

**SAN BERNARDINO COMMUNITY
COLLEGE DISTRICT**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2009

**SAN BERNARDINO VALLEY COLLEGE
SAN BERNARDINO, CALIFORNIA**

**CRAFTON HILLS COLLEGE
YUCAIPA, CALIFORNIA**

**PROFESSIONAL DEVELOPMENT
CENTER
SAN BERNARDINO, CALIFORNIA**

SAN BERNARDINO COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
San Bernardino Community College District
San Bernardino, California

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the San Bernardino Community College District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the San Bernardino Community College District as of June 30, 2009, and the respective changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2009 on our consideration of San Bernardino Community College 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedules of post-employment healthcare benefit funding progress and employer contributions are not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Bernardino Community College District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

December 24, 2009

Eadie and Payne, LLP

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the San Bernardino Community College District (the "District") for the year ended June 30, 2009. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The San Bernardino Community College District was established in 1926 and serves most of the County of San Bernardino and a small portion of the County of Riverside. The District includes two comprehensive community colleges, a Professional Development Center, and a television and radio station. Students in our colleges may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly to the workforce.

As an independent division of San Bernardino Community College District, the Economic Development and Corporate Training Division carries out the economic and workforce development mission of the District through its two dedicated workforce training facilities: the Professional Development Center (PDC) and the Donald F. Averill Applied Technology Training Center (ATTC). The Division offers customized and short-term training programs to residents in the Inland Empire, including San Bernardino, Colton, Rialto, Highland, Bloomington, Grand Terrace, Redlands, Loma Linda, Yucaipa, and Big Bear.

Selected Highlights

- During fiscal year 2008-09, total Full-Time Equivalent Students (FTES) increased 1,198.48 students (or 8.50%) for credit courses and increased 12.32 FTES (or 125.71%) for non-credit courses.

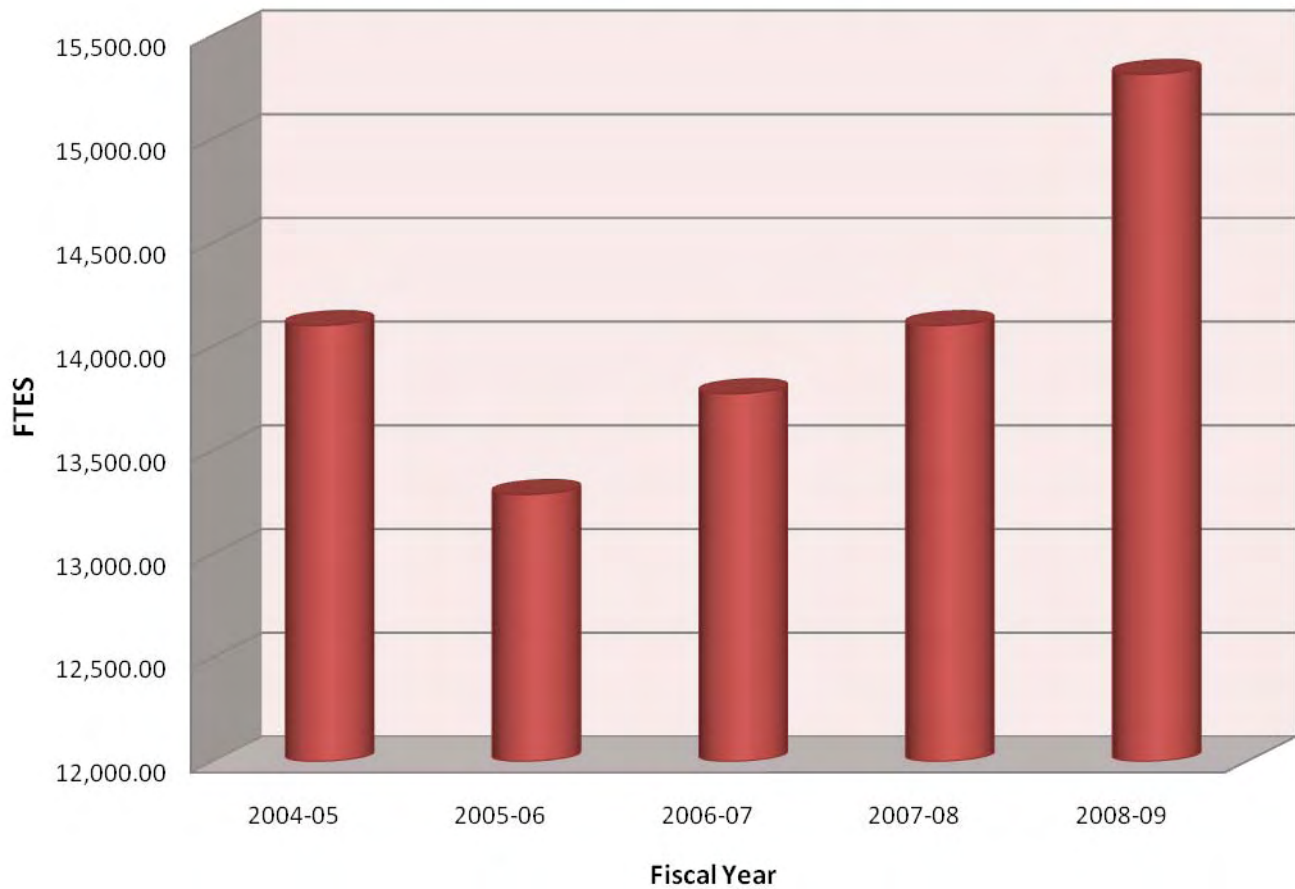
SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

Trend of Full Time Equivalent Students as reported on the annual report



Full Time Equivalent Students	2004-05	2005-06	2006-07	2007-08	2008-09
Credit	14,077.53	13,276.87	13,753.86	14,092.98	15,291.46
Non-Credit	25.25	11.43	20.64	9.80	22.12
Totals	14,102.78	13,288.30	13,774.50	14,102.78	15,313.58
Credit % Increase (Decrease)	0.87%	-5.69%	3.59%	2.47%	8.50%
Non-Credit % Increase (Decrease)	-47.60%	-54.73%	80.58%	-52.52%	125.71%
Totals	0.70%	-5.78%	3.66%	2.38%	8.59%

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets, liabilities, and net assets.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less accumulated depreciation.

The Net Assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

A summary of the Statement of Net Assets as of June 30, 2009 and June 30, 2008 is shown below:

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$29,714,146	\$28,393,571	\$1,320,575	4.7%
Accounts receivable, net	22,026,578	12,130,780	9,895,798	81.6%
Other current assets	<u>1,243,959</u>	<u>1,476,866</u>	<u>(232,907)</u>	-15.8%
Total Current Assets	<u>52,984,683</u>	<u>42,001,217</u>	<u>10,983,466</u>	26.2%
Noncurrent Assets				
Restricted cash and cash equivalents	353,596,574	96,259,038	257,337,536	267.3%
Deferred Charges	4,941,987	-	4,941,987	100.0%
Net capital assets and noncurrent assets held for sale	<u>229,475,438</u>	<u>172,062,594</u>	<u>57,412,844</u>	33.4%
Total Noncurrent Assets	<u>588,013,999</u>	<u>268,321,632</u>	<u>319,692,367</u>	119.1%
TOTAL ASSETS	<u><u>\$640,998,682</u></u>	<u><u>\$310,322,849</u></u>	<u><u>\$330,675,833</u></u>	106.6%
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$23,972,377	\$14,151,844	9,820,533	69.4%
Current portion of long-term liabilities	3,754,641	2,443,142	1,311,499	53.7%
Other current liabilities	<u>4,272,064</u>	<u>5,686,942</u>	<u>(1,414,878)</u>	-24.9%
Total Current Liabilities	<u>31,999,082</u>	<u>22,281,928</u>	<u>9,717,154</u>	43.6%
Noncurrent Liabilities				
Supplemental early retirement plan liability	2,110,792	120,985	1,989,807	1644.7%
Capital leases	27,596	77,034	(49,438)	-64.2%
Bonds payable	452,327,125	167,164,152	285,162,973	170.6%
Other noncurrent liabilities	<u>2,093,925</u>	<u>-</u>	<u>2,093,925</u>	100.0%
Total Noncurrent Liabilities	<u>456,559,438</u>	<u>167,362,171</u>	<u>289,197,267</u>	172.8%
TOTAL LIABILITIES	<u><u>488,558,520</u></u>	<u><u>189,644,099</u></u>	<u><u>298,914,421</u></u>	157.6%
NET ASSETS				
Invested in capital assets, net of related debt	113,888,155	88,999,101	24,889,054	28.0%
Restricted For				
Capital projects	15,115,796	14,253,781	862,015	6.0%
Other special services	10,279,232	9,744,579	534,653	5.5%
Unrestricted	<u>13,156,979</u>	<u>7,681,289</u>	<u>5,475,690</u>	71.3%
TOTAL NET ASSETS	<u><u>152,440,162</u></u>	<u><u>120,678,750</u></u>	<u><u>31,761,412</u></u>	26.3%
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$640,998,682</u></u>	<u><u>\$310,322,849</u></u>	<u><u>\$330,675,833</u></u>	106.6%

