u>\$ 10,737,038</u></u>	<u><u>\$ 10,737,038</u></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, 2013

	Reported Data
A. Summer Intersession (Summer 2012 only)	
1. Noncredit	90.63
2. Credit	1,046.80
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)	
1. Noncredit	-
2. Credit	680.00
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	8,358.07
(b) Daily Census Contact Hours	395.59
2. Actual Hours of Attendance Procedure Courses	
(a) Noncredit	895.97
(b) Credit	971.19
3. Independent Study/Work Experience	
(a) Weekly Census Contact Hours	1,774.37
(b) Daily Census Contact Hours	143.06
(c) Noncredit Independent Study/Distance Education Courses	-
D. Total FTES	14,355.68

Supplemental Information (subset of above information)

E. In-Service Training Courses (FTES)	-
H. Basic Skills courses and Immigrant Education	
(a) Noncredit	450.50
(b) Credit	653.17

CCFS 320 Addendum

CDCP Noncredit FTES	472.64
Centers FTES	
(a) Noncredit	986.57
(b) Credit	391.62

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, 2013

	<u>Fiduciary</u> <u>Fund Type</u> <u>Expendable</u> <u>Trusts</u>
June 30, 2013, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	\$ 2,660,981
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	<u>(57,725)</u>
June 30, 2013, Annual Financial Statements Fund Balance	<u><u>\$ 2,603,256</u></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 Position and
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

Description	General Fund	Enterprise Fund Bookstore	Special Revenue Funds	
			Food Service	Child Development
Revenues:				
Federal revenues	\$ 2,837,269	\$	\$	\$ 52,838
State revenues	47,157,634		3,176	96,818
Local revenues	53,745,111	6,086,408	3,213,067	339,937
Total revenues	<u>103,740,014</u>	<u>6,086,408</u>	<u>3,216,243</u>	<u>489,593</u>
Expenditures:				
Academic salaries	42,469,732			263,810
Classified salaries	22,298,131	720,298	1,040,394	210,693
Employee benefits	16,379,090	261,097	207,979	172,247
Supplies and materials	2,540,006	4,245,175	1,571,478	37,760
Other operating expenses and services	13,607,823	515,521	190,568	300
Capital outlay	508,607		220,138	
Total expenditures	<u>97,803,389</u>	<u>5,742,091</u>	<u>3,230,557</u>	<u>684,810</u>
Excess (deficiency) of revenues over expenditures	5,936,625	344,317	(14,314)	(195,217)
Net other financing sources (uses)	<u>(4,927,372)</u>	<u>(127,000)</u>	<u>(22,504)</u>	<u>214,000</u>
Net increase (decrease) in fund balance	1,009,253	217,317	(36,818)	18,783
Ending fund balance - June 30, 2012	<u>25,694,200</u>	<u>5,874,332</u>	<u>739,547</u>	<u>214,192</u>
Ending fund balance - June 30, 2013	<u>\$ 26,703,453</u>	<u>\$ 6,091,649</u>	<u>\$ 702,729</u>	<u>\$ 232,975</u>
Reconciliation to change in net position:				
Net increase in fund balance	\$ 8,647,585			
Change in:				
Prepaid supplies	(15,802)			
Inventories	(4,426)			
Bond issuance costs	(16,907)			
Capital assets	7,905,445			
Depreciation expense	(4,215,059)			
Amounts held for others	(4,412)			
Unearned revenues	229,483			
Compensated absences and teacher load units	(1,121)			
Bond premium	33,249			
Bond interest payable	(63,831)			
Net OPEB obligation	(389,265)			
Bond principal payment	180,000			
Bond proceeds	(15,000,000)			
Bond premium	(1,116,723)			
Decrease in net position	<u>\$ (3,831,784)</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
\$	\$	\$	\$	\$ 31,372,629	\$ 34,262,736
			4,647,655	805,413	52,710,696
61,414	8,361	26,838	15,087	1,946,464	65,442,687
<u>61,414</u>	<u>8,361</u>	<u>26,838</u>	<u>4,662,742</u>	<u>34,124,506</u>	<u>152,416,119</u>
		42,616			42,776,158
		10,100			24,279,616
		5,646			17,026,059
		2,314		722,660	9,119,393
100,829	32,890	72,046		432,568	14,952,545
4,225,710		9,396,398		1,141	14,351,994
<u>4,326,539</u>	<u>32,890</u>	<u>9,529,120</u>		<u>1,156,369</u>	<u>122,505,765</u>
(4,265,125)	(24,529)	(9,502,282)	4,662,742	32,968,137	29,910,354
<u>4,051,046</u>		<u>15,000,000</u>	<u>(2,496,950)</u>	<u>(32,953,989)</u>	<u>(21,262,769)</u>
(214,079)	(24,529)	5,497,718	2,165,792	14,148	8,647,585
<u>16,687,275</u>	<u>618,908</u>	<u>9,627,411</u>	<u>4,325,971</u>	<u>2,646,833</u>	<u>66,428,669</u>
<u>\$ 16,473,196</u>	<u>\$ 594,379</u>	<u>\$ 15,125,129</u>	<u>\$ 6,491,763</u>	<u>\$ 2,660,981</u>	<u>\$ 75,076,254</u>

