

Santa Barbara Community College District

Santa Barbara, California

Audit Report

Year Ended June 30, 2014

Santa Barbara Community College District
Financial Statements
June 30, 2014

Table of Contents

	Page
<i>Financial Section</i>	
<i>Business-Type Activities</i>	
Independent Auditors' Report on Financial Statements	5-7
Management's Discussion and Analysis	8-16
Statement of Net Position	17-18
Statement of Revenues, Expenses and Changes in Net Position	19-20
Statement of Cash Flows	21-22
Notes to Financial Statements	23-42
Schedule of Funding Progress for OPEB Obligation	43
<i>Supplementary Information</i>	
Organization	45
Schedule of Expenditures of Federal Awards	46-47
Schedule of State Financial Awards	48-49
Schedule of Workload Measures for State General Apportionment – Annual (Actual) Attendance	50
Reconciliation of Annual Financial and Budget Report (CCFS-311) with District's Accounting Records	51

Santa Barbara Community College District

Table of Contents

June 30, 2014

Page 2

	Page
Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Position	52-53
Reconciliation of ECS 84362 (50 Percent Law) Calculation	54-55
Reconciliation of Education Protection Act Expenditures	56
Note to Supplementary Information	57-58
<i>Other Independent Auditors' Reports</i>	
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 <i>Government Auditing Standards</i>	60-61
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	62-63
Independent Auditors' Report on State Compliance Requirements	64-65
<i>Findings and Recommendations</i>	
Schedule of Audit Findings and Questioned Costs	67-68
Schedule of Status of Prior Year Audit Findings	69

Financial Section



Independent Auditors' Report on Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The discretely presented component unit financial statements of the Foundation for Santa Barbara City College as of and for the fiscal year ended June 30, 2014, were audited by other auditors whose report dated October 21, 2014, expressed an unqualified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

Board of Trustees
Santa Barbara Community College District
Page 2

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 16 in the financial statements, during the year ended June 30, 2014, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 16 and the Schedule of Funding Progress for OPEB Obligation on page 43 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 45 through 58 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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 No-Profit Organizations*, and is not a required part of the basic financial statements.

The supplementary information on pages 45 through 58 and the schedule of expenditures of federal awards on page 46 through 47 are the responsibility of management and were derived from and relates directly to the underlying

Board of Trustees

Santa Barbara Community College District

Page 3

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 45 through 58 and the schedule of expenditures of federal awards 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 4, 2014, 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.

A handwritten signature in black ink that reads "GLENN BURDETTE ATTEST CORPORATION". The letters are in all caps and have a cursive, slightly slanted appearance.

Glenn Burdette Attest Corporation
San Luis Obispo, California

December 4, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with the District’s basic financial statements.

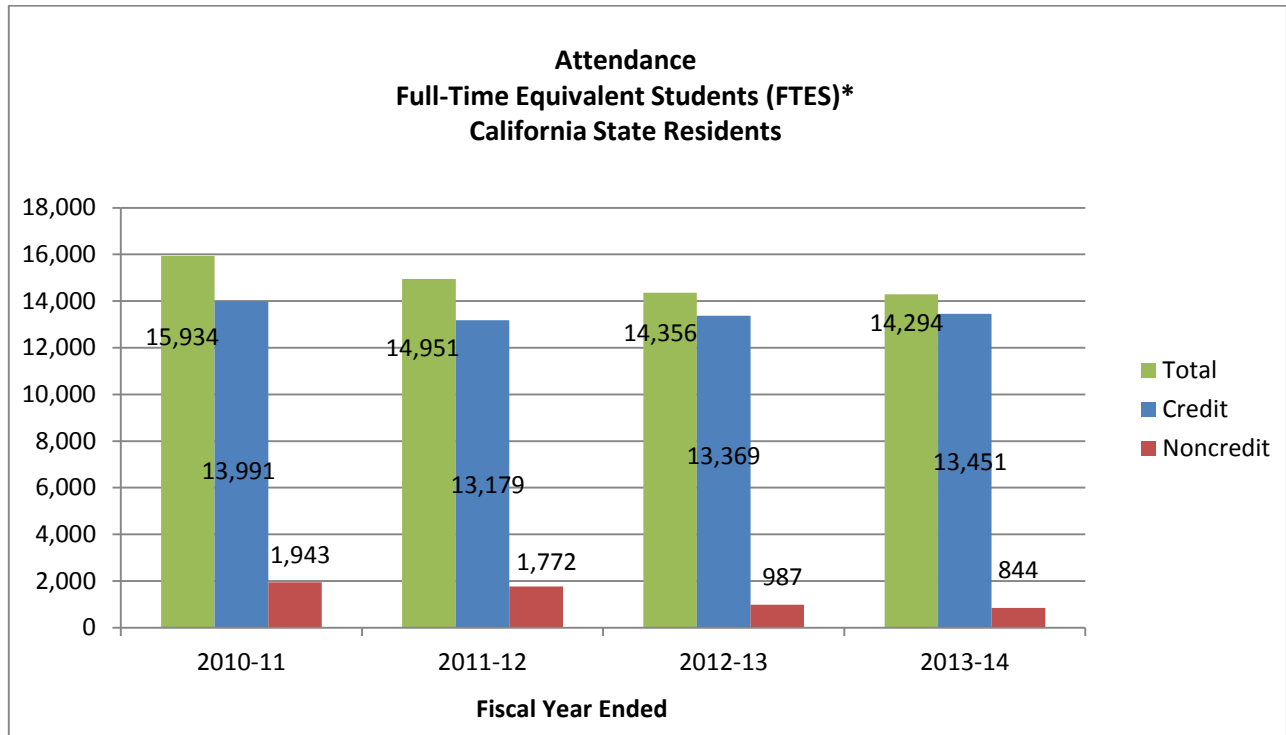
INTRODUCTION TO THE BASIC FINANCIAL STATEMENT

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

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

Financial Highlights

- The District’s primary funding source is apportionment received from the State of California. The main basis of this apportionment is student attendance as measured by Full-Time Equivalent Students (“FTES”). During the 2013-14 fiscal year, FTES was 14,294, a decrease of 61 FTES or 0.43% from the prior year.
- Enrollment of nonresident student at 2,477 FTES was 4 FTES or 0.18% less than the prior year.
- 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 is the difference between assets and liabilities and is a measurement of the financial health of the District.

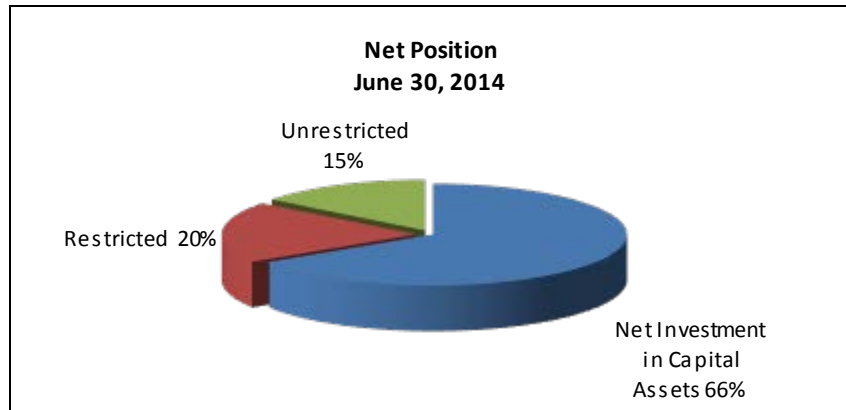
	(in thousands)		
	2013	2014	Change
Assets			
Current assets			
Cash and cash equivalents	\$ 78,554	\$ 69,224	-12%
Receivables	17,360	15,409	-11%
Inventories and other assets	1,711	1,257	-27%
Total current assets	97,625	85,890	-12%
Noncurrent assets			
Capital assets, net	124,098	139,281	12%
Total Assets	221,723	225,171	2%
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	11,742	9,454	-19%
Deferred revenue	10,772	8,256	-23%
Interest payable	1,032	1,181	14%
Bond payable, current portion	285	1,740	511%
Loan payable, current portion	126	283	125%
Refundable advances, net of current portion	-	177	100%
Amounts held for others	58	62	7%
Total current liabilities	24,015	21,153	-12%
Noncurrent liabilities			
Compensated absences-noncurrent portion	1,790	1,950	9%
Bond payable, net of current portion	59,340	57,600	-3%
Net OPEB obligation	1,721	2,046	19%
Loan payable, net of current portion	1,570	2,268	44%
Bond premium	1,779	1,702	-4%
Refundable advances, net of current portion	-	917	100%
Total Liabilities	90,215	87,636	-3%
Net Position			
Net investment in capital assets	77,606	90,666	17%
Restricted	34,560	26,823	-22%
Unrestricted	19,342	20,046	4%
Total Net Position	\$ 131,508	\$ 137,535	5%