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

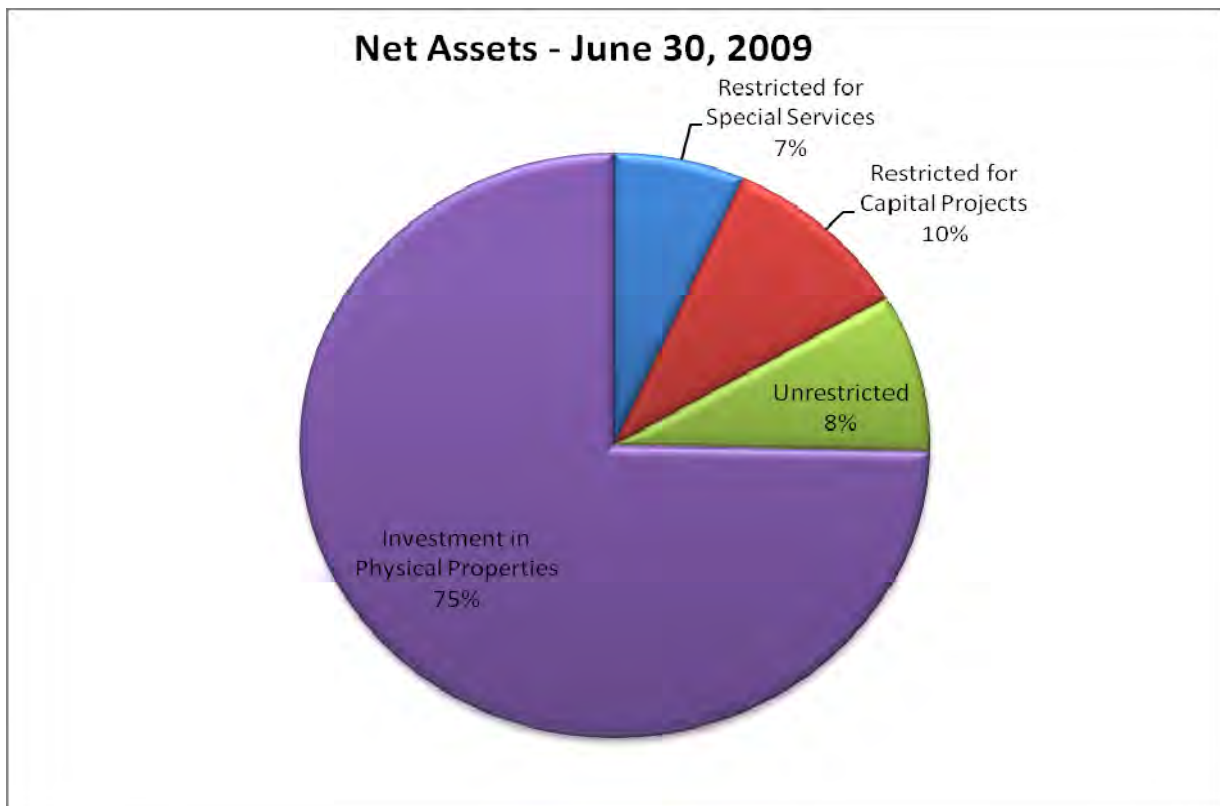
- Approximately 63% of the cash balance is cash deposited in the San Bernardino County Treasury Pool and approximately 37% is cash deposited in local financial banking institutions. All funds are invested in accordance with Board Policy which emphasizes prudence, safety, liquidity, and return on investment. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash and the net increase or decrease in cash during fiscal years.
- The majority of the accounts receivable balance is from federal and state sources for apportionment, property tax, and grant and entitlement programs.
- Capital assets had a net increase of \$58.3 million. The District had additions of \$64.5 million related to the purchases of buildings and equipment and for construction in progress. Depreciation expense of \$6.2 million was recognized during 2008-09. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2009. Total accounts payable are \$24 million at year end.
- The District's noncurrent liabilities primarily consist of bonds payable related to the Measure P General Obligation bonds and Measure M General Obligation and Build America bonds. For Measure P, Series D and E were issued in June 2009 thus completing this issuing for this Bond Measure. For Measure M, in December 2008, Series A was issued, followed by Series B and C being issued in June 2009. Further information on the bonds can be found in the long-term liabilities section of this report.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)



Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the financial results of the District's operations, as well as its non-operating activities. The distinction between these two activities involves the concepts of exchange and non-exchange. Operating activities are those in which a direct payment or exchange is made for the receipt of specified goods or services. As an example, tuition fees paid by the student is considered an exchange for instructional services. Likewise, grant and contract-funding received on the condition that the District will provide a specified service is also an exchange. Both of these examples are considered operating activities and therefore the associated revenues and expenses are classified as such. The receipt of state apportionments and property taxes, however, do not include this exchange relationship between the payment and receipt of specified goods or services. These revenues and related expense are classified as non-operating activities. It is because of the methodology used to categorize between operating and non-operating combined with the fact that the primary source of funding that supports the District's instructional activities comes from state apportionment and local property taxes that the results of the District's operations will result in a net operating loss.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

The Statement of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2009, and June 30, 2008 is summarized below:

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
OPERATING REVENUES				
Tuition and fees (net)	\$6,208,381	\$5,693,579	\$514,802	9.0%
Grants and Contracts, Noncapital	22,635,937	18,112,205	4,523,732	25.0%
Auxiliary enterprises sales	<u>5,841,007</u>	<u>5,646,113</u>	<u>194,894</u>	3.5%
TOTAL OPERATING REVENUES	34,685,325	29,451,897	5,233,428	17.8%
TOTAL OPERATING EXPENSES	<u>117,389,157</u>	<u>118,220,300</u>	<u>(831,143)</u>	-0.7%
OPERATING LOSS	<u>(82,703,832)</u>	<u>(88,768,403)</u>	<u>6,064,571</u>	-6.8%
NONOPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	64,912,375	58,236,643	6,675,732	11.5%
Local property taxes	35,958,949	21,455,202	14,503,747	67.6%
State revenue - other	2,081,977	1,954,502	127,475	6.5%
Interest and investment income	1,345,086	6,968,347	(5,623,261)	-80.7%
Other nonoperating revenue	3,052,027	3,041,217	10,810	0.4%
Interest expense	<u>-</u>	<u>(7,574,293)</u>	<u>7,574,293</u>	-100.0%
NET NONOPERATING REVENUES	<u>107,350,414</u>	<u>84,081,618</u>	<u>23,268,796</u>	27.7%
OTHER REVENUES, EXPENSES, AND GAINS				
Federal grants, capital	65,896	132,085	(66,189)	-50.1%
State apportionments, capital	944,887	405,965	538,922	132.8%
Local revenue, capital	5,968,126	1,297,047	4,671,079	360.1%
Gain (Loss) on disposal of equipment	<u>135,921</u>	<u>7,848</u>	<u>128,073</u>	1631.9%
TOTAL OTHER REVENUES, EXPENSES, AND GAINS	<u>7,114,830</u>	<u>1,842,945</u>	<u>5,271,885</u>	286.1%
INCREASE (DECREASE) IN NET ASSETS	31,761,412	(2,843,840)	34,605,252	-1216.8%
NET ASSETS, BEGINNING OF YEAR	<u>120,678,750</u>	<u>123,522,590</u>	<u>(2,843,840)</u>	-2.3%
NET ASSETS, END OF YEAR	<u><u>\$152,440,162</u></u>	<u><u>\$120,678,750</u></u>	<u><u>\$31,761,412</u></u>	26.3%

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

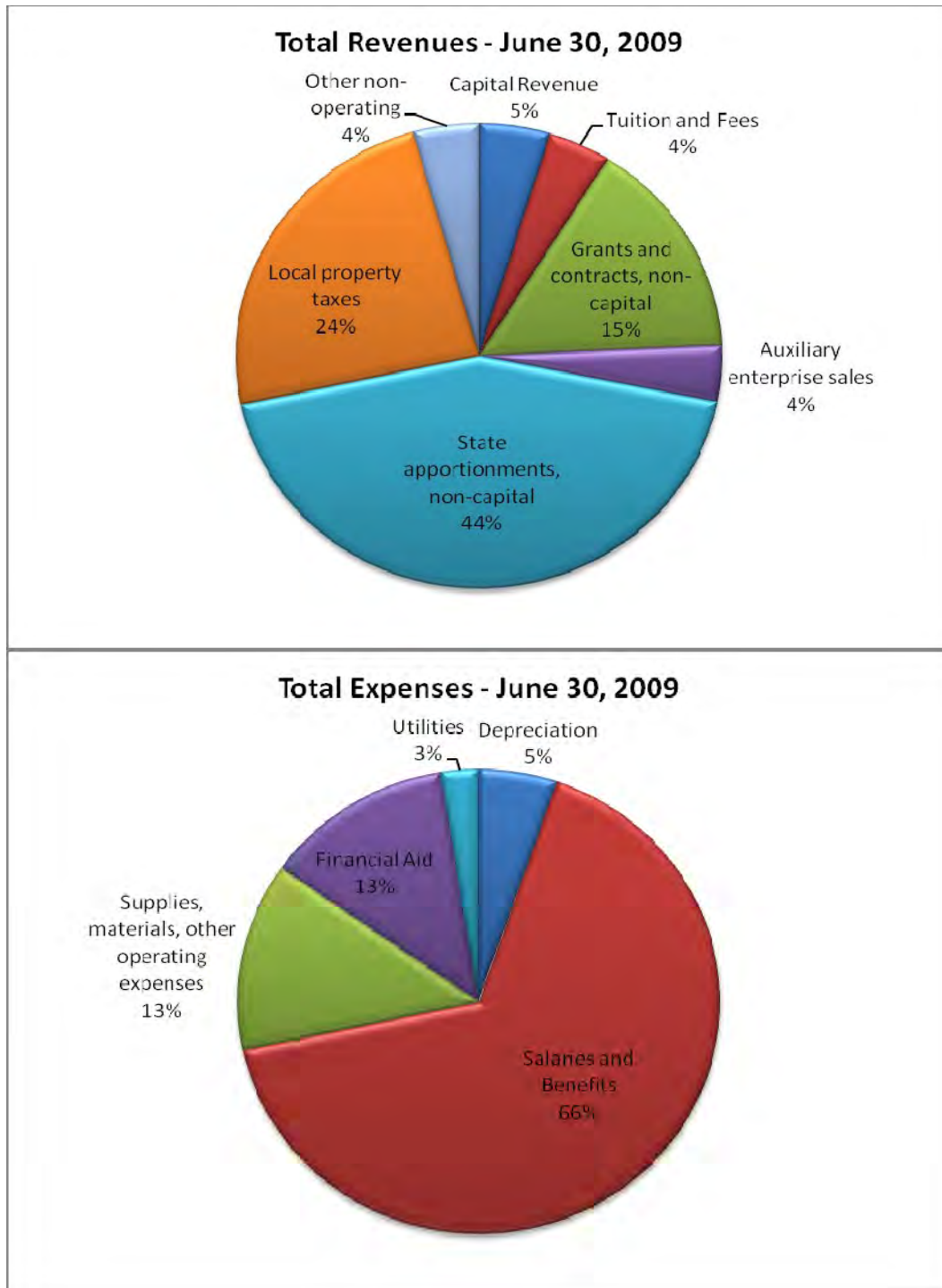
- The primary components of tuition and fees are the \$20 per unit enrollment fee that is charged to all students registering for classes and the additional \$186 per unit fee that is charged to all non-resident students.
- The largest component of the District's operating revenues is non-capital grants and contracts. The largest sub-component is federal grants totaling \$12.5 million for student financial aid. State student financial aid totaled \$.96 million.
- Personnel costs account for 66% of Operating expenses in fiscal year 2009 compared to 62% in 2008. The balance of operating expenses is for supplies, materials, other operating expenses, financial aid, utilities, and depreciation expense.
- The principal components of the District's non-operating revenue are: non-capital, state apportionment, local property taxes, other state funding, and interest income. With the exception of interest income, all of this revenue is received to support the District's instructional activities. The amount of state general apportionment received by the District is dependent upon the number of FTES generated and reported to the state, less amounts received from enrollment fees and local property taxes; increases in either of these latter two revenue-categories leads to a corresponding decrease in apportionment. Overall, total operating expenses decreased .4%.
- State apportionments, capital, consists of amounts received for capital outlay, scheduled maintenance and facility construction. Approved capital outlay projects are typically funded at 50% of the project costs by the state.
- Functional expenses are included in Note 12 of the financial statements.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)



SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

The Statement of Cash Flows for the fiscal years ended June 30, 2009 and June 30, 2008 is summarized below:

	<u>2009</u>	<u>2008</u>
Cash Provided by (Used in)		
Operating activities	(\$72,990,868)	(\$84,695,193)
Non-capital financing activities	101,505,255	83,974,887
Capital and related financing activities	228,039,073	(29,223,617)
Investing activities	<u>2,104,651</u>	<u>7,472,436</u>
Net increase (decrease) in cash and cash equivalents	258,658,111	(22,471,487)
Cash balance, beginning of year	<u>124,652,609</u>	<u>147,124,096</u>
Cash balance, end of year	<u>\$383,310,720</u>	<u>\$124,652,609</u>

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Use of cash is for payments to employees, vendors and students related to the instructional program.
- State apportionment received based on the workload measures generated by the District accounts for 58% and 70% of non-capital financing for fiscal years 2009 and 2008 respectively. Cash received from property taxes accounts for 36% in fiscal year 2009 and 25% in fiscal year 2008 of the cash generated in this section.
- The majority of the activity in the capital and related financing activities is for the issuance of bonds.
- Cash from investing activities is interest earned on cash in bank and cash invested through the San Bernardino County pool and on investments with local banking institutions. Approximately \$2.1 and \$7.5 million was received from the San Bernardino County pool for fiscal years 2009 and 2008, respectively.

Other Post Benefit Obligations

In 2004, Governmental Accounting Standards Board (GASB) issued Accounting Standards Nos. 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees. In an effort to become compliant with GASB standards, the District has created a District plan and an irrevocable trust that will be used as the vehicle to fund, accumulate, invest, and distribute funds held solely for retiree health benefits. The District had an actuarial study performed in 2006 to identify the cost and amount needed to fund on an annual basis retiree health benefits. This study determined the District's Unfunded Actuarial Accrued Liability to be \$5.1 million. To date, the District has placed \$.8 million in the irrevocable trust and set aside an additional \$.75 million in an internal fund. The actuarial study is currently being updated for use during fiscal year 2010.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

(Continued)

Economic Factors that May Affect the Future

State funding for community colleges has been reduced by over \$700 million and San Bernardino Community College District's share of this reduction is approximately \$5 million, with about half of the cuts in the general fund and half in categorical programs. The economic downturn that we are currently experiencing has increased the demand for our courses and services at our colleges. With an enrollment increase of over 8.5%, the District served over 1,100 additional full-time equivalent students in 2008-2009 above our level of funding by the state. Another factor impacting our level of service is the workload reduction that has been imposed by the state. This current method of cutting general funding from colleges is likely to be permanent. In addition, there is a great deal of talk about further budget reductions for next year if tax collections do not keep up with state projections. To date, there is evidence that the collections are below projections.

The District has already taken several steps to get through this fiscal year and survive current and future cuts. Budget reductions will be offset by a series of savings measures including salary savings from vacant positions due to the SERP and selective filling of vacant positions. Additional one-time savings will come from prior year unspent funds and will be used in part to support the cost of full-time permanent employees in the categorical programs. Both campuses have also undertaken efforts to meet an enrollment target of 14,600 FTES by reducing sections and increasing efficiency.

BASIC FINANCIAL STATEMENTS

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	GENERAL FUND	FINANCIAL AID	OTHER	TOTAL
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 26,390,401	\$ 203,239	\$ 3,120,506	\$ 29,714,146
Accounts receivable, net	20,753,297	370,381	902,900	22,026,578
Investments	-	-	375,000	375,000
Inventories	-	-	816,805	816,805
Prepaid expenses	39,782	-	12,372	52,154
Interfund balances	805,967	(100,356)	(705,611)	-
Total Current Assets	<u>47,989,447</u>	<u>473,264</u>	<u>4,521,972</u>	<u>52,984,683</u>
Noncurrent Assets				
Restricted cash and cash equivalents	353,596,574	-	-	353,596,574
Capital Assets				
Land	3,084,176	-	-	3,084,176
Depreciable assets, net of accumulated depreciation	152,736,866	-	4,440,468	157,177,334
Construction in progress	69,213,928	-	-	69,213,928
Interfund loan	1,815,000	-	(1,815,000)	-
Deferred charges	4,941,987	-	-	4,941,987
Total Noncurrent Assets	<u>585,388,531</u>	<u>-</u>	<u>2,625,468</u>	<u>588,013,999</u>
TOTAL ASSETS	<u>\$ 633,377,978</u>	<u>\$ 473,264</u>	<u>\$ 7,147,440</u>	<u>\$ 640,998,682</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 23,353,234	\$ 281,345	\$ 337,798	\$ 23,972,377
Deferred revenue	3,956,992	-	315,072	4,272,064
Current portion of long-term liabilities	3,730,641	-	24,000	3,754,641
Total Current Liabilities	<u>31,040,867</u>	<u>281,345</u>	<u>676,870</u>	<u>31,999,082</u>
Noncurrent Liabilities				
Supplemental early retirement plan liability	2,110,792	-	-	2,110,792
Other postemployment benefits liability	437,208	-	-	437,208
Capital leases	27,596	-	-	27,596
Compensated absences	1,432,169	-	224,548	1,656,717
Bonds payable	452,327,125	-	-	452,327,125
Total Noncurrent Liabilities	<u>456,334,890</u>	<u>-</u>	<u>224,548</u>	<u>456,559,438</u>
TOTAL LIABILITIES	<u>487,375,757</u>	<u>281,345</u>	<u>901,418</u>	<u>488,558,520</u>
NET ASSETS				
Invested in capital assets, net of related debt	109,447,687	-	4,440,468	113,888,155
Restricted For				
Capital projects	14,740,796	-	375,000	15,115,796
Other special services	8,143,448	191,919	1,943,865	10,279,232
Unrestricted	13,670,290	-	(513,311)	13,156,979
TOTAL NET ASSETS	<u>146,002,221</u>	<u>191,919</u>	<u>6,246,022</u>	<u>152,440,162</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 633,377,978</u>	<u>\$ 473,264</u>	<u>\$ 7,147,440</u>	<u>\$ 640,998,682</u>

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

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND	FINANCIAL AID	OTHER	TOTAL
OPERATING REVENUES				
Tuition and fees (gross)	\$ 10,047,313		\$ 279,498	\$ 10,326,811
Less: Scholarship discounts and allowances	4,118,430		-	4,118,430
Net tuition and fees	5,928,883		279,498	6,208,381
Grants and Contracts, Noncapital				
Federal	2,930,194	\$ 12,196,388	153,169	15,279,751
State	2,135,045	964,891	1,616,264	4,716,200
Local	1,426,300	-	1,213,686	2,639,986
Auxiliary enterprises sales	-	-	5,841,007	5,841,007
TOTAL OPERATING REVENUES	12,420,422	13,161,279	9,103,624	34,685,325
OPERATING EXPENSES				
Salaries	55,766,444	-	3,977,118	59,743,562
Employee benefits	17,157,637	-	1,232,409	18,390,046
Supplies, materials, and other operating expenses and services	7,109,527	-	8,322,035	15,431,562
Financial aid	1,212,227	13,172,240	236,438	14,620,905
Utilities	2,744,409	-	244,920	2,989,329
Depreciation	5,523,233	-	690,520	6,213,753
TOTAL OPERATING EXPENSES	89,513,477	13,172,240	14,703,440	117,389,157
OPERATING INCOME (LOSS)	(77,093,055)	(10,961)	(5,599,816)	(82,703,832)
NONOPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	64,912,375	-	-	64,912,375
Local property taxes	35,958,949	-	-	35,958,949
State revenue - other	2,081,977	-	-	2,081,977
Interest and investment income	1,290,028	497	54,561	1,345,086
Other nonoperating revenue	101,207	425	2,950,395	3,052,027
NET NONOPERATING REVENUES	104,344,536	922	3,004,956	107,350,414
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	27,251,481	(10,039)	(2,594,860)	24,646,582
OTHER REVENUES, EXPENSES, GAINS, AND LOSSES				
Federal grants, capital	65,896	-	-	65,896
State apportionments, capital	944,887	-	-	944,887
Local revenue, capital	5,968,126	-	-	5,968,126
Gain on disposal of equipment	135,921	-	-	135,921
TOTAL OTHER REVENUES, EXPENSES, GAINS, AND LOSSES	7,114,830	-	-	7,114,830

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
(Continued)

	<u>GENERAL FUND</u>	<u>FINANCIAL AID</u>	<u>OTHER</u>	<u>TOTAL</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	<u>\$ 34,366,311</u>	<u>\$ (10,039)</u>	<u>\$ (2,594,860)</u>	<u>\$ 31,761,412</u>
Transfers in	-	-	1,807,741	1,807,741
Transfers out	<u>(1,807,741)</u>	<u>-</u>	<u>-</u>	<u>(1,807,741)</u>
NET TRANSFERS	<u>(1,807,741)</u>	<u>-</u>	<u>1,807,741</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	32,558,570	(10,039)	(787,119)	31,761,412
NET ASSETS, BEGINNING OF YEAR	<u>113,443,651</u>	<u>201,958</u>	<u>7,033,141</u>	<u>120,678,750</u>
NET ASSETS, END OF YEAR	<u>\$ 146,002,221</u>	<u>\$ 191,919</u>	<u>\$ 6,246,022</u>	<u>\$ 152,440,162</u>