Reconciliation to ending net position:

Ending fund balance	\$ 75,076,254
Prepaid expense	88,025
Inventories	(9,141)
Bond issuance costs, net	483,116
Capital assets, net	122,468,751
Amounts held for others	(57,725)
Unearned revenues	847,799
Compensated absences and teacher load units	(3,234,757)
Bond premium, net	(1,777,809)
Interest payable	(1,030,373)
Net OPEB obligation	(1,721,598)
Bonds payable	(59,625,000)
Ending net position	<u>\$ 131,507,542</u>

Santa Barbara Community College District
Reconciliation of ECS 84362 (50 Percent Law) Calculation
Year Ended June 30, 2013

	Object / TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	18,507,888		18,507,888	18,843,062		18,843,062
Other	1300	14,188,320		14,188,320	14,339,813		14,339,813
Total Instructional Salaries		32,696,208	-	32,696,208	33,182,875	-	33,182,875
Non-Instructional Salaries							
Contract or Regular	1200			-	4,420,089		4,420,089
Other	1400			-	1,060,778		1,060,778
Total Non-Instructional Salaries		-	-	-	5,480,867	-	5,480,867
Total Academic Salaries		32,696,208	-	32,696,208	38,663,742	-	38,663,742
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100			-	14,020,360		14,020,360
Other	2300			-	798,391		798,391
Total Non-instructional Salaries		-	-	-	14,818,751	-	14,818,751
Instructional Aides							
Regular Status	2200	1,929,772		1,929,772	2,019,150		2,019,150
Other	2400	865,175		865,175	891,269		891,269
Total Instructional Aides		2,794,947		2,794,947	2,910,419		2,910,419
Total Classified Salaries		2,794,947	-	2,794,947	17,729,170	-	17,729,170
Employee Benefits	3000	8,013,727		8,013,727	14,420,156		14,420,156
Supplies and Materials	4000			-	1,764,217		1,764,217
Other Operating Expenses	5000			-	6,934,121		6,934,121
Equipment Replacement	6420			-	18,381		18,381
Total Expenditures Prior to Exclusions		43,504,882	-	43,504,882	79,529,787	-	79,529,787

See independent auditors' report on supplementary information.

See accompanying note to supplementary information.

Santa Barbara Community College District
 Reconciliation of ECS 84362 (50 Percent Law) Calculation
 Year Ended June 30, 2013
 Page 2

	Object / TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	52,478		52,478	52,478		52,478
Student Health Services Above Amount Collected	6441			-			-
Student Transportation	6491			-			-
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740			-	183,234		183,234
Objects to Exclude							
Rents and Leases	5060			-	198,161		198,161
Lottery Expenditures							
Academic Salaries	1000	1,015,347		1,015,347	1,621,280		1,621,280
Classified Salaries	2000			-			-
Employee Benefits	3000	263,990		263,990.00	421,532		421,532
Supplies and Materials	4000			-			-
Software	4100			-			-
Books, Magazines, and Periodicals	4200			-			-
Instructional Supplies and Materials	4300			-			-
Noninstructional, Supplies & Materials	4400			-			-
Total Supplies and Materials							
Other Operating Expenses and Services	5000			-			-
Capital Outlay	6000			-			-
Library Books	6300			-	55,617		55,617
Equipment	6400			-			-
Equipment - Additional	6410			-	81,877		81,877
Equipment - Replacement	6420			-	18,381		18,381
Total Equipment					100,258		100,258
Total Capital Outlay					155,875		155,875
Other Outgo	7000			-			-
Total Exclusions		1,331,815	-	1,331,815	2,632,560	-	2,632,560
Total for ECS 84362, 50% Law		42,173,067	-	42,173,067	76,897,227	-	76,897,227
Percent of CEE (Instructional Salary Cost / Total CEE)		54.84%		54.84%			
50% of Current Expense of Education					38,448,614		38,448,614

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

**Santa Barbara Community College District
Reconciliation of Education Protection Act Expenditures
Year Ended June 30, 2013**

Activity Classification	Object Code	Unrestricted			
EPA proceeds:	8630	11,245,308			
Activity Classification	Object Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	10,439,673			10,439,673
Academic Administration	6010	4,554			4,554
Course and Curriculum Development	6020	7,501			7,501
Academic / Faculty Senate	6030	4,178			4,178
Learning Center	6110	2,257			2,257
Library	6120	13,097			13,097
Museums and Galleries	6140	2,537			2,537
Community Service Classes	6820	771,273			771,273
Student and Co-Curricular Activities	6960	238			238
Total Expenditures for EPA *		11,245,308	-	-	11,245,308
Revenues less Expenditures					-
*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.					