Assets

- Cash and cash equivalents at June 30, 2014 consist of cash in the Santa Barbara County Treasury, \$63.1 million, and cash in banks, \$6.0 million. Of the \$63.1 million in the County Treasury, \$13.5 million was related to Measure V bond funds.
- 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, 2014, the District was waiting to collect, \$9.1 million in state apportionment funds, \$2.8 million in state restricted funds, \$0.9 million in student fees, \$1.2 million in restricted federal funds and \$1.4 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 \$15.5 million made up of renovation of \$12.7 million of buildings, \$2.4 million of construction in progress and \$0.4 million of purchase of equipment. Depreciation expense of \$5.0 million was recognized during 2013-14. In the fiscal year 2013-14 the District posted a prior period adjustment to record capitalized interest. The adjustment resulted in an increase in beginning net position of \$4.9 million. The increase was a net of \$5.2 million in the capitalization of prior year interest and \$0.3 million of additional depreciation expense. Current year capital asset additions include \$0.8 million in capitalized interest. 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 \$4.5 million of payables to vendors, \$3.4 million of accrued payroll, \$1.6 million of compensated absences and teacher load units, and bond interest payable of \$1.2 million.
- Unearned revenue of \$8.3 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 \$2.0 million of compensated absences and teacher load units 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. The total outstanding balance of the bond at June 30, 2014 was \$59.3 million with \$1.7 million due within one year and \$57.6 million due in greater than one year.
- The District borrowed \$2.0 million from the California Energy Resources Conservation and Development Commission for the construction of a photovoltaic energy system, and \$0.3 million from Southern California Edison and \$0.8 million from California Energy Resources Conservation and Development Commission for the campus lighting retrofit project. The unpaid balance of these loans at June 30, 2014 was \$2.6 million with \$0.3 million due within one year and \$2.3 million due in greater than one year.
- The District provides post-employment health care benefits to early retirees. The actuarially determined liability for Other Postemployment Benefits (OPEB) is \$2.0 million. The District's policy is to pay healthcare premiums for retirees as they fall due.
- The District collects fees from students who enroll in classes. When a student withdraws from a course they may either request a refund or leave the credit on their account to apply to a future term's fees. All credit balances must be used within three years. The District claims balances over three years old as revenue. These credit balances are included on the Statement of Net Assets as Refundable Advances – Student Accounts. The balance of this liability as of June 30, 2014 was \$1.1 million with \$0.2 million claimable by the District within one year.



According to GASB Statements, equity is reported as Net Position, rather than Fund Balance. The District's Net Position is divided into three major categories. The first category, net investment in capital assets of \$90.7 million (65.9% of total net position), provides the equity amount in property, plant and equipment owned by the District, net of outstanding debt obligations related to those capital assets. The second category is expendable restricted net position. The restricted net position of \$26.8 million (19.5% of total net position) is 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 \$20.0 million (14.6% of total net position) held by the District. The unrestricted net position of the District is available for any lawful purpose of the District.

Fund Balances

Fund balance is the difference between fund assets and fund liabilities in a governmental fund.

Fund Type	Ending Fund Balance 6/30/13	Ending Fund Balance 6/30/14	Change in Fund Balance
General Fund	26,703,453	30,619,817	3,916,364
Bond Funds	21,616,892	13,130,728	(8,486,164)
Capital Projects Fund	16,473,196	13,271,422	(3,201,774)
Enterprise Funds	6,091,649	6,231,326	139,677
Special Revenue Funds	935,704	656,441	(279,263)
Internal Service & Fiduciary Funds	3,255,360	3,461,376	206,016
Total	75,076,254	67,371,110	(7,705,144)

Total ending fund balances decreased \$7.7 million (10.3%) from \$75.1 million to \$67.4 million, with the majority of changes due to spending in the Bond Construction Fund (\$8.5 million) and the Capital Projects Funds (\$3.2 million) offset by an increase in the General Fund of \$3.9 million.

In accordance with Board Policy 6305, the District's board of directors has designated a portion of the Unrestricted General Fund balance as reserves. A reserve fund is an established prudent fiscal management tool, which buffers cash flow fluctuations and provides a resource for contingencies and reasonable yet unforeseen operational needs. The reserve includes 5% of annual projected unrestricted general fund expenditures, plus funds to cover all banked TLU obligations, plus funds equivalent to any deferrals of the college's state apportionment or 15% of annual projected unrestricted general fund expenditures, whichever is greater. The unrestricted general fund reserve is \$19.5 million or approximately 21% of the annual projected unrestricted general fund expenditures.

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)		
	2013	2014	Change
Operating Revenues			
Net tuition and fees	\$ 24,481	\$ 23,909	-2%
Grants and contracts, noncapital	49,621	52,204	5%
Auxiliary enterprise sales and charges	9,299	11,501	24%
Total operating revenues	83,401	87,614	5%
Total Operating Expenses	147,140	157,812	7%
Operating loss	(63,739)	(70,198)	10%
Nonoperating Revenues and Expenses			
State apportionments, noncapital	34,193	40,275	18%
Local property taxes, general purpose	24,567	24,731	1%
Local property taxes, special purpose	3,531	3,714	5%
State taxes and other revenues	3,521	3,792	8%
Investment income	219	248	13%
Interest expense	(2,347)	(1,984)	-15%
Loss on disposal of assets	(3,759)	(228)	-94%
Other nonoperating expense	(17)	-	-100%
Total nonoperating revenues and expenses	59,908	70,548	18%
Income before capital revenues	(3,831)	350	-109%
Other Revenues and Expenses			
State revenues, capital	-	368	100%
Local revenues, capital	-	854	100%
Total other revenues and expenses	-	1,222	100%
Change in Net Position	(3,831)	1,572	-141%
Net Position, beginning of year	135,339	131,508	-3%
Cumulative effect from change in accounting principle		(483)	
Prior period adjustment		4,938	
Net Position, beginning of year, restated	135,339	135,963	
Net Position, end of year	\$ 131,508	\$ 137,535	5%

- Tuition and fees for 2013-14 are composed of enrollment fees of \$8.5 million, out-of-state and international student tuition of \$13.8 million and all other fees of \$1.6 million. Tuition and fees are stated net of Board of Governor fee waivers of \$9.0 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 (0.4%) from the prior year.
- Auxiliary enterprise sales consist of Bookstore and Food Service sales and Center for Lifelong Learning enrollment fees.
- State apportionment, non-capital, is generated based on the workload measures (student attendance) reported to the State by the District. State apportionment increased \$6.1 million due to a \$2.6 million payment of recalculated 2012-2013 apportionment, a 1.57% COLA, and a reduction in the state deficit factor.
- The District received \$3.7 million of special purpose local property taxes, which are assessed for payments related to the Measure V Bond 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. Increases were primarily due to an increase in student financial aid.
- State taxes and other revenue consist primarily of \$2.7 million in lottery revenue, \$0.4 million for state mandated costs, \$0.3 million for part-time faculty compensation, and \$0.2 million for homeowners exemption tax.
- The District reported a loss on the disposal of capital assets of \$0.2 million. This loss is due to a reclassification of projects previously included in construction in progress to expense.