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

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL FUND	FINANCIAL AID	OTHER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	\$ 5,346,487		\$ 279,498	\$ 5,625,985
Federal grants and contracts	2,379,212	\$ 12,196,388	147,206	14,722,806
State grants and contracts	2,931,268	1,001,728	1,914,254	5,847,250
Local grants and contracts	1,374,920	-	1,048,564	2,423,484
Sales	-		5,858,610	5,858,610
Payments to suppliers	(8,925,217)		(8,639,379)	(17,564,596)
Payments to/on behalf of employees	(70,089,823)		(5,193,679)	(75,283,502)
Payments to/on behalf of students	(1,212,227)	(13,172,240)	(236,438)	(14,620,905)
Interfund transfers	(1,677,479)	26,844	1,650,635	-
Net Cash Provided By (Used In) Operating Activities	(69,872,859)	52,720	(3,170,729)	(72,990,868)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State apportionments	59,135,294			59,135,294
Property taxes	36,668,474			36,668,474
Grants and gifts for other than capital purposes	2,179,546	425	3,521,516	5,701,487
Net Cash Provided By Noncapital Financing Activities	97,983,314	425	3,521,516	101,505,255
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of general obligation bonds	283,277,493			283,277,493
Principal payments on long-term debt	(2,373,390)			(2,373,390)
Proceeds from sale of land and equipment	990,564			990,564
Federal grants for capital purposes	165,000		37,500	202,500
Local revenue for capital purposes	812,343		-	812,343
Purchase and construction of capital assets	(54,854,415)		(16,022)	(54,870,437)
Net Cash Provided By Capital and Related Financing Activities	228,017,595	-	21,478	228,039,073
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturities of certificates of deposit			56,154	56,154
Interest on investments	1,984,989	497	63,011	2,048,497
Net Cash Provided By Investing Activities	1,984,989	497	119,165	2,104,651
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	258,113,039	53,642	491,430	258,658,111
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	121,873,936	149,597	2,629,076	124,652,609
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 379,986,975	\$ 203,239	\$ 3,120,506	\$ 383,310,720

STATEMENT OF CASH FLOWS (Continued)

	GENERAL FUND	FINANCIAL AID	OTHER	TOTAL
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (77,093,055)	\$ (10,961)	\$ (5,599,816)	\$ (82,703,832)
Adjustments to Reconcile Operating Loss to Net Cash Provided By (Used In) Operating Activities				
Depreciation expense	5,523,233		690,520	6,213,753
Changes in Assets and Liabilities				
Receivables, net	(430,518)	(51,951)	160,381	(322,088)
Inventories			189,004	189,004
Prepaid expenses	(20,437)		8,186	(12,251)
Accounts payable and accrued liabilities	271,648	88,788	(270,676)	89,760
Deferred revenue	560,167		(14,811)	545,356
Compensated absences	(115,069)		15,848	(99,221)
Supplemental early retirement plan liability	2,671,443			2,671,443
Other postemployment benefits liability	437,208			437,208
Interfund transfers	(1,677,479)	26,844	1,650,635	-
Net Cash Provided By (Used In) Operating Activities	<u>\$ (69,872,859)</u>	<u>\$ 52,720</u>	<u>\$ (3,170,729)</u>	<u>\$ (72,990,868)</u>

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

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATEMENT OF OTHER POST-EMPLOYMENT BENEFIT PLAN NET ASSETS
JUNE 30, 2009

ASSETS

Investments	\$ 650,716
Accrued income	<u>624</u>

TOTAL ASSETS

651,340

LIABILITIES

Accounts payable and accrued liabilities	<u>745</u>
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NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS

\$ 650,595

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

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN OTHER POST-EMPLOYMENT BENEFIT PLAN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

ADDITIONS

Investment Income (Loss)	
Net depreciation in fair value of assets	\$ (148,399)
Interest and dividends	<u>34,102</u>
Investment Loss	<u>(114,297)</u>

TOTAL ADDITIONS

(114,297)

DEDUCTIONS

Administrative expense	<u>9,547</u>
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TOTAL DEDUCTIONS

9,547

CHANGE IN NET ASSETS

(123,844)

NET ASSETS HELD IN TRUST FOR OTHER POST-EMPLOYMENT BENEFITS

Beginning of the year	<u>774,439</u>
End of the year	<u>\$ 650,595</u>

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

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

1. **ORGANIZATION AND NATURE OF ACTIVITIES**

Reporting Entity

The San Bernardino Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District, formed in 1926, operates two co-educational two-year community colleges, San Bernardino Valley College and Crafton Hills College, and a Professional Development Center. The colleges are tax supported and governed by a locally elected Board of Trustees acting through the administration of the District and the Presidents of the respective colleges. The school districts within the boundaries of the District include Bear Valley, Fontana, Redlands, Rialto, Rim of the World, and San Bernardino City Unified School Districts, and Colton and Yucaipa-Calimesa Joint Unified School Districts. The District is located in San Bernardino County, with the exception that portions of Colton Joint Unified School District and Yucaipa-Calimesa Joint Unified School District are located in Riverside County.

While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a State instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is, therefore, exempt from federal income taxes.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support of the District or its other component units. In evaluating the District as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the District may be financially accountable. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

NOTES TO FINANCIAL STATEMENTS (Continued)

Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based on the application of the criteria listed above, one potential component unit has been included in the District's reporting entity as a blended component unit and one potential component unit has been discretely presented.

KVCR Educational Foundation, Inc. is a 501(c)(3) nonprofit organization formed to meet the funding requirements of KVCR-TV/FM, a wholly-owned broadcasting affiliate of the District. KVCR Educational Foundation, Inc. has been included as a blended component unit. The Foundation also issues a stand-alone audited financial report, which can be obtained from the District or the Foundation.

The San Bernardino Community College District Public Entity Investment Trust (Trust) is a potential component unit and has been discretely presented. The Trust is an irrevocable governmental trust pursuant to Section 115 of the Internal Revenue Code for the purpose of funding certain post-employment benefits. The Trust Board of Authority, comprised of the Vice Chancellor, Fiscal Services; Vice Chancellor, Human Resources; Business manager; Director, Fiscal Services; and Director, Internal Audits, provide oversight over Trust investments and plan administration. As such, the District acts as the fiduciary of the Trust.

Based on the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity:

- The San Bernardino Valley College Foundation
- The Crafton Hills College Foundation
- Schools Alliance for Workers' Compensation Excess II Self-Funded Joint Powers Authority (SAWCX II)
- Schools Association For Excess Risk (SAFER)
- California Community College Financing Authority (CCCFA)
- San Bernardino Regional Emergency Training Center (SBRETC)
- Statewide Association of Community Colleges (SWACC)

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis for Public Colleges and Universities*, issued in June and November 1999, as amended by Statements No. 37 and 38, and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

The financial statement presentation required by GASB Statements No. 34 and 35, as amended, provides a comprehensive, entity-wide perspective of the District's financial activities.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Accordingly, the District's basic financial statements have been presented using the total economic resources measurement focus and the accrual basis of accounting. The District records revenues, gains, expenses, and losses when they occur regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

The District applies all Financial Accounting Standards Board (FASB) statements and interpretations issued prior to November 30, 1989, until subsequently amended, superseded, or rescinded, unless the FASB pronouncements conflict with GASB pronouncements. The District has elected not to apply FASB statements and interpretations issued after that date.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*. To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources, and all related liabilities, obligations, and equities.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Cash and Cash Equivalents

The District considers all highly liquid investments with an initial maturity of three months or less, from the date of acquisition, to be cash equivalents. Funds invested in the County treasurer's investment pool are considered cash equivalents. Cash in the County treasury is recorded at cost, which approximates fair value.

D. Accounts Receivable

Accounts receivable consist primarily of amounts due from the federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also include amounts due from tuition and fee charges to students and auxiliary services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based on management's estimates and analysis. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance as of June 30, 2009 was approximately \$1,000,000.

E. Investments

Investments in certificates of deposit are recorded at cost. Investments in marketable securities are carried at fair value in the statement of other post-employment benefit plan net assets. Unrealized gains and losses are included in the change in other post-employment benefit plan net assets in the accompanying statement of revenues, expenses, and changes in plan net assets.

F. Inventories

Bookstore inventories are valued at the lower of cost or market using the weighted-average-cost method. Cafeteria inventories are valued at cost using the first-in, first-out method.

G. Prepaid Expenses

Payments made to vendors for goods and services that will benefit periods beyond June 30, 2009 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

H. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts, and debt service requirements. Cash that is externally restricted for obligations such as debt service payments, sinking or reserve fund, or to purchase or construct capital or other noncurrent assets, is classified as a noncurrent asset in the statement of net assets.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. Assets acquired prior to July 1, 2000 are recorded at their estimated cost based on an inventory and valuation performed by a valuation consultant.

The District's capitalization policy for equipment includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements, with a unit cost of \$50,000 or more that significantly increase the value or extend the useful life of the structure, are capitalized. Routine repairs and maintenance are recorded as an operating expense in the year in which the expense is incurred.

Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for land improvements, 8 years for equipment and vehicles, and 3 years for technology equipment.

K. Deferred Charges

Deferred charges consisted of bond issuance costs that are amortized over the life of the related bonds using the effective interest rate method.

L. Accounts Payable and Accrued Liabilities

Accounts payable consisted of amounts due vendors for goods and services received as of June 30, 2009. Accrued liabilities included salaries and benefits payable to current and retired employees of \$2,127,416.

M. Deferred Revenue

Deferred revenue arises when student fees are received in advance of the term for which they are charged or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Deferred revenue includes amounts received for student fees prior to the end of the fiscal year but related to the subsequent accounting period and cash received for special projects and programs to be recognized when qualifying expenses have been incurred and conditions are met.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. **Compensated Absences**

Compensated absence costs are accrued when earned by employees. Compensated absences include accumulated unpaid employee vacation benefits, compensatory time off, and load banking.

Load banking was available to certified employees under a program in which extra courses taught in one period could be exchanged for equivalent paid leave in a subsequent semester or academic year. This program was discontinued during the year ended June 30, 2000.

Accumulated employee sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

O. **Deferred Loss on Refunding, Premiums, and Discounts**

Bond premiums and discounts, as well as accounting losses on defeasance, are deferred and amortized over the life of the bonds using the effective interest rate method.

P. **Net Assets**

Invested in capital assets, net of related debt represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets include resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. All of the District's restricted net assets are expendable.

Unrestricted net assets represent resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are available to be used for transactions relating to the general operation of the District and may be used at the discretion of the governing board to meet current expenses for any purpose.

Q. **State Apportionments**

Certain current-year apportionments from the State are based on various financial and statistical information of the previous year. Any prior-year corrections due to recalculation are recorded in the year computed by the State.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Bernardino bills and collects the taxes for the District. Tax revenues are recognized by the District in the same manner in which the County Auditor records and reports actual property tax to the County Superintendent of Schools.

S. Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied on for operations are recorded as nonoperating revenues.

Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, and most federal, State, and local grants and contracts that are not for acquisition or construction of capital assets.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as local property taxes and gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 34, such as State apportionments and investment income.

T. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third-party recipient for the employees of another, legally separate, entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement System on behalf of all community college and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments.

U. Scholarship Discounts and Allowances

Student tuition and fee revenues 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 stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

A. Deposits

Cash and cash equivalents at June 30, 2009 consisted of the following:

	<u>AMOUNT</u>
Cash in County Treasury	\$ 241,121,493
Cash on hand and in banks	<u>142,189,227</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 383,310,720</u>
Cash and cash equivalents	\$ 29,714,146
Restricted cash and cash equivalents	<u>353,596,574</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 383,310,720</u>

As provided for by the Education Code Section 41001, a significant portion of the District's cash is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2009, as provided by the pool sponsor, was \$243,090,973. Interest earned on such pooled cash balances is distributed to the participating funds based on each fund's average cash balance during the distribution period. Any investment losses are proportionately shared by all funds in the pool.

An investors committee reviews and monitors the County Treasurer's investments. The District is represented by the County Superintendent of Schools.

NOTES TO FINANCIAL STATEMENTS (Continued)

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits. There was no uninsured or non-collateralized cash balance held by financial institutions as of June 30, 2009.

B. Investments

Investments of \$375,000 held by the District's enterprise funds at June 30, 2009 consisted of certificates of deposit.

Investments held by the Post-employment Benefit Obligation Trust as of June 30, 2009 consisted of mutual funds with a fair value of \$650,716.

4. ACCOUNTS RECEIVABLE

The accounts receivable balance as of June 30, 2009 consisted of the following:

	<u>AMOUNT</u>
Grants and Contracts	
Federal	\$ 1,117,034
State	12,147,203
Local	7,671,304
Financial aid, interest, and other	<u>1,091,037</u>
TOTAL	<u><u>\$ 22,026,578</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

5. CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2009:

	<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>
CAPITAL ASSETS				
Land	\$ 3,084,176			\$ 3,084,176
Site improvements	23,020,817	\$ 1,960,593		24,981,410
Buildings and improvements	142,974,683	16,566,057		159,540,740
Equipment	16,520,323	475,080	\$ 63,315	16,932,088
Construction in Progress				
Beginning/additions	23,734,417	54,909,812		
Placed in service/ ending		(9,430,301)		69,213,928
Total Cost	<u>209,334,416</u>	<u>\$ 64,481,241</u>	<u>\$ 63,315</u>	<u>273,752,342</u>
ACCUMULATED DEPRECIATION				
Site improvements	7,905,030	\$ 1,752,481		9,657,511
Buildings and improvements	20,657,924	3,006,568		23,664,492
Equipment	9,563,511	1,454,705	\$ 63,315	10,954,901
Total Accumulated Depreciation	<u>38,126,465</u>	<u>\$ 6,213,754</u>	<u>\$ 63,315</u>	<u>44,276,904</u>
CAPITAL ASSETS, NET	<u>\$ 171,207,951</u>			<u>\$ 229,475,438</u>

6. LONG-TERM LIABILITIES

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

	<u>BALANCE</u> <u>JULY 1, 2008</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2009</u>	<u>CURRENT</u> <u>PORTION</u>
SERP liability	\$ 190,738	\$ 3,340,401	\$ 668,958	\$ 2,862,181	\$ 751,389
Capital leases	120,423		43,390	77,033	49,438
OPEB liability		687,455	250,247	437,208	
Compensated absences	2,109,753		99,221	2,010,532	353,814
Bonds payable	169,494,152	287,762,973	2,330,000	454,927,125	2,600,000
TOTALS	<u>\$ 171,915,066</u>	<u>\$ 291,790,829</u>	<u>\$ 3,391,816</u>	<u>\$ 460,314,079</u>	<u>\$ 3,754,641</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM LIABILITIES (Continued)

A. Supplemental Retirement Plans

In June 2003, San Bernardino Community College District offered a Supplemental Early Retirement Plan. This Plan allowed qualified individuals to retire at age 55. The Plan offered monetary incentives and health insurance benefits. The monetary incentives were paid in 5 equal yearly installments of \$487,957. The medical benefits are based on actual costs with a maximum of \$7,500 per year until the qualified individual reaches age 65. The District approved a one-time augmentation of \$1,800, for a total maximum benefit of \$9,300 for fiscal year 2008.

During the year ended June 30, 2009, San Bernardino Community College District offered two Supplemental Early Retirement Plans. The Plans allowed qualified individuals to retire at age 55. The Plans offered monetary incentives and health insurance benefits. The monetary incentives will be funded through 5 equal yearly installments of \$606,232. The medical benefits are based on actual costs with a maximum of \$7,500 per year until the qualified individual reaches age 65.

The present values of the future minimum payments are as follows:

YEARS ENDING	AMOUNT
<u>JUNE 30,</u>	
2010	\$ 751,389
2011	698,795
2012	661,087
2013	631,451
2014	42,843
2015	26,931
2016	26,451
2017	20,025
2018	<u>3,209</u>
TOTAL	<u>\$ 2,862,181</u>

B. Leases

Capital Leases

The District leases equipment valued at \$233,948 through agreements that provide for title to pass upon expiration of the lease period. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Accumulated amortization at June 30, 2009 amounted to \$145,479. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2009. The District pays monthly for service charges and may have contingent rentals for excess usage associated with these leases.

NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM LIABILITIES (Continued)

B. Leases (Continued)

Capital Leases (Continued)

Future minimum lease payments are as follows:

YEARS ENDING JUNE 30, <u> </u>	LEASE PAYMENTS <u> </u>
2010	\$ 55,122
2011	<u>28,248</u>
	83,370
Less: Amount representing interest	<u>6,337</u>
PRESENT VALUE OF NET MINIMUM LEASE PAYMENTS	<u>\$ 77,033</u>

Operating Leases

The District leases unimproved land on Box Springs Mountain for KVCR's broadcasting equipment. The lease term expires on October 31, 2032. The lease agreement calls for monthly payments of \$1,300, adjusted annually for changes in the Consumer Price Index. As of June 30, 2009, the monthly payment amount was \$1,348. Rental expense under this operating lease totaled \$15,984 for the year ended June 30, 2009.

The District leases land in Palm Springs for additional broadcasting equipment. The agreement is a five-year lease expiring in 2011. The lease calls for initial quarterly payments of \$2,500, increasing 5% annually. Rental expense under this operating lease totaled \$12,485 for the year ended June 30, 2009.

The District leases a transmission tower on Blue Mountain for KVCR's broadcasts. The lease term renewed on January 1, 2009 and ends on December 31, 2010 with a yearly renewal option for four years. The lease calls for monthly payments in the amount of \$1,380, which increase annually on the commencement date by 4%. Rental expense under this operating lease totaled \$13,543 for the year ended June 30, 2009.

The District entered into a contract to lease television broadcast air time on PSTV in the Palm Springs area beginning on September 1, 2008. The lease calls for monthly payments in the amount of \$3,000. Rental expense under this operating lease totaled \$30,000 for the year ended June 30, 2009.

NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM LIABILITIES (Continued)

B. Leases (Continued)

Operating Leases (Continued)

The District leases copy machines. The agreements are five-year leases expiring in 2009 and 2010. Rental expenses under these operating leases totaled \$52,005 for the year ended June 30, 2009. The District pays \$2,667 per quarter for service charges and may have contingent rentals for excess usage associated with these leases.

The District entered into a leasing agreement for the installation, leasing, and removal of 17 modular classrooms and restrooms. Rental expenses under this operating lease totaled \$280,699 for the year ended June 30, 2009. Remaining lease payments on the contract amount to \$166,620.

The District entered into a contract to lease offsite computer storage. Monthly lease payments of \$11,979 are due through July 31, 2012. Lease expenses under this operating lease totaled \$32,378 for the year ended June 30, 2009.

Future minimum rental payments under the operating leases are as follows:

YEARS ENDING JUNE 30,	AMOUNT
2010	\$ 399,989
2011	220,550
2012	82,783
2013	71,549
2014	25,193
Thereafter	<u>296,944</u>
TOTAL	<u><u>\$ 1,097,008</u></u>

C. Bonds Payable

On November 5, 2002, voters within the boundaries of the District authorized the issuance and sale of general obligation bonds totaling \$190,000,000. In May 2003, \$50,000,000 of general obligation bonds were sold (Series A), and in February 2004, an additional \$20,000,000 of general obligation bonds were sold (Series B). In September 2006, \$100,000,000 of general obligation bonds were sold (Series C). On June 18, 2009, \$4,999,797 (Series D) and \$15,000,000 (Series E) general obligation bonds were sold. Proceeds from the sale of the bonds have been or will be used to finance the acquisition, construction, reconstruction, and modernization of certain property and District facilities.

NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM LIABILITIES (Continued)

C. Bonds Payable (Continued)

On April 7, 2005, the District issued \$56,562,550 in general obligation bonds to advance refund \$52,690,000 of outstanding 2002 Series A and B bonds. The net proceeds of \$55,892,560 were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2002 Series A and B bonds maturing on or after August 1, 2014 and 2015, respectively. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's statements. At June 30, 2009, \$52,690,000 of bonds outstanding are considered defeased.

On February 5, 2008, voters within the boundaries of the District authorized the issuance and sale of general obligation bonds totaling \$500,000,000. As of June 30, 2008, no bonds had been sold from this measure. On December 30, 2008, \$140,000,000 of general obligation bonds were sold (Series A). On June 18, 2009, \$73,102,389 (Series B) and \$45,210,000 (Series C) general obligation bonds were sold.