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

Santa Barbara Community College District
Note to Supplementary Information
June 30, 2013

Note 1: Purpose of Schedules

Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards

The audit of the District for the fiscal year ended June 30, 2013, 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 and the Schedule of State Financial Awards were 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 and Schedule of State Financial Awards are 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 Position and Statement of Revenues, Expenses and Changes in Net Position

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

Santa Barbara Community College District

Note to Supplementary Information

June 30, 2013

Page 2

Note 1: Purpose of Schedules (Continued)

Reconciliation of ECS 84362 (50 Percent Law) Calculation

A reconciliation is provided to reconcile the CCFS-311 to the District's ECS 84362 (50 Percent Law) calculation.

Reconciliation of Education Protection Act Expenditures

A reconciliation is provided to reconcile the CCFS-311 to the District's Education Protection Act expenditures.

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, 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 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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2013. Our report includes a reference to other auditors who 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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Trustees

Santa Barbara Community College District

Page 2

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.



Glenn Burdette Attest Corporation
San Luis Obispo, California

December 9, 2013

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Santa Barbara Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Board of Trustees

Santa Barbara Community College District

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133.

Accordingly, this report is not suitable for any other purpose.



Glenn Burdette Attest Corporation
San Luis Obispo, California

December 9, 2013

Independent Auditors' Report on State Compliance Requirements

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

We have audited the compliance of Santa Barbara Community College District (the District), with the compliance requirements described in Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM) for the year ended June 30, 2013. The District's programs are identified in the table below. Compliance with the requirements of the state laws and regulations applicable to each program 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM). Those standards and the CDAM require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above occurred. An audit also 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 of the District's compliance with those requirements.

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 (50 Percent Law)	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.

Board of Trustees
Santa Barbara Community College District
Page 2

Program Area Tested

Compliance Requirement

Apportionment for Instructional Service Agreements/Contracts

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

State General Apportionment Funding System

Districts 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 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.

Residency Determination For Credit Courses

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

Students Actively Enrolled

Districts 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

Districts 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.

Board of Trustees
Santa Barbara Community College District
Page 3

Program Area Tested	Compliance Requirement
CalWORKS	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.
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.
Student Fees – Instructional and Other Materials	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.
Student Fees – Health Fees and Use of Health Fee Funds	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.
Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)	Districts are 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. Districts 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.
Disabled Students Programs and Services (DSPS)	Districts 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.

Board of Trustees
Santa Barbara Community College District
Page 4

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.

Proposition 1D State Bond Funded Projects

Each District's reported Proposition 1D costs for the audit period must be accurately reported, appropriate, incurred for the project, and paid by the District.

Proposition 30 Education Protection Account Funds

Districts must properly disburse and expend funds provided from the EPA as required by the Schools and Local Public Safety Protection Act of 2012.

In our opinion, Santa Barbara Community College Districts complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2013. 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 13.1 and 13.2. The District's response to the findings identified in our examination is described in the accompanying schedule of audit findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 Attest Corporation
San Luis Obispo, California

December 9, 2013

Findings and Recommendations

**Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013**

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
84.0002A	Adult Education and Family Literacy
84.007, 84.268, 84.033, 84.063	Student Financial Aid Cluster

(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, 2013
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 13.1: Inaccurate Attendance Records

Criteria: In accordance with CCR, Title 5, Sections 58020-58024, 58030 and 59025, and the Student Attendance Accounting Manual, the District is required to adopt procedures relating to course enrollment, attendance and disenrollment information. Procedures shall include rules for retention of support documentation which shall enable an independent determination regarding the accuracy of tabulations submitted by the District for apportionment funding.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified three instances in which supporting attendance records did not agree with District tabulations per the Banner software. Our testwork sample was selected from supporting attendance reports for the Annual Report. Two instances were the result of a manual input error by the instructor for total semester attendance hours under the Actual Hours of Attendance procedures. The other instance was the result of a manual input error for course contact hours when the courses were originally established in the Banner software.

Cause and Effect: The District was not in accordance with CCR, Title 5, Sections 58020-58024, 58030 and 59025, and the Student Attendance Accounting Manual for the three courses noted above.