Operating Expenses	(in thousands)		
	2013	2014	Change
Salaries	\$ 67,057	\$ 70,725	5%
Employee Benefits	17,415	17,814	2%
Supplies, materials, other operating expenses	56,965	62,677	10%
Utilities	1,429	1,546	8%
Depreciation	4,274	5,050	18%
Total operating expenses	<u>\$ 147,140</u>	<u>\$ 157,812</u>	<u>7%</u>

- Salaries and Benefits expenses increased due to COLA adjustments, and reclassifications of compensation based on salary studies performed by the District.
- Supplies, materials and other operating expenses increased due primarily to increases in capital outlay of \$1.9 million, a write-off of \$1.3 million aged student debt, increases in financial aid and scholarship payments to students of \$1.7 million, and \$0.8 million in planned spending increases to allow departments to operate at pre-recession levels.
- Utilities expenses increased by 8% due primarily to rate increases.
- Depreciation expense increased 18% due primarily to the capitalization of prior year interest and the capitalization of \$22 million worth of new buildings.

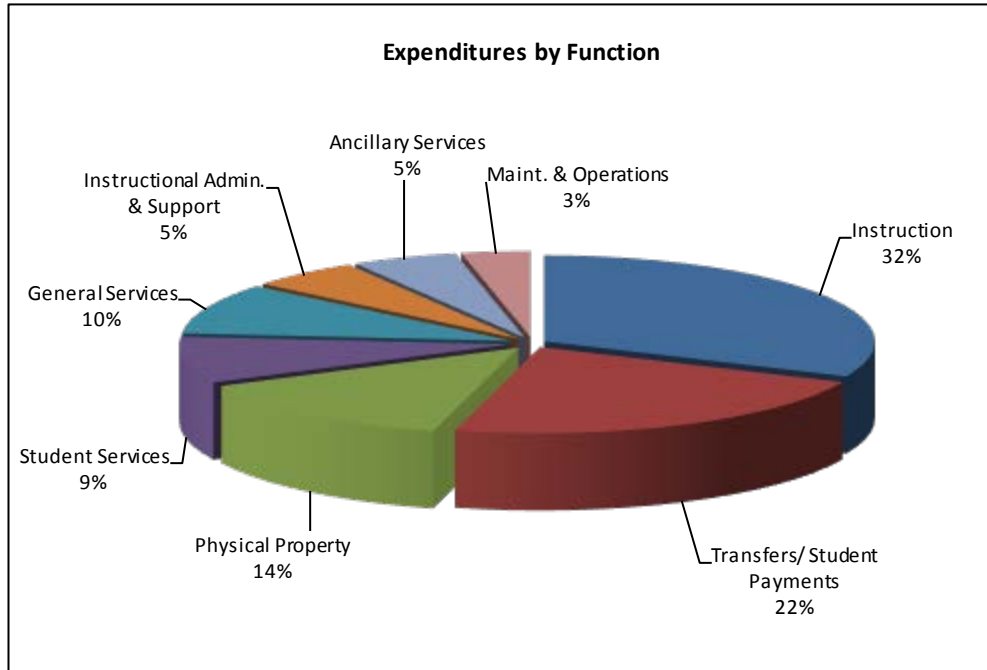


Chart Definitions

- 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: Includes administrative expenses related to instruction, the library, and the learning resource center.
- Ancillary Services: Includes expenses related to the child development center, food service, parking, and co-curricular related expenses.
- Maint. & Operations: Includes 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.

Cash provided by (used in)	(in thousands)	
	2013	2014
Operating activities	\$ (50,983)	\$ (66,453)
Noncapital financing activities	62,285	68,801
Capital financing activities	5,462	(11,845)
Investing activities	122	167
Net increase (decrease) in cash	16,886	(9,330)
Cash, beginning of year	61,668	78,554
Cash, end of year	<u>\$ 78,554</u>	<u>\$ 69,224</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, its 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 \$2.3 million. Capital financing expenditures exceed capital revenues by \$11.8 million. Capital expenditures included \$7.9 million for the Humanities building modernization project and the associated swing space, \$3.2 million for the installation of a campus wide electronic lock system, \$0.9 Million for the West Campus Classroom Building, \$0.6 million for the East and West Campus Snack Shop remodels, \$0.6 million for Business Communication Center chiller replacement, \$0.4 million for the LED/Light retrofit project, \$0.3 million for the East Campus Entry Traffic Reconfiguration, and \$0.1 million for bond program administration.

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.
- The District 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.
- In 2012-13, the community college system 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 equated to approximately 75,500 full-time equivalent students. Proposition 30 is temporary. The sales tax increase portion of the proposition terminates on December 31, 2016, which is approximately 21% of the Proposition 30 revenues. The remaining 79% of the Proposition 30 revenues comes from an income tax increase, which ends December 31, 2018.
- The Governor continues to budget state revenues conservatively. In 2013-14, state revenues came in higher than budgeted. The expectation by the Legislative Analyst Office is that 2014-15 actual revenues will be higher than budgeted also.
- The Governor has laid out a clear path to protect the state from boom and bust cycles, pay down the wall of debt, and focus new money on education. The Rainy Day Budget Stabilization Fund Act passed in the November 2014 election, which sets aside 1.5% of the general fund revenues and revenues derived from capital gains related taxes in situations where such tax revenues are in excess of 8% of general fund revenues into a "rainy day fund."

- The California State Teachers' Retirement System (CalSTRS) employer contribution rate will increase from 8.3% in 2013 to 19.1% in 2021 (with the rate increasing to 9.5% in 2014-15). The California Public Employee Retirement System (CalPERS) employer contribution rates will increase from 11.4% in 2013 to 20.4% in 2021 (with the rate increasing to 11.7% in 2014-15). The increases are a significant cost obligation for schools and colleges. Funding sources to offset the increases are yet to be determined by the legislature.

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 2013-14 deficit factor for the District was \$1.4 million. A deficit factor of \$0.7 million was included in the District's 2014-15 adopted budget.
- The 2013-14 state revenue funding included a \$9.5 million inter-year deferral of revenue. The inter-year deferrals will continue for one additional year, with remaining deferrals of \$1.7 to be million paid down in 2014-15, due to 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 2014-15 state budget provides funding for COLA of 0.85%.
- 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 fiscal year 2013-14, the Center for Lifelong Learning became an Enterprise Fund where the intent is to recover, in whole or in part, the cost of providing goods and services. The 2014-15 budgeted revenues and expenditures for the Center for Lifelong Learning are balanced at approximately \$1.9 million.
- The 2014-15 budget included the addition of a second summer intersession.

Santa Barbara Community College District
Statement of Net Position
June 30, 2014

	District	Foundation for Santa Barbara City College
Assets		
Current assets:		
Cash in county treasury	\$ 63,148,876	\$
Cash on hand and in banks	6,048,789	1,267,221
Investments	25,840	9,098,542
Accounts receivable:		
Federal	1,212,462	
State	11,951,781	
Miscellaneous	3,464,681	602,683
Allowance for doubtful accounts	(1,219,772)	
Prepaid expenses	10,178	57,519
Pledges receivable, current portion, net of allowance		2,963,864
Inventories	1,247,265	
Total current assets	85,890,100	13,989,829
Noncurrent assets:		
Pledges receivable, net of current portion and allowance		286,575
Long-term investments		29,588,788
Assets held in FCCC-Osher		928,561
Assets held in charitable remainder trusts		7,631,133
Assets of pooled income fund		123,134
Contributions receivable from remainder trusts		4,476,931
Capital assets, net of accumulated depreciation	139,281,324	114,430
Total noncurrent assets	139,281,324	43,149,552
Total assets	\$ 225,171,424	\$ 57,139,381