The outstanding bonded debt for the San Bernardino Community College District was as follows:

DATE OF ISSUE	INTEREST RATE%	MATURITY DATE	AMOUNT		ISSUED	REDEEMED	OUTSTANDING 6/30/2009
			OF ORIGINAL ISSUE	OUTSTANDING 7/1/2008	CURRENT YEAR	CURRENT YEAR	
5/01/2003	2.0-5.0%	8/1/2027	\$ 50,000,000	\$ 4,955,000		\$ 580,000	\$ 4,375,000
2/12/2004	2.25-5.25%	8/1/2028	20,000,000	1,765,000		130,000	1,635,000
4/07/2005	3.0-5.0%	8/1/2021	54,430,000	51,685,000		1,620,000	50,065,000
4/07/2005	12.0%*	8/1/2023	2,132,550	2,132,550		-	2,132,550
9/13/2006	4.25-5.0%	8/1/2031	100,000,000	100,000,000		-	100,000,000
12/30/2008	3.75-6.5%	8/1/2033	140,000,000		\$ 140,000,000	-	140,000,000
6/18/2009	6.02-10.0%	8/1/2033	4,999,797		4,999,797		4,999,797
6/18/2009	7.63%	8/1/2033	15,000,000		15,000,000		15,000,000
6/18/2009	11.5%	8/1/2030	6,590,755		6,590,755		6,590,755
6/18/2009	6.78%	8/1/2038	19,638,174		19,638,174		19,638,174
6/18/2009	7.00%	8/1/2044	17,653,457		17,653,457		17,653,457
6/18/2009	7.19%	8/1/2048	12,585,722		12,585,722		12,585,722
6/18/2009	6.375-6.42%	8/1/2034	16,634,282		16,634,282		16,634,282
6/18/2009	7.43%	8/1/2039	31,210,000		31,210,000		31,210,000
6/18/2009	7.63%	8/1/2044	14,000,000		14,000,000		14,000,000
TOTALS			<u>\$ 504,874,737</u>	<u>\$ 160,537,550</u>	<u>\$ 278,312,187</u>	<u>\$ 2,330,000</u>	<u>\$436,519,737</u>

*Effective interest rate - 5.07%-5.14%

NOTES TO FINANCIAL STATEMENTS (Continued)

6. LONG-TERM LIABILITIES (Continued)

C. Bonds Payable (Continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2009, are as follows:

YEARS ENDING JUNE 30,	PRINCIPAL	INTEREST	TOTAL
2010	\$ 2,600,000	\$ 19,758,409	\$ 22,358,409
2011	2,900,000	20,647,233	23,547,233
2012	3,424,085	20,599,329	24,023,414
2013	4,055,926	20,614,963	24,670,889
2014	4,757,736	20,601,544	25,359,280
2015-2019	32,610,003	101,445,435	134,055,438
2020-2024	42,561,868	113,383,150	155,945,018
2025-2029	98,031,748	86,352,880	184,384,628
2030-2034	139,781,635	82,117,164	221,898,799
2035-2039	30,347,558	123,313,118	153,660,676
2040-2044	46,547,233	135,938,012	182,485,245
2045-2049	28,901,945	191,109,132	220,011,077
TOTALS	\$ 436,519,737	\$ 935,880,369	\$ 1,372,400,106

Total liability for bonds payable includes \$18,407,388, consisting of the unamortized portions of the premiums from bond issuances less the accounting loss from advance refunding of bonds.

Bond interest of \$12,098,639 net of interest income on invested bond proceeds amounting to \$2,290,075 was capitalized during the year ended June 30, 2009.

7. POST-EMPLOYMENT BENEFITS

(1) Plan Description

The District administers a single-employer defined benefit healthcare plan, which provides medical insurance benefits to eligible retirees in accordance with various labor agreements. The District reports the financial activity of the plan as a trust fund, and no separate financial report is prepared.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. POST-EMPLOYMENT BENEFITS (Continued)

(1) Plan Description (Continued)

Faculty, classified, and management employees qualify at age 60 with 10 years of service. Classified employees qualify at age 55 with 20 years of service. Board members qualify for 5 years of benefits, but not beyond age 65, with 12 years of service. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. Membership of the plan consisted of the following at August 1, 2006, the date of the latest actuarial valuation:

	<u>AMOUNT</u>
Retirees receiving benefits	50
Active plan members	<u>613</u>
TOTAL	<u><u>663</u></u>

(2) Funding Policy

The District's annual contribution to retiree benefits is currently capped at \$8,700 per eligible retiree; retired employees are required to pay costs that exceed this cap.

The District established an irrevocable trust to fund the actuarial accrued liability during the year ended June 30, 2008 and contributed \$800,000 to the plan trust. The District has continued to pay the current premiums for post-employment health benefits through the general fund which was \$250,247 for the year ended June 30, 2009. No contributions were made to the trust and no benefits were paid from the trust during the year ended June 30, 2009.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. POST-EMPLOYMENT BENEFITS (Continued)

(3) Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	<u>AMOUNT</u>
Annual required contribution	\$ 687,455
Interest on net OPEB obligation	-
Adjustments to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	687,455
Contributions made	<u>(250,247)</u>
Increase in net OPEB obligation	437,208
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 437,208</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 and the two preceding years were as follows:

<u>FISCAL</u> <u>YEAR</u> <u>ENDED</u>	<u>ANNUAL</u> <u>OPEB</u> <u>COST</u>	<u>PERCENTAGE OF</u> <u>ANNUAL OPEB</u> <u>COST CONTRIBUTED</u>	<u>NET</u> <u>OPEB</u> <u>OBLIGATION</u>
6/30/2007	N/A	N/A	N/A
6/30/2008	N/A	N/A	N/A
6/30/2009	\$ 687,455	36.4%	\$ 437,208

(4) Funded Status and Funding Progress

As of August 1, 2006, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$5,110,498. The covered payroll (annual payroll of active employees covered by the plan) was \$33,678,675, and the ratio of the UAAL to the covered payroll was 15.17 percent. A contribution of \$800,000 was made during the year ended June 30, 2008.

NOTES TO FINANCIAL STATEMENTS (Continued)

7. POST-EMPLOYMENT BENEFITS (Continued)

(4) Funded Status and Funding Progress (Continued)

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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(5) 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 of benefit costs between the employer and the 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 August 1, 2006 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, a projected 3% increase in salaries, and a 4% annual healthcare cost trend rate. An annual inflation rate of 3% per year was used. The UAAL is being amortized as a level percentage of projected payroll over a period of 30 years.

8. PENSION PLANS

A. Public Employees' Retirement System

(1) 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 Regional Office, 400 "Q" Street, Room 1820, Lincoln Plaza East, Sacramento, California 95811.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. PENSION PLANS (Continued)

A. Public Employees' Retirement System (Continued)

(2)Funding Policy

Active Plan members are required to contribute 7.0% 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 CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428% of annual payroll. The contribution requirements of the Plan members are established by State statute. The District's contributions to CalPERS for the years ended June 30, 2009, 2008, and 2007 were \$2,017,044, \$1,891,624, and \$1,609,219, respectively, and equal 100% of the required contributions for each year.

B. State Teachers' Retirement System

(1)Plan Description

The District contributes to the California State Teachers' Retirement System (STRS), a cost-sharing multiple-employer defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7919 Folsom Blvd., Sacramento, California 95826.

(2)Funding Policy

Active Plan members are required to contribute 8.0% of their annual 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25% of annual payroll. The contribution requirements of the Plan members are established by State statute. The District's contributions to STRS for the years ended June 30, 2009, 2008, and 2007 were \$2,644,828, \$2,557,994, and \$2,449,707, respectively, and equal 100% of the required contributions for each year.

C. Accumulation Program for Part-Time and Limited-Service Employees Plan

(1)Plan Description

The District contributes to the Accumulation Program for Part-Time and Limited-Service Employees Plan (APPLE). All employees who do not participate in another retirement plan provided by the District are eligible to participate in the APPLE Plan, a multi-employer defined-contribution retirement program.

NOTES TO FINANCIAL STATEMENTS (Continued)

8. PENSION PLANS (Continued)

C. Accumulation Program for Part-Time and Limited-Service Employees Plan (Continued)

(1) Plan Description (Continued)

The District's payroll for employees covered by APPLE for the years ended June 30, 2009, 2008, and 2007 was \$4,006,935, \$4,588,694, and \$3,870,951, respectively. Total payroll for all employees for the years ended June 30, 2009, 2008, and 2007 was \$59,986,294, \$57,695,234, and \$52,889,613, respectively.

Participants become 100% vested in the Employer Contribution Account at normal retirement age, total disability, or death. Participants are 100% vested in the Employee Contribution Account at all times.

(2) Contribution Requirements and Contributions Made

The District is required under the Adoption Agreement to contribute 1.3% of each participant's gross wages. Participants are required to contribute 6.2% of their gross wages.

Total contributions for the years ended June 30, 2009, 2008, and 2007 were \$248,430, \$284,499, and \$290,322, respectively. The District contributed \$52,090 and employees contributed \$196,340 for the year ended June 30, 2009.

9. KVCR

The District operates a radio and television station and receives annual grants from the Corporation for Public Broadcasting (CPB). The CPB funded programs are audited under CPB guidelines, the report of which is presented separately in full.

10. COMMITMENTS AND CONTINGENCIES

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; injuries to students, campus visitors, or employees; errors and omissions; natural disasters; medical and dental claims of District employees; and employment-related liabilities. The District has Internal Service Funds to account for and finance its uninsured risks of loss.

A. Liability for Open Claims

(1) Workers' Compensation

The District maintains a self-insurance plan for workers' compensation benefits as authorized by Section 81602 of the California Education Code. Claims are paid by a third-party administrator acting on behalf of the District under the terms of a contractual agreement. The contract is renewable every three years and administrative fees are included within the provisions of that agreement. Coverage for workers' compensation claims is provided by a tiered system. The Workers' Compensation Fund provides coverage for up to a maximum of \$500,000 per occurrence. In addition, the District participates in a Joint Powers Arrangement with the Schools Alliance for Workers' Compensation Excess II (SAWCX II) that provides coverage for claims exceeding \$500,000 with a limit of \$25,000,000 per occurrence.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

A. Liability for Open Claims (Continued)

(1) Workers' Compensation (Continued)

The recorded liability for the workers' compensation benefits as of June 30, 2009, \$2,099,580, includes an estimate of incurred but not reported claims. This liability is reported in accrued liabilities at June 30, 2009, based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

(2) Self-Insurance - Liability and Property

The District also maintains a property and liability self-insurance plan. The Plan is authorized by Section 81602 of the California Education Code. Coverage for liability and property claims is provided by a tiered system. The Self-Insurance - Liability and Property Fund provides coverage for up to a maximum of \$50,000 per occurrence for liability claims and \$5,000 per occurrence for property claims. The District purchases additional insurance from Joint Powers Arrangements for claims in excess of coverage provided by the fund. The Statewide Association of Community Colleges (SWACC) in conjunction with Schools Association For Excess Risk (SAFER) provide coverage for claims exceeding the District's retention with a limit of \$25,000,000 per occurrence for liability and \$250,000,000 per occurrence for property. Settled claims have not exceeded this insurance in any of the past three fiscal years.

Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claim liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The estimated liability for open claims and estimated incurred, but not reported claims, as of June 30, 2009 and 2008 for workers' compensation was \$2,099,580. Claims paid during the year amounted to \$980,294. No liability and property claims were paid during the year ended June 30, 2009, and no liability was recorded for open claims.

B. State and Federal Allowances, Awards, and Grants

The District has received State and federal 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, management believes that any required reimbursements would not be material to the District.