Questioned Costs: In our sample, FTES were understated by 1.07 due to the inaccurate calculation of contact hours on the Annual report. We extrapolated the error rate to the entire population of the respective attendance procedure type for a net understatement of 37.7 FTES.

Recommendation: We recommend that the District ensure tabulations submitted by the District for apportionment funding are supported by and agree to attendance records in accordance with CCR, Title 5, Sections 58020-58024, 58030 and 59025.

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

District Response: The District has reviewed, understands, and is working toward resolving the issues of inaccurate attendance records. The District has taken steps to improve the accuracy of the attendance rosters, through increased training for faculty. And the District has implemented manual internal audits of attendance rosters. The District continues to address these issues and is committed to eliminating manual data input errors.

The FTES calculation for this finding has been extrapolated across the population of these types of courses. From the samples selected during the audit the net understatement was 1.07 FTES. The errors were due to human miscalculations. It is required by the State Chancellor's office via instructions in the Contracted District Audit Manual section 424.03 that all FTES results must be extrapolated to the entire population of each attendance procedure tested. The auditors have reported the extrapolated net understatement of 37.7 FTES.

Finding 13.2: State General Apportionment – Distant Learning Courses

Criteria: In accordance with the Distant Learning Guidelines (2008 Omnibus Version), the District is required, in most cases, to calculate student contact hours under the Alternative Accounting Procedure. In addition, those courses with both a lecture and lab component to the distant learning course have specific attendance accounting methods to be used.

Condition: During our testwork in accordance with State compliance requirements related to State General Apportionment Funding, we identified one course, which had both a lecture and lab distant learning component, in which the tabulation of contact hours was incorrect. Our testwork sample was selected from supporting attendance reports for the Annual Report. We determined that this specific error occurred in a total of forty-six courses in the entire population as these were the only courses of this nature in the population.

Cause and Effect: The forty-six courses noted above included both a lecture and lab component and are therefore required to be reported under the Alternative Attendance method. Accordingly, the attendance credits for both the lecture and lab components are to be calculated using the actual attendance credits associated with each respective component. When the courses were originally established in the Banner software, total credits were allocated to the lecture portion. Additional credits were later manually added for the lab component, resulting in an overstatement of FTES. For these forty-six courses, the District was not in accordance with the Distant Learning Guidelines (2008 Omnibus Version).

Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2013
Page 4

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

Questioned Costs: FTES were overstated by 6.28 due to the improperly tabulation of student contact hours on the Annual report.

Recommendation: We recommend that the District ensure that all courses of this nature are in accordance with the Distant Learning Guidelines (2008 Omnibus Version).

District Response: The cause of the problem is known, as stated in the Cause and Effect narrative above, and the District has reviewed all courses of this nature to date to insure they are now accurately set up as actual attendance course types, and that set up will roll over for all subsequent semesters. The Scheduling Office has now established procedures to insure that new courses of this nature are correctly set up.

**Santa Barbara Community College District
Schedule of Status of Prior Audit Findings
Year Ended June 30, 2013**

<u>Finding / Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented</u>
Finding 12.1: We recommended that the listing used to verify eligible CalWORKs recipient-students be consistently maintained and updated to ensure that funds are expended for eligible CalWORKs recipient-students.	Implemented	
Finding 12.2: We recommended that the District list TBA hours for all courses in the office general catalog or addenda and in the official schedule of classes or addenda pursuant to the provisions of CCR, Title 5, Sections 58102 and 58104.	Implemented	
Finding 12.3: We recommended that the District ensure that records listed under the provisions of CCR, Title 5, Section 59023 are retained as required, including Board minutes that document approval of credit courses.	Implemented	
Finding 12.4: We recommended that the District ensures all courses held at high school campuses adhere to the 5 minute increment scheduling requirement under the SAAM and related SAAM "Addendum Concerning Academic Calendars, Course Scheduling and Related Topics".	Implemented	
Finding 12.5: We recommended that the District ensures that FTES and related apportionment for all hybrid courses offered by the District are calculated using the Alternative Attendance Accounting procedure as required by the SAAM and the Distance Learning Guidelines (2008 Omnibus).	Implemented	

**Santa Barbara Community College District
 Schedule of Status of Prior Audit Findings
 Year Ended June 30, 2013
 Page 2**

<u>Finding / Recommendation</u>	<u>Current Status</u>	<u>District Explanation if Not Implemented</u>
<p>Finding 12.6: We recommended that the District ensure attendance records are submitted and retained in accordance with CCR, Title 5, Sections 58020, 58030 and 59025 and the related District’s policies.</p>	<p>Implemented</p>	
<p>Finding 12.7: We recommended that the District revise all course outlines of records that refer to optional hours and ensure that instructors do not include these hours when tabulating the actual hours of attendance earned for apportionment funding.</p>	<p>Implemented</p>	