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

Santa Barbara Community College District

Statement of Net Position

June 30, 2014

Page 2

	<u>District</u>	<u>Foundation for Santa Barbara City College</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 4,499,270	\$ 931,877
Accrued wages	849,059	
Accrued benefits	2,542,134	
Compensated absences and teacher load units	1,563,213	
Scholarships payable		876,125
Unearned revenues	8,255,634	
Interest payable, current portion	1,181,168	
Bonds payable, current portion	1,740,000	
Loans payable, current portion	283,671	
Refundable advances - student accounts, current portion	177,099	
Amounts held for others	61,733	
Total current liabilities	<u>21,152,981</u>	<u>1,808,002</u>
Noncurrent liabilities:		
Compensated absences and teacher load units, net of current portion	1,950,527	
Net OPEB obligation	2,045,701	
Loans payable, net of current portion	2,267,885	
Bonds payable, net of current portion	57,600,000	
Bond premium, net of amortization	1,701,942	
Liability under unitrust agreements		2,842,934
Discount for future interest pooled income funds		44,837
Refundable advances - student accounts	917,637	
Refundable advances - revocable split interest agreements		10,968
Total noncurrent liabilities	<u>66,483,692</u>	<u>2,898,739</u>
Total liabilities	<u>87,636,673</u>	<u>4,706,741</u>
Net Position		
Net investment in capital assets	90,665,989	
Temporarily restricted		20,201,803
Permanently restricted		30,802,236
Restricted for:		
Expendable:		
Scholarships and loans	322,279	
Capital projects	7,202,011	
Debt service	5,593,870	
Other special purposes	13,704,709	
Total restricted net position	<u>26,822,869</u>	
Unrestricted	<u>20,045,893</u>	<u>1,428,601</u>
Total net position	<u>\$ 137,534,751</u>	<u>\$ 52,432,640</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, 2014

	District	Foundation for Santa Barbara City College
Operating revenues:		
Tuition and fees	\$ 32,942,665	\$
Less: Scholarship discount and allowances	(9,033,332)	
Net tuition and fees	23,909,333	
Grants and contracts, noncapital:		
Federal	35,710,580	
State	9,340,858	
Local	7,152,326	
Contributions and bequests		7,420,112
Interest and dividends		1,203,110
Gains and losses on investments		3,055,081
Other income		265,865
Change in value of split interest agreements		1,441,233
Auxiliary enterprise sales and charges	11,501,063	
Total operating revenues	87,614,160	13,385,401
Operating expenses:		
Salaries	70,725,709	
Employee benefits	17,814,323	
Supplies, materials, and other operating expenses and services	62,676,840	
Utilities	1,545,428	
Depreciation	5,049,960	
College programs and other designated disbursements		2,393,949
Scholarships and awards		1,276,497
Fundraising expense		919,274
Administrative expense		1,291,080
Total operating expenses	157,812,260	5,880,800
Operating income (loss)	(70,198,100)	7,504,601
Nonoperating revenues and expenses:		
State apportionments, noncapital	40,274,653	
Local property taxes	28,444,591	
State taxes and other revenues	3,791,949	
Investment income, noncapital	166,512	
Investment income, capital	82,127	
Interest expense, capital asset-related debt	(1,984,072)	
Abandonment of construction in progress	(228,025)	
Total nonoperating revenues and expenses	70,547,735	
Income before other revenues and expenses	349,635	7,504,601

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, 2014
Page 2

Other revenues and expenses:

State revenues	\$ 367,587	\$
Local revenues, capital	854,362	
Total other revenues and expenses	<u>1,221,949</u>	<u> </u>
Increase in net position	1,571,584	7,504,601
Net position - beginning of year	<u>131,507,542</u>	<u>43,706,851</u>
Cumulative effect from change in accounting principle	(483,117)	
Prior period adjustment	4,938,742	1,221,188
Net Position - beginning of year, restated	<u>135,963,167</u>	<u>44,928,039</u>
Net position - end of year	<u>\$ 137,534,751</u>	<u>\$ 52,432,640</u>

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2014

	District
Cash flows from operating activities:	
Tuition and fees	\$ 22,832,256
Federal grants and contracts	35,139,432
State grants and contracts	9,264,480
Local grants and contracts	7,441,446
Payments to employees for salaries	(71,526,950)
Payment for employee benefits	(17,490,220)
Payments to suppliers/utilities	(63,614,426)
Auxiliary enterprise sales and charges	11,501,063
Net cash used in operating activities	(66,452,919)
Cash flows from noncapital financing activities:	
State apportionment	40,274,653
Local property taxes	24,730,275
State taxes and other revenues	3,791,949
Student organization agency activity	4,008
Net cash provided by noncapital financing activities	68,800,885
Cash flows from capital and related financing activities:	
State apportionments for capital purposes	367,587
Local property taxes	3,714,316
Payments on bonds	(285,000)
Debt interest and redemption	(1,752,619)
Borrowings on debt, net of repayments	855,191
Capital grants and gifts received	854,362
Nonoperating expense	(75,867)
Purchases of capital assets	(15,522,978)
Net cash used in capital financing activities	(11,845,008)
Cash flows from investing activities:	
Investment income	166,512
Net cash provided by investing activity	166,512
Net decrease in cash	(9,330,530)
Cash - beginning of year	78,554,035
Cash - end of year	\$ 69,223,505

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

Santa Barbara Community College District
Statement of Cash Flows
Year Ended June 30, 2014
Page 2

	<u>District</u>
Reconciliation of net operating loss to net cash used in operating activities:	
Operating loss	\$ (70,198,100)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	5,049,960
Changes in operating assets and liabilities:	
Accounts receivable, net	1,950,798
Prepaid expense	68,328
Inventories	(97,513)
Accounts payable	(1,327,481)
Accrued wages	(1,207,631)
Accrued benefits	127,407
Compensated absences and teacher load units	278,983
Unearned revenues	(2,516,509)
Net OPEB obligation	324,103
Refundable advances	1,094,736
Net cash used in operating activities	<u>\$ (66,452,919)</u>
Non-cash capital and related financing activities:	
Change in accounting principle	\$ (483,117)

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

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2014

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 and two community college centers located in Santa Barbara, California.

For financial reporting purposes, the District includes all funds, which comprise the primary government and all component units in accordance with GASB Statement No. 14, amended by GASB Statement No. 39 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 five 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, 2014, the Foundation distributed \$2,393,949 to the District for restricted purposes and distributed \$1,276,497 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, 2014

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 Expense

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

Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of \$5,000 or more (for equipment) and an estimated useful life of greater than

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 3

Note 2: Summary of Significant Accounting Policies (Continued)

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 cost of capital assets includes ancillary charges necessary to place an asset in its intended location and condition for use, including capitalized interest incurred during construction. Capitalizable interest is calculated as total interest expense on the indebtedness over the capitalization period offset by the interest revenue earned on the reinvested debt proceeds.

The following estimated useful lives are used to compute depreciation:

Buildings and improvements	50 years
Portable buildings and building equipment	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 June 30, 2014, 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, bond payable with maturities greater than one year, bond premiums, net of amortization, and refundable advances on student accounts.

Refundable advances consist of refunds due to students as a result of dropped classes or other changes in enrollment. Students have three years to either request a refund or apply the balance to current charges. Any balances older than three years are claimed as local revenue by the district.

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, 2014

Page 4

Note 2: Summary of Significant Accounting Policies (Continued)

Net Position

The District's net position is classified as follows:

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

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

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

Unrestricted: Net position that are 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.

The board has designated a portion of the unrestricted general fund balance as reserves as follows: 5% of annual projected unrestricted general fund expenditures, plus funds to cover all banked TLU obligations, plus funds equivalent to any deferrals of the college's state apportionment or 15% of annual projected unrestricted general fund expenditures, whichever is greater. The total reserve equates to approximately 21% of the annual projected unrestricted general fund expenditures.

Operating and Nonoperating Transactions

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

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

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 5

Note 2: Summary of Significant Accounting Policies (Continued)

Tuition and Fees

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

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.

New Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 6

Note 2: Summary of Significant Accounting Policies (Continued)

Statement No. 65 are effective for periods beginning after December 15, 2012. Implementation of this Statement during the year ended June 30, 2014 caused a change in accounting principle for the write-off of bond issuance costs and underwriter's discount that had previously been amortized over the life of the bonds.

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This Statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance. The provisions of Statement No. 66 are effective for periods beginning after December 15, 2012. Implementation of this Statement did not have a significant impact on the financial statements of the District.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which revises existing standards of financial reporting for most pension plans. The provisions of Statement No. 67 are effective for periods beginning after June 15, 2013. Since this pronouncement is only applicable to pension plans, it does not apply to the District.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*, that addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. The provisions of Statement No. 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the impact of this Statement on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this Statement are effective for periods beginning after December 31, 2013. Management has not yet determined the impact of this Statement on its financial statements.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of Statement No. 70 are effective for periods beginning after June 15, 2013. Implementation of this Statement did not have a significant impact on the financial statements of the District.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date –an amendment of GASB Statement No. 68*. This Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer on non-

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 7

Note 2: Summary of Significant Accounting Policies (Continued)

employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of Statement No. 71 are required to be applied simultaneously with the provisions of Statement No. 68. Management has not yet determined the impact of this Statement on its financial statements.

Subsequent Events

Events subsequent to June 30, 2014 have been evaluated through December XX, 2014, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Cash and Investments

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

At June 30, 2014, District cash consisted of the following:

Deposits:		
Cash on hand and in banks	\$	6,048,789

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, 2014, District investments consisted of the following:

Pooled Investment Funds:		
Cash in County Treasury	\$	63,148,876
Local Agency Investment Fund (LAIF)	\$	25,840

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 8

Note 3: Cash and Investments (Continued)

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.

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, 2014, the District's cash in the Santa Barbara County Treasury represented 91% of total cash and investments.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2014
Page 9

Note 4: Foundation Cash and Investments

At June 30, 2014, Foundation cash and investments were presented at their aggregate fair value based on quoted market values, except real estate which is based on donated value less depreciation, and consisted of the following:

Cash and cash equivalents	\$ 1,267,221
Marketable funds	37,919,578
Alternative investments	<u>767,752</u>
Total	<u><u>\$ 39,954,551</u></u>

Note 5: Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2014, is shown below:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:					
Construction in progress	\$ 10,577,964	\$ 2,386,642	\$ (214,566)	\$ (9,257,661)	\$ 3,492,379
Land	5,336,616				5,336,616
Totals	<u>15,914,580</u>	<u>2,386,642</u>	<u>(214,566)</u>	<u>(9,257,661)</u>	<u>8,828,995</u>
Capital assets being depreciated:					
Buildings	155,056,208	12,720,069	(225,000)	9,257,661	176,808,938
Leasehold improvements	657,403				657,403
Equipment	11,213,887	416,266	(48,724)		11,581,429
Totals	<u>166,927,498</u>	<u>13,136,335</u>	<u>(273,724)</u>	<u>9,257,661</u>	<u>189,047,770</u>
Less accumulated depreciation for:					
Buildings	43,946,881	4,473,254	(225,000)		48,195,135
Leasehold improvements	378,005	32,870			410,875
Equipment	9,480,861	543,835	(35,265)		9,989,431
Totals	<u>53,805,747</u>	<u>5,049,959</u>	<u>(260,265)</u>		<u>58,595,441</u>
Total capital assets being depreciated, net	<u>113,121,751</u>	<u>8,086,376</u>	<u>(13,459)</u>	<u>9,257,661</u>	<u>130,452,329</u>
Capital assets, net	<u><u>\$ 129,036,331</u></u>	<u><u>\$ 10,473,018</u></u>	<u><u>\$ (228,025)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 139,281,324</u></u>

Total interest expense was \$2,777,047 for the year ended June 30, 2014 and total amount thereof that was capitalized was \$792,975.

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2014
Page 10

Note 6: Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2014, is shown below:

	Balance			Balance	Due Within
	June 30, 2013	Additions	Reductions	June 30, 2014	One Year
Compensated absences	\$ 1,970,164	\$ 228,597	\$	\$ 2,198,761	\$ 1,434,193
Teacher load units	1,264,593	50,386		1,314,979	129,020
Net OPEB obligation	1,721,598	324,103		2,045,701	
Loan payable	1,696,365	1,083,114	227,923	2,551,556	283,671
General obligation bonds	59,625,000		285,000	59,340,000	1,740,000
Bond premium, net of amortization	1,777,809		75,867	1,701,942	
Refundable advances - student accounts		1,094,736		1,094,736	177,099
Long-term liabilities	<u>\$ 68,055,529</u>	<u>\$ 2,780,936</u>	<u>\$ 588,790</u>	<u>\$ 70,247,675</u>	<u>\$ 3,763,983</u>

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, 2014, the District contributed \$154,084, all of which was used for current premiums. Contributions ranged from \$416 to \$607 per month for 30 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.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 11

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

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.

The following table shows components of the District’s annual OPEB cost for the fiscal year ended June 30, 2014, the amount actually contributed to the Plan, and changes in the District’s net OPEB obligation:

Annual required contribution	\$ 485,852
Interest on net OPEB obligation	77,472
Adjustment to annual required contribution	<u>(85,137)</u>
Annual OPEB cost	478,187
Contributions made	<u>(154,084)</u>
Increase in net OPEB obligation	324,103
Net OPEB obligation - beginning of year	<u>1,721,598</u>
 Net OPEB obligation - end of year	 <u><u>\$ 2,045,701</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, 2014 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>
6/30/12	\$ 607,837	\$ 233,866	38.5%	\$ 1,332,333
6/30/13	\$ 609,972	\$ 220,707	36.2%	\$ 1,721,598
6/30/14	\$ 478,187	\$ 154,084	32.2%	\$ 2,045,701

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

Funded Status and Funding Progress

The funded status of the Plan as of September 1, 2014, the most recent valuation, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
9/1/14	\$ -	\$ 3,891,111	\$ 3,891,111	0.0%	\$ 45,718,051	8.5%

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.

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 actuarial valuation as of September 1, 2014, the entry age normal actuarial cost method was used. The actuarial assumption included a 4.5% investment rate of return, based on long-term return on Plan assets, and the cost trend rate for health care of 4%. These assumptions reflect an implicit 2.75% general inflation assumption. The UAAL is being amortized at a level dollar method over 25 years.

Note 8: Bonds Payable

On December 11, 2008, the District issued the Measure V general obligation bonds in the amount of \$47,000,000 with interest rates ranging from 3.5 to 5.75%. Principal and interest payments are due each February 1 and August 1 through August 1, 2033. At June 30, 2014, the bond payable principal balance outstanding was \$44,340,000. Included in the statement of net position, is the 2008 bonds unamortized premium which is being amortized and charged to expense over the term of the 2008 bonds. At June 30, 2014, the unamortized premium was \$478,307.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 13

Note 8: Bonds Payable (Continued)

At June 30, 2014, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 445,000	\$ 2,293,813	\$ 2,738,813
2016	565,000	2,272,906	2,837,906
2017	735,000	2,240,688	2,975,688
2018	925,000	2,195,038	3,120,038
2019	1,080,000	2,138,550	3,218,550
2020-2024	8,315,000	9,558,775	17,873,775
2025-2029	13,680,000	6,781,181	20,461,181
2030-2034	18,595,000	2,542,444	21,137,444
Totals	<u>\$ 44,340,000</u>	<u>\$ 30,023,395</u>	<u>\$ 74,363,395</u>

On March 2, 2013, the District issued the 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, 2014, the bond payable principal balance outstanding was \$15,000,000. Included in the statement of net position, is the 2013 bonds unamortized premium which is being amortized and charged to expense over the term of the 2013 bonds. At June 30, 2014, the unamortized premium was \$1,223,635.