NOTES TO FINANCIAL STATEMENTS (Continued)

10. COMMITMENTS AND CONTINGENCIES (Continued)

C. Lawsuits in the Normal Course of Business

The District is presently involved in certain matters of litigation that have arisen in the normal course of conducting business. District management believes, based on consultation with the District attorneys, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the District. Additionally, District management believes that the District's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

D. Construction Commitments

The District had several outstanding or planned construction projects as of June 30, 2009. These projects are evidenced by contractual commitments with contractors; outstanding commitments as of June 30, 2009 were as follows:

	<u>COSTS AS OF</u> <u>JUNE 30, 2009</u>	<u>ESTIMATED COSTS</u> <u>TO COMPLETE</u>
CHC LRC Building	\$ 15,000,893	\$ 22,341,000
SBVC Physical Sciences Building	11,107,669	31,534,000
SBVC North Hall Building	10,645,258	17,673,000
CHC Community Recreation Facility	5,293,502	7,289,000
SBVC Media and Communications Building	6,512,342	8,753,000
CHC Peninsula Development and Access Road I3	10,013,394	4,530,000
CHC Utility Corridor I2	5,134,504	1,769,000
CHC DSA Accessibility Components I4	2,858,214	2,377,000
CHC Athletics and CRF Site Preparation I5	2,037,893	1,926,000
SBVC Wireless Project	259,438	14,000
SBVC Server Co-location Project (onsite)	197,735	42,907
SBVC Server Co-location Project (offsite)	<u>153,086</u>	<u>33,218</u>
TOTALS	<u><u>\$ 69,213,928</u></u>	<u><u>\$ 98,282,125</u></u>

NOTES TO FINANCIAL STATEMENTS (Continued)

11. JOINT POWERS ARRANGEMENTS

The District is a member of several joint powers authorities. The relationship between the District and the joint powers authorities is such that they are not considered component units of the District for financial reporting purposes. The following is a summary of these arrangements:

A. **Schools Association For Excess Risk (SAFER)**

SAFER'S excess property and liability insurance program was established in 2002 to meet the needs of California K-12 schools and community college districts. The program provides their members with comprehensive coverages and competitive rates. SAFER's membership consists of one individual member district and three joint powers authority members, which represent 547 school and college districts. A board comprised of two representatives from each member with an average daily attendance (ADA) of over 100,000 or one representative for ADAs with less than 100,000 governs SAFER. Each member is allowed votes based on a weighted system based on Average Daily Attendance.

B. **Statewide Association of Community Colleges (SWACC)**

SWACC arranges for and provides the broadest possible property and liability protection available to school districts. SWACC's membership consists of 44 Community College Districts and two joint powers authority members, which represent 20 districts. A board comprised of one representative from each member governs SWACC. Each member is allowed votes based on a weighted system based on Average Daily Attendance. The board controls the operations of SWACC and elects officers from its members.

C. **Schools Alliance for Workers' Compensation Excess II Self-Funded Joint Powers Authority (SAWCX II)**

SAWCX II arranges for and provides services necessary for members to establish, operate, and maintain a joint program of workers' compensation protection. SAWCX II membership consists of various educational districts and joint powers authorities statewide. A board comprised of one representative from each member governs SAWCX II.

D. **California Community College Financing Authority (CCCFA)**

CCCFA provides short-term financing for members. A board of 16 elected voting members, elected alternates, and two ex-officio members governs CCCFA. Membership consists of Community College Districts throughout California. A board comprised of one representative from each member governs CCCFA.

E. **San Bernardino Regional Emergency Training Center (SBRETC)**

SBRETC was formed to establish a live-fire aircraft, rescue, and fire-fighting training facility in southern California. Membership consists of San Bernardino County Consolidated Fire District, City of San Bernardino, and San Bernardino Community College District. The governing board is comprised of representatives from each member agency.

NOTES TO FINANCIAL STATEMENTS (Continued)

11. JOINT POWERS ARRANGEMENTS (Continued)

Condensed Financial Information

	SAFER (Audited) 6-30-2008	SWACC (Audited) 6-30-2009	SAWCX II (Draft of Audit) 6-30-2009	SBRETC (Unaudited) 6-30-2009
Assets	\$ 8,918	\$ 43,932,016	\$ 24,767,123	\$ 585,096
Liabilities	4,661	17,901,413	19,698,147	
NET ASSETS	<u>\$ 4,257</u>	<u>\$ 26,030,603</u>	<u>\$ 5,068,976</u>	<u>\$ 585,096</u>
Revenue	\$ 26,408,589	\$ 8,863,186	\$ 30,836	\$ 580,179
Expenses	(26,408,589)	(4,645,357)	(2,126,846)	(338,027)
Other income	834	1,953,803	940,987	1,461
CHANGES IN NET ASSETS	<u>\$ 834</u>	<u>\$ 6,171,632</u>	<u>\$ (1,155,023)</u>	<u>\$ 243,613</u>

The financial information for CCCFA is not available. None of the joint powers authorities had any long-term debt as of June 30, 2009.

NOTES TO FINANCIAL STATEMENTS (Continued)

12. FUNCTIONAL EXPENSES

Operating expenses are shown on the statement of revenues, expenses, and changes in net assets based on their natural classification. The following schedule shows these expenses according to function as well as by natural classification:

	SALARIES	EMPLOYEE BENEFITS	SUPPLIES, MATERIALS, OTHER EXPENSES, AND SERVICES	FINANCIAL AID	UTILITIES	DEPRE- CIATION	TOTAL
Instructional activities	\$ 27,860,347	\$ 8,635,631	\$ 1,975,317		\$ 2,365		\$ 38,473,660
Academic support	6,842,640	1,852,951	1,895,348				10,590,939
Student services	8,945,576	2,424,114	859,276				12,228,966
Operation and maintenance of plant	3,204,701	1,208,900	880,074		2,725,631		8,019,306
Instructional support services	7,374,253	2,503,531	7,229,844		16,413		17,124,041
Community services and economic development	665,367	163,161	1,118,056				1,946,584
Ancillary services and auxiliary operation	4,697,333	1,558,914	8,552,172	\$ 236,438	244,920	\$ 690,520	15,980,297
Physical property and related acquisitions	153,345	42,844	(7,078,525)				(6,882,336)
Student aid				14,715,186			14,715,186
Depreciation expense						5,523,233	5,523,233
TOTALS	<u>\$ 59,743,562</u>	<u>\$ 18,390,046</u>	<u>\$ 15,431,562</u>	<u>\$ 14,951,624</u>	<u>\$ 2,989,329</u>	<u>\$ 6,213,753</u>	<u>\$ 117,719,876</u>

13. NEW ACCOUNTING STANDARDS

Governmental Accounting Standard No. 45

In June 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." This statement establishes standards for the measurement, recognition, and display of post-employment benefit expense and related liabilities, note disclosures, and required supplementary information. The District has implemented GASB No. 45 for the fiscal year ended June 30, 2009. Refer to Note 7 for OPEB disclosures.

NOTES TO FINANCIAL STATEMENTS (Continued)

13. NEW ACCOUNTING STANDARDS (Continued)

Governmental Accounting Standard No. 49

In December 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or controls obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. The implementation did not have any effect on the financial statements.

Governmental Accounting Standard No. 51

In June 2007, the GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement requires that an intangible asset can be recognized in the statement of net assets only if it is considered identifiable. This statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. This statement is effective for periods ending June 30, 2010. The District has not determined its effect, if any, on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF POST-EMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
 AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
 JUNE 30, 2009**

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (ENTRY AGE NORMAL COST METHOD)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDING RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
8/1/2006	-	\$ 5,110,498	\$ 5,110,498	0.00%	\$ 33,678,675	15.17%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

YEAR ENDED JUNE 30,	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
2009	\$ 687,455	36.4%

The accompanying notes to required supplementary information are an integral part of the financial statements.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

PURPOSE OF SCHEDULES

A. Schedule of Post-employment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for post-employment benefits other than pensions.

Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively; therefore, prior-year comparative valuation data is not available. In future years, as valuations are performed, three-year valuation trend information will be presented.

B. Schedule of Employer Contributions

This schedule is prepared in accordance with Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. The schedule is intended to show trends about the percentage of the annual required contribution made to the plan.

The District made contributions totaling \$800,000 to the OPEB Trust during the fiscal year ended June 30, 2008. The District has continued to pay for retiree OPEB benefits on a pay-as-you-go basis from District funds. No benefits have been paid out of the Trust.

SUPPLEMENTARY INFORMATION

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
ORGANIZATION DATA
 JUNE 30, 2009

ORGANIZATION

The San Bernardino Community College District was formed in 1926 and operates two colleges, San Bernardino Valley College and Crafton Hills College.

As of June 30, 2009, the school districts within the boundaries of the San Bernardino Community College District were as follows:

- Bear Valley Unified School District
- Colton Joint Unified School District
- Fontana Unified School District
- Redlands Unified School District
- Rialto Unified School District
- Rim of the World Unified School District
- San Bernardino City Unified School District
- Yucaipa-Calimesa Joint Unified School District

The San Bernardino Community College District is located in San Bernardino County, with the exception that portions of Colton Joint Unified School District and Yucaipa-Calimesa Joint Unified School District are located in Riverside County. No school districts were added to the boundaries of the San Bernardino Community College District during the fiscal year ended June 30, 2009.