At June 30, 2014, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	380,000	462,350	842,350
2020-2024	2,060,000	2,098,100	4,158,100
2025-2029	2,500,000	1,653,175	4,153,175
2030-2034	2,990,000	1,168,475	4,158,475
2035-2039	3,640,000	472,750	4,112,750
Totals	<u>\$ 15,000,000</u>	<u>\$ 7,801,588</u>	<u>\$ 22,801,588</u>

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 14

Note 9: Loans 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. 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, 2014, the outstanding principal balance on the loan payable was \$1,570,297.

At June 30, 2014, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 131,096	\$ 65,779	\$ 196,875
2016	136,177	60,750	196,927
2017	141,758	55,669	197,427
2018	147,413	50,088	197,501
2019	153,293	44,434	197,727
2020-2024	<u>860,560</u>	<u>129,225</u>	<u>989,785</u>
Totals	<u>\$ 1,570,297</u>	<u>\$ 405,945</u>	<u>\$ 1,976,242</u>

In February 2013, the District signed a Promissory Note and Loan Agreement for \$750,000 with the Commission in order to finance energy efficiency projects. The District received the loan disbursement in October 2013. The principal and interest at 1.00% per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2013. At June 30, 2014, the outstanding principal balance on the loan payable was \$662,772.

At June 30, 2014, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 85,525	\$ 6,415	\$ 91,940
2016	86,367	5,572	91,939
2017	87,248	4,692	91,940
2018	88,123	3,817	91,940
2019	89,006	2,934	91,940
2020-2022	<u>226,503</u>	<u>3,417</u>	<u>229,920</u>
Totals	<u>\$ 662,772</u>	<u>\$ 26,847</u>	<u>\$ 689,619</u>

Santa Barbara Community College District
Notes to Financial Statements
June 30, 2014
Page 15

Note 9: Loans Payable (Continued)

In December 2013, the District signed a Promissory Note and Loan Agreement for \$333,114 with Southern California Edison in order to finance energy efficiency projects. The District received the loan disbursement in March 2014. The principal on the unpaid principal is due and payable in monthly installments beginning on April 29, 2014. There is no interest charged on this loan. At June 30, 2014, the outstanding principal balance on the loan payable was \$318,487.

At June 30, 2014, future minimum payments were as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 67,050	\$ -	\$ 67,050
2016	67,050	-	67,050
2017	67,050	-	67,050
2018	67,050	-	67,050
2019	50,287	-	50,287
Totals	<u>\$ 318,487</u>	<u>\$ -</u>	<u>\$ 318,487</u>

Note 10: Operating Leases

The District has entered into leases for equipment and facilities with lease terms in excess of one year. At June 30, 2014, future minimum lease payments under these agreements were as follows:

<u>Year Ending June 30,</u>	
2015	\$ 299,645
2016	100,642
2017	59,810
2018	59,810
2019	59,810
2020	9,968
Total	<u>\$ 589,685</u>

Total rent expense of \$389,878 is included in other operating expenses and services for the year ended June 30, 2014.

Note 11: Employee Retirement Systems

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

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 16

Note 11: Employee Retirement Systems (Continued)

California State Teachers' Retirement System (CalSTRS)

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

Funding Policy: Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for the year ended June 30, 2014 was 8.25% of annual payroll.

Annual Pension Cost: The District's contributions to CalSTRS for the fiscal years ending June 30, 2014, 2013, and 2012, were \$2,979,295, \$2,840,440 and \$2,945,639, 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, 2014 was 11.442%.

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, 2014, 2013, and 2012 were \$2,474,742, \$2,213,852 and \$2,193,811, respectively, and equaled 100% of the required contributions for each year.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 17

Note 12: Joint Powers Agreements

Alliance of Schools for Cooperative Insurance Programs (ASCIP)

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

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

For the fiscal year ended June 30, 2013 (the most recent data available), the JPA had revenues of \$199,504,836, expenses of \$190,821,296, non-operating investment income of \$1,677,814, and ending net assets totaling \$134,744,758. The relationship between the District and ASCIP is such that ASCIP is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statement No. 39 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 May 2014 estimated the present value of future post-retirement medical benefits. The District's share of the JPA retained earnings balance at June 30, 2013 (the most recent data available) was \$787,080 and \$267,188 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.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 18

Note 12: Joint Powers Agreements (Continued)

The relationship between the District and the SCCCD is such that the SCCCD 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.

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 13: 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, 2014, would not be material to the District's financial statements and no liability has been recorded for potential claims.

Note 14: Commitments and Contingencies

Categorical Awards and Allowances

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

Construction Contracts

At June 30, 2014, the District had commitments of \$1,868,434 under various construction contracts, some of which were in the process of being completed.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 19

Note 15: Operating Expenses by Functional Classifications

The District's operating expenses by functional classifications for the year ended June 30, 2014, are as follows:

	Salaries and Benefits	Supplies, Materials and Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 48,676,104	\$ 1,332,541	\$	\$	\$ 50,008,645
Instructional administration	5,634,620	643,446			6,278,066
Instructional support services	2,127,976	242,143			2,370,119
Admissions and records	794,028	12,896			806,924
Counseling and guidance	5,211,133	135,014			5,346,147
Other student services	5,777,405	1,809,060			7,586,465
Operations and maintenance	3,512,116	250,181	1,545,428		5,307,725
Planning and policy making	1,167,773	173,067			1,340,840
General institutional services	9,465,490	2,382,395			11,847,885
Community services	1,672,841	243,886			1,916,727
Ancillary services	4,445,124	3,243,999			7,689,123
Auxiliary operations		499,973			499,973
Physical property and related acquisitions	55,422	16,290,769			16,346,191
Transfers and student payments		35,417,470			35,417,470
Depreciation				5,049,960	5,049,960
Totals	\$ 88,540,032	\$ 62,676,840	\$ 1,545,428	\$ 5,049,960	\$ 157,812,260

Note 16: Cumulative Effect from Change in Accounting Principle

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. Previously, under GASB Statement No. 7, the costs of bond issuance were capitalized and amortized over the repayment period in the financial statements. Under GASB Statement No. 65, these costs are to be expensed in the period incurred. At June 30, 2013, the remaining unamortized portion of the bond issuance costs was \$438,117. Net position at June 30, 2013, was adjusted in the accompanying financial statements for the cumulative effect of this new accounting principle which resulted in a decrease to beginning net position of \$483,117.

Santa Barbara Community College District

Notes to Financial Statements

June 30, 2014

Page 20

Note 17: Prior Period Adjustment

Foundation for Santa Barbara City College

At June 30, 2014 the Foundation unitrust agreement liability was overstated by \$1,221,188 due to incorrectly using life expectancy rather than the term of the agreement. This resulted in a prior period adjustment to increase net position by this amount. Additionally, restrictions on net assets were improperly stated by \$2,471,881 due to certain unitrusts misclassified as permanently restricted instead of temporarily restricted.

Santa Barbara Community College District

The District recorded a prior period adjustment related to the capitalization of interest on capital projects. This resulted in net assets being understated by \$4,938,742 and net capital assets being understated by the same amount. An adjustment has been recorded in these financial statements to reflect this change.

**Santa Barbara Community College District
Schedule of Funding Progress for OPEB Obligation
June 30, 2014**

<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>
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%
9/1/14	\$ -	\$ 3,891,111	\$ 3,891,111	0.0%	\$ 45,718,051	8.5%

Supplementary Information

**Santa Barbara Community College District
Organization
June 30, 2014**

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

Board of Trustees

Name	Office	Term Expires
Ms. Lisa Macker	President	2014
Ms. Marsha S. Croninger	Vice-President	2014
Ms. Marty Blum	Member	2014
Mr. 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, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Veterans Affairs:		
Post 9/11 Veterans Educational Assistance	64.028	\$ 3,861
Total U.S. Department of Veterans Affairs		<u>3,861</u>
U.S. Department of Education:		
Passed through California Department of Education (CDE):		
Adult Education and Family Literacy	84.002A	493,769
Higher Education - Institutional Aid - Title V Yr 4	84.031S	205,632
Higher Education - Institutional Aid - Title V Yr 3	84.031S	504,363
Higher Education - Institutional Aid - STEM Yr 1	84.031C	190,095
Higher Education - Institutional Aid - STEM Yr 2	84.031C	333,998
UCLA Aging Education Project	84.116	1,463
Passed through California State University Channel Islands		
Higher Education - Institutional Aid - ACCESO	84.031C	27,949
Higher Education - Institutional Aid - ACCESO - Yr 2	84.031C	38,345
Vocational and Applied Technology Training Act:		
Vocational And Technical Training	84.048	449,580
Technology Preparation	84.048	44,025
Perkins IB Regional Consortia South Central Region	84.048A	220,000
Student Financial Aid:		
Supplemental Educational Opportunity Grant (SEOG) *	84.007	205,092
Pell Grant Program *	84.063	18,346,699
Federal Direct Loans *	84.268	14,107,130
Federal Work Study *	84.033	382,801
Total U.S. Department of Education		<u>35,550,941</u>
U.S. Department of Health and Human Services:		
Passed through California Department of Education (CDE):		
Temporary Assistance for Needy Families	93.558	36,802
Foster and Kinship Care	93.658	53,632
Pre-Kindergarten Resource Contract/Child Development	93.575	23,824
Youth Empowerment Success Strategies Independent Living Prog.	93.674	10,000
Total U.S. Department of Health and Human Services		<u>124,258</u>
U.S. Department of Agriculture:		
Passed through California Department of Education (CDE):		
Child Care Food Program	10.558	21,659
Total U.S. Department of Agriculture		<u>\$ 21,659</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, 2014
Page 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
National Science Foundation		
Passed through Santa Clarita Community College:		
National Science Foundation CREATE Renewable Energy	47.076	\$ 1,627
Passed through University of CA Santa Barbara:		
National Science Foundation INSET	47.041	8,234
Total National Science Foundation		<u>9,861</u>
 Total expenditures of federal awards		 <u>\$ 35,710,580</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, 2014

<u>Program</u>	<u>Program Revenues</u>			
	<u>Cash Received</u>	<u>Prior Year Deferral</u>	<u>Accounts Receivable</u>	<u>Unearned Revenues</u>
Adult Basic ED ESL Grant	\$ 214,050	\$ 59,737	\$	\$ 57,555
BFAP Board Financial Assistance	532,642			
Cal Works	166,888			
CARE	66,947			
Child Development Training	7,500			
Disabled Students Programs	970,820			
Enrollment Growth ADN Programs (odd year)	168,882		32,168	
Extended Opportunity Program and Services	923,211			
Financial Aid Media Campaign (even year)	1,233,568			
Financial Aid Media Campaign (odd year)			2,079,374	
Foster Parent Grant (55%)	35,508		32,744	
Transition Aged Foster Youth			15,000	
DSN - Global Trade and Logistics	80,000		53,616	
In Region - DSN Global Trade	40,000			26,416
AB 86 Adult Ed Consortium Planning	102,573			101,857
MESA Program (odd year)	30,300			16
MESA Program (even year)	20,200	7,066		
Credit Matriculation SSSP	841,486			255,652
Non-Credit Matriculation SSSP	250,394			(255,652)
Staff Diversity	7,477			1,291
Staff Diversity		5,988		
CTE Comm. Collaborative	41,135	244,286		
CTE Comm. Collaborative		151,036		
Child Development Program	105,327			
CalGRANT	997,954		10,116	
Totals	<u>\$ 6,836,862</u>	<u>\$ 468,113</u>	<u>\$ 2,223,018</u>	<u>\$ 187,135</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, 2014
Page 2

<u>Program</u>	<u>Total Revenue</u>	<u>Program Expenditures</u>
Adult Basic ED ESL Grant	\$ 216,232	\$ 216,232
BFAP Board Financial Assistance	532,642	532,642
Cal Works	166,888	166,888
CARE	66,947	66,947
Child Development Training	7,500	7,500
Disabled Students Programs	970,820	970,820
Enrollment Growth ADN Programs (odd year)	201,050	201,050
Extended Opportunity Program and Services	923,211	923,211
Financial Aid Media Campaign (even year)	1,233,568	1,233,568
Financial Aid Media Campaign (odd year)	2,079,374	2,079,374
Foster Parent Grant (55%)	68,252	68,252
Transition Aged Foster Youth	15,000	15,000
DSN - Global Trade and Logistics	133,616	133,616
In Region - DSN Global Trade	13,584	13,584
AB 86 Adult Ed Consortium Planning	716	716
MESA Program (odd year)	30,284	30,284
MESA Program (even year)	27,266	27,266
Credit Matriculation SSSP	585,834	585,834
Non-Credit Matriculation SSSP	506,046	506,046
Staff Diversity	6,186	6,186
Staff Diversity	5,988	5,988
CTE Comm. Collaborative	285,421	285,421
CTE Comm. Collaborative	151,036	151,036
Child Development Program	105,327	105,327
CalGRANT	<u>1,008,070</u>	<u>1,008,070</u>
Totals	<u>\$ 9,340,858</u>	<u>\$ 9,340,858</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, 2014

	Reported Data
A. Summer Intersession (Summer 2013 only)	
1. Noncredit	106.97
2. Credit	477.69
B. Summer Intersession (Summer 2013 - Prior to July 1, 2014)	
1. Noncredit	-
2. Credit	718.96
C. Primary Terms (Exclusive of Summer Intersession)	
1. Census Procedure Courses	
(a) Weekly Census Contact Hours	8,751.50
(b) Daily Census Contact Hours	363.04
2. Actual Hours of Attendance Procedure Courses	
(a) Noncredit	736.57
(b) Credit	1,036.76
3. Independent Study/Work Experience	
(a) Weekly Census Contact Hours	1,963.16
(b) Daily Census Contact Hours	139.59
(c) Noncredit Independent Study/Distance Education Courses	-
D. Total FTES	14,294.24

Supplemental Information (subset of above information)

E. In-Service Training Courses (FTES)	-
H. Basic Skills courses and Immigrant Education	
(a) Noncredit	569.67
(b) Credit	1,059.16
CCFS 320 Addendum	
CDCP Noncredit FTES	515.61
Centers FTES	
(a) Noncredit	843.66
(b) Credit	1,018.68

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, 2014

	<u>Fiduciary</u> <u>Fund Type</u> <u>Expendable</u> <u>Trusts</u>
June 30, 2014, Annual Financial and Budget Report (Form CCFS-311) Fund Balance/Retained Earnings	\$ 2,903,486
Agency funds properly classified as liabilities due to student group. Automatically classified as fund balance in CCFS-311 software	<u>(61,733)</u>
June 30, 2014, Annual Financial Statements Fund Balance	<u><u>\$ 2,841,753</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 Assets and
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2014

Description	General Fund	Enterprise Funds		Special Revenue Funds	
		Bookstore	CLL	Food Service	Child Development
Revenues:					
Federal revenues	\$ 2,997,960	\$	\$	\$ 8,216	\$ 45,483
State revenues	52,931,710				105,327
Local revenues	53,373,486	6,185,488	1,767,589	3,547,986	282,808
Total revenues	<u>109,303,156</u>	<u>6,185,488</u>	<u>1,767,589</u>	<u>3,556,202</u>	<u>433,618</u>
Expenditures:					
Academic salaries	43,381,398		759,688		274,773
Classified salaries	23,317,297	760,052	401,387	1,301,118	200,494
Employee benefits	16,567,890	285,968	200,367	244,342	187,126
Supplies and materials	2,742,665	4,326,670	220,448	1,781,360	14,293
Other operating expenses and services	12,790,919	513,750	240,079	252,921	959
Capital outlay	895,192	58,341	20,541	201,641	
Total expenditures	<u>99,695,361</u>	<u>5,944,781</u>	<u>1,842,510</u>	<u>3,781,382</u>	<u>677,645</u>
Excess (deficiency) of revenues over expenditures	9,607,795	240,707	(74,921)	(225,180)	(244,027)
Net other financing sources (uses)	<u>(5,691,431)</u>	<u>(103,000)</u>	<u>76,891</u>	<u>(19,056)</u>	<u>209,000</u>
Net increase (decrease) in fund balance	3,916,364	137,707	1,970	(244,236)	(35,027)
Ending fund balance - June 30, 2013	<u>26,703,453</u>	<u>6,091,649</u>	<u>-</u>	<u>702,729</u>	<u>232,975</u>
Ending fund balance - June 30, 2014	<u>\$ 30,619,817</u>	<u>\$ 6,229,356</u>	<u>\$ 1,970</u>	<u>\$ 458,493</u>	<u>\$ 197,948</u>
Reconciliation to change in net position:					
Net decrease in fund balance	\$ (7,705,144)				
Change in:					
Prepaid supplies	2,001				
Inventories	56				
Capital assets	15,294,952				
Depreciation expense	(4,991,619)				
Amounts held for others	(4,008)				
Unearned revenues	(632,551)				
Compensated absences and teacher load units	(278,984)				
Bond premium	75,867				
Bond interest payable	(149,289)				
Net OPEB obligation	(324,103)				
Bond principal payment	285,000				
AR Adjustment	(594)				
Increase in net position	<u>\$ 1,571,584</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
\$	\$	\$	\$	\$ 32,658,921	\$ 35,710,580
367,584				1,008,070	54,412,691
897,519	5,511	33,459	3,753,510	2,314,818	72,162,174
<u>1,265,103</u>	<u>5,511</u>	<u>33,459</u>	<u>3,753,510</u>	<u>35,981,809</u>	<u>162,285,445</u>
		34,841			44,450,700
		15,678			25,996,026
		4,527			17,490,220
6,778		871		750,199	9,843,284
107,475	42,000	110,580		418,831	14,477,514
9,028,170		9,118,011		4,296	19,326,192
<u>9,142,423</u>	<u>42,000</u>	<u>9,284,508</u>		<u>1,173,326</u>	<u>131,583,936</u>
(7,877,320)	(36,489)	(9,251,049)	3,753,510	34,808,483	30,701,509
<u>4,675,546</u>			<u>(2,988,625)</u>	<u>(34,565,978)</u>	<u>(38,406,653)</u>
(3,201,774)	(36,489)	(9,251,049)	764,885	242,505	(7,705,144)
<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>
<u>\$ 13,271,422</u>	<u>\$ 557,890</u>	<u>\$ 5,874,080</u>	<u>\$ 7,256,648</u>	<u>\$ 2,903,486</u>	<u>\$ 67,371,110</u>

Reconciliation to ending net position:

Ending fund balance	\$ 67,371,110
Prepaid expense	90,026
Inventories	(9,085)
Capital assets, net	137,710,826
Amounts held for others	(61,733)
Unearned revenues	215,245
Compensated absences and teacher load units	(3,513,739)
Bond premium, net	(1,701,942)
Interest payable	(1,179,662)
Net OPEB obligation	(2,045,701)
Bonds payable	(59,340,000)
AR Adjustment	(594)
Ending net position	<u>\$ 137,534,751</u>

Santa Barbara Community College District
Reconciliation of ECS 84362 (50 Percent Law) Calculation
Year Ended June 30, 2014

	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	\$18,237,780	\$	\$18,237,780	\$18,979,285	\$	\$18,979,285
Other	1300	15,738,235		15,738,235	15,975,224		15,975,224
Total Instructional Salaries		33,976,015		33,976,015	34,954,509		34,954,509
Non-Instructional Salaries							
Contract or Regular	1200				4,246,688		4,246,688
Other	1400				1,114,394		1,114,394
Total Non-Instructional Salaries					5,361,082		5,361,082
Total Academic Salaries		33,976,015		33,976,015	40,315,591		40,315,591
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100				14,685,469		14,685,469
Other	2300				856,432		856,432
Total Non-instructional Salaries					15,541,901		15,541,901
Instructional Aides							
Regular Status	2200	2,036,244		2,036,244	2,135,040		2,135,040
Other	2400	1,101,280		1,101,280	1,109,248		1,109,248
Total Instructional Aides		3,137,524		3,137,524	3,244,288		3,244,288
Total Classified Salaries		3,137,524		3,137,524	18,786,189		18,786,189
Employee Benefits	3000	8,149,303		8,149,303	14,778,561		14,778,561
Supplies and Materials	4000				1,871,815		1,871,815
Other Operating Expenses	5000				8,280,461		8,280,461
Equipment Replacement	6420				47,473		47,473
Total Expenditures Prior to Exclusions		\$45,262,842	\$ -	\$45,262,842	\$84,080,090	\$ -	\$84,080,090

*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, 2014
 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	\$ 52,520	\$	\$ 52,520	\$ 52,520	\$	\$ 52,520
Student Health Services Above Amount Collected	6441						
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740				139,486		139,486
Objects to Exclude							
Rents and Leases	5060				202,415		202,415
Lottery Expenditures							
Academic Salaries	1000	1,060,138		1,060,138	1,692,801		1,692,801
Classified Salaries	2000						
Employee Benefits	3000	265,035		265,035	423,201		423,201
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				92,879		92,879
Equipment	6400						
Equipment - Additional	6410				108,157		108,157
Equipment - Replacement	6420				83,765		83,765
Total Equipment					191,922		191,922
Total Capital Outlay					284,801		284,801
Other Outgo	7000						
Total Exclusions		\$ 1,377,693	\$ -	\$ 1,377,693	\$ 2,795,224	\$ -	\$ 2,795,224
Total for ECS 84362, 50% Law		\$43,885,149	\$ -	\$43,885,149	\$81,284,866	\$ -	\$81,284,866
Percent of CEE (Instructional Salary Cost / Total CEE)		53.99%		53.99%			
50% of Current Expense of Education					\$40,642,433		\$40,642,433

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, 2014**

Activity Classification	Object Code				Unrestricted
EPA proceeds:	8630				\$ 10,287,305
Activity Classification	Object Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$	\$	\$	\$ 10,287,305
Other Support Activities (list below)	6XXX				
Total Expenditures for EPA *		\$ -	\$ -	\$ -	\$ 10,287,305
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, 2014

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, 2014, 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 Assets and Statement of Revenues, Expenses and Changes in Net Assets

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

Santa Barbara Community College District

Note to Supplementary Information

June 30, 2014

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, 2014, 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 4, 2014. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Foundation for Santa Barbara City College, as described in our report on the District's financial statements. The financial statements of the Foundation for Santa Barbara City College were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (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 4, 2014



**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 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, 2014. 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

Page 2

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, 2014.

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 4, 2014

Independent Auditors' Report on State Compliance Requirements

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

Report on State Compliance

We have audited Santa Barbara Community College District (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *Contracted District Audit Manual* issued in December 2013 that could have a direct and material effect on each of the District's programs for the year ended June 30, 2014 as listed below:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination For Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *Contracted District Audit Manual* issued in December 2013.

Board of Trustees

Santa Barbara Community College District

Page 2

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of each of the District's 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States; and Section 400 of the California Community Colleges Chancellor's Office *Contracted District Audit Manual*. Those standards 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.

Opinion

In our opinion, Santa Barbara Community College District complied, in all material respects, with the compliance requirements referred to above that are applicable to the District programs for the year ended June 30, 2014.

Purpose of this Report

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 and state 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 4, 2014

Findings and Recommendations

**Santa Barbara Community College District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2014**

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: **None reported.**
- (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: **None reported.**
- (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
84.007, 84.033, 84.063, 84.268	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: **None reported.**
- (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, 2014**

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

None.

**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 13.1: 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.	Implemented	
Finding 13.2: We recommend that the District ensure that all courses of this nature are in accordance with the Distant Learning Guidelines (2008 Omnibus Version).	Implemented	