BOARD OF TRUSTEES

		<u>TERM EXPIRES</u>
James C. Ramos	President	November 1, 2010
Carleton W. Lockwood, Jr.	Vice President	November 1, 2012
Donald L. Singer	Clerk	November 1, 2010
John M. Futch	Member	November 1, 2012
John Longville	Member	November 1, 2012
Charles S. Terrell, Jr.	Member	November 1, 2010
Jess Vizcaino, Jr.	Member	November 1, 2012
Jason Buckner	Student Trustee	May 31, 2010
Kaylee Hrisoulas	Student Trustee	May 31, 2010

ADMINISTRATION

Noelia Vela, Ed.D. Chancellor
 Debra Daniels, Ed.D. President - San Bernardino Valley College
 Gloria M. Harrison, M.A. President - Crafton Hills College

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	TOTAL PROGRAM EXPENDITURES
U.S. Department of Education			
Student Financial Aid Cluster			
Federal Work-Study Program	84.033		\$ 314,971
Federal Supplemental Educational Opportunity Grant	84.007		373,221
Federal Pell Grant Program	84.063		<u>11,769,547</u>
Total Student Financial Aid			<u>12,457,739</u>
Hispanic-Serving Institutions	84.031S		1,220,810
College Cost Reduction & Access	84.031C		109,572
Title IV - Student Support Services	84.042A		<u>287,920</u>
Total Direct Programs			<u>14,076,041</u>
Passed Through California Department of Education			
Vocational and Applied Technology Education Act			
Title IIC	84.048	04-C01-046	611,146
Passed Through Riverside Community College			
Vocational and Applied Technology Education Act			
Region IX Community College Consortium	84.048	01-0342-007	<u>7,142</u>
Total Pass-Through Programs			<u>618,288</u>
Total U.S. Department of Education			<u>14,694,329</u>
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Care Food Program	10.558	36-1534-6A	<u>133,039</u>
Total U.S. Department of Agriculture			<u>133,039</u>
U.S. Department of Labor			
Passed Through County of San Bernardino, California			
High Growth Job Training	17.261		<u>214,206</u>
Total U.S. Department of Labor			<u>214,206</u>
U.S. Department of Health and Human Services			
Passed Through County of San Bernardino, California			
Temporary Assistance for Needy Families	93.558	04-774	103,446
Passed Through Yosemite Community College District			
Child Development Consortium	93.575	04-3615	<u>16,100</u>
Total U.S. Department of Health and Human Services			<u>119,546</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$15,161,120</u>

The accompanying notes to supplementary information are an integral part of this schedule.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS AND PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2009

PROGRAM NAME	PROGRAM ENTITLEMENTS			PROGRAM REVENUES				PROGRAM EXPENDITURES		
	CURRENT YEAR	PRIOR-YEAR CARRYOVER	TOTAL	CASH RECEIVED	ACCOUNTS RECEIVABLE	DEFERRED/PAYABLE	TOTAL	DIRECT	INDIRECT	TOTAL
State Categorical Aid Programs										
Independent Living Grant	\$ 70,000		\$ 70,000	\$ 31,665	\$ 29,455		\$ 61,120	\$ 61,120		\$ 61,120
Career Advancement Academy	219,250	\$ 119,250	338,500	119,250	100,000		219,250	219,250		219,250
3 C Media - CCC	850,000	-	850,000	850,000		\$ 73,192	776,808	776,808		776,808
Instructional Equipment	601,915	394,445	996,360	623,888		396,917	226,971	226,971		226,971
Block Grant	1,158,405	799,944	1,958,349	979,180		927,959	51,221	51,221		51,221
Faculty and Staff Diversity	88,217	71,562	159,779	88,217		65,735	22,482	22,482		22,482
Matriculation	1,036,757		1,036,757	1,036,757		29,465	1,007,292	1,007,292		1,007,292
California High School Exit Exam	818,594	127,530	946,124	297,390	265,878	10,616	552,652	530,593	\$ 22,059	552,652
Basic Skills	512,779	258,844	771,623	512,747		411,384	101,363	101,363		101,363
Faculty and Staff Development	66,089	66,089	132,178	66,089		49,457	16,632	16,632		16,632
Extended Opportunity Program and Services	1,324,194		1,324,194	1,319,629		11,891	1,307,738	1,307,738		1,307,738
Cooperative Agencies Resources for Education	205,931		205,931	205,553		14,469	191,084	191,084		191,084
Disabled Student Services	1,163,407		1,163,407	1,163,407		43,132	1,120,275	1,120,275		1,120,275
Workability Grant	127,763		127,763	68,450	52,114		120,564	111,185	9,379	120,564
Economic Development Competitive	194,653		194,653	144,900	24,597		169,497	163,785	5,712	169,497
Economic Development RTF Mechanical Craft	109,163	12,251	121,414	-			-			-
Economic Development Small Manufacturing	219,700		219,700	5,604	160,939		166,543	159,549	6,994	166,543
Economic Development RTF Woodwork	27,391		27,391	233,124	-	205,733	27,391	26,732	659	27,391
Economic Development RTF Nanotechnology	253,186	189,186	442,372	189,186	64,000	-	253,186	243,443	9,743	253,186
Economic Development IDRC Job Development	286,670	-	286,670	240,803	-	34,015	206,788	198,420	8,368	206,788
WIA State Match		859	859	859		470	389	389		389
Employment Training Panel	201,420		201,420	24,906	65,066		89,972	89,972		89,972
Career Technical Education Nursing Equipment	141,077	141,077	282,154	141,077		708	140,369	140,369		140,369
Career Technical Education Community Collaborative	869,700		869,700	869,700		562,938	306,762	292,130	14,632	306,762
RTF Lean Processing Training	265,859		265,859	265,859		265,859	-			-
Telecommunications and Technology	213,385	167,772	381,157	239,844		93,768	146,076	146,076		146,076
SFAA-BFAP Administrative Allowance	733,564	45,182	778,746	733,658		54,716	678,942	678,942		678,942
CalWORKs	1,072,886		1,072,886	936,396		-	936,396	936,396		936,396
Temporary Assistance for Needy Families	112,560		112,560	91,303	12,646	504	103,445	103,445		103,445

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS AND PROGRAMS (Continued)

PROGRAM NAME	PROGRAM ENTITLEMENTS			PROGRAM REVENUES				PROGRAM EXPENDITURES		
	CURRENT YEAR	PRIOR-YEAR CARRYOVER	TOTAL	CASH RECEIVED	ACCOUNTS RECEIVABLE	DEFERRED/PAYABLE	TOTAL	DIRECT	INDIRECT	TOTAL
State Categorical Aid Programs										
(Continued)										
California Articulation Number System	\$ 5,000		\$ 5,000	\$ 8,000		\$ 6,136	\$ 1,864	\$ 1,864		\$ 1,864
Transfer and Articulation Grant	10,962	\$ 10,961	21,923	10,961		10,372	589	589		589
Child Development - Foster Parent	196,212		196,212	71,428	\$ 124,784		196,212	194,444	\$ 1,768	196,212
Center for Business Excellence	293,869	56,069	349,938	228,269	32,800	28,604	232,465	223,633	8,832	232,465
Workforce Development	233,259	85,352	318,611	185,441	23,817	29,346	179,912	173,989	5,923	179,912
School Readiness Program	691,620		691,620	487,040		79,156	407,884	378,884	29,000	407,884
Lottery	490,836		490,836	233,719		45,922	187,797	187,797		187,797
Seismic Retrofit Project	69,770,302		69,770,302		1,094,406		1,094,406	1,094,406		1,094,406
Child Development - General Center Child Care	1,390,798	190,189	1,580,987	1,282,701	74,051	190,320	1,166,432	1,214,032	96,000	1,310,032
Program Supplies Grant	3,502		3,502	4,341	404	3,464	1,281	1,281		1,281
Child Development - State Preschool Grant	570,205	65,530	635,735	408,769	68,973	67,966	409,776	498,104	19,000	517,104
Child Development - Food Program	9,484		9,484	8,517	967		9,484	8,237		8,237
Family Literacy Grant AB172	74,769		74,769	35,939	4,667		40,606	40,606		40,606
Pre-Kindergarten CC Resource	2,000		2,000	500	168		668	668		668
Infant Toddler Resource	2,771		2,771		693	84	609	609		609
Cal Grants	929,172	-	929,172	929,172	-	-	929,172	929,166	-	929,166
TOTALS	<u>\$ 87,619,276</u>	<u>\$ 2,802,092</u>	<u>\$ 90,421,368</u>	<u>\$ 15,374,238</u>	<u>\$ 2,200,425</u>	<u>\$ 3,714,298</u>	<u>\$ 13,860,365</u>	<u>\$ 13,871,971</u>	<u>\$ 238,069</u>	<u>\$ 14,110,040</u>

The accompanying notes to supplementary information are an integral part of this schedule.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2009**

CATEGORIES	REPORTED DATA	AUDIT ADJUSTMENTS	REVISED DATA
A. Summer Intersession (Summer 2008 Only)			
1. Noncredit	-		-
2. Credit	1,291.01		1,291.01
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
1. Noncredit	-		-
2. Credit	168.53		168.53
C. Primary Term (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	10,458.06	(9.37)	10,448.69
(b) Daily Census Contact Hours	2,187.75		2,187.75
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	22.12		22.12
(b) Credit	938.41		938.41
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	148.03		148.03
(b) Daily Census Contact Hours	99.67		99.67
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	15,313.58	(9.37)	15,304.21
Supplemental Information			
E. In-service Training Courses (FTES)			
H. Basic Skills Courses and Immigrant Education			
1. Noncredit			
2. Credit	1,394.36		

The accompanying notes to supplementary information are an integral part of this schedule.

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

The audit resulted in adjustments to the fund balances reported on the June 30, 2009 Annual Financial and Budget Report (CCFS-311) based on governmental accounting principles. The adjustments were to recognize the current-year activity in the KVCR Educational Foundation, Inc., a component unit of the District.

	<u>OTHER SPECIAL REVENUE FUND (39) (KVCR)</u>
June 30, 2009 Annual Financial and Budget Report (Form CCFS-311) fund balance (deficit)	\$ (1,263,270)
Adjustments and Reconciliations Decreasing the Fund Balances KVCR Educational Foundation, Inc.	<u>(139,454)</u>
JUNE 30, 2009 AUDITED FINANCIAL STATEMENT FUND BALANCE (DEFICIT)	<u><u>\$ (1,402,724)</u></u>

The accompanying notes to supplementary information are an integral part of this schedule.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009

	(BUDGET) 2010		2009		2008		2007	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
GENERAL FUND								
Revenues								
From federal sources	\$ 5,754,432	5.52	\$ 2,820,622	3.15	\$ 2,922,989	3.17	\$ 3,849,509	4.52
From State sources	64,846,506	62.30	68,970,003	77.35	61,742,282	67.05	63,616,671	74.63
From local and intermediate sources	<u>21,480,247</u>	<u>20.64</u>	<u>21,887,816</u>	<u>24.55</u>	<u>20,804,713</u>	<u>22.59</u>	<u>20,876,799</u>	<u>24.49</u>
Total Revenues	<u>92,081,185</u>	<u>88.46</u>	<u>93,678,441</u>	<u>105.05</u>	<u>85,469,984</u>	<u>92.81</u>	<u>88,342,979</u>	<u>103.64</u>
Expenditures								
Academic salaries	34,894,900	33.52	36,217,312	40.62	35,315,705	38.35	32,822,489	38.50
Classified salaries	22,183,307	21.31	19,639,030	22.02	18,942,806	20.57	17,022,164	19.97
Employee benefits	14,235,269	13.68	13,375,813	15.00	13,762,217	14.95	12,128,887	14.23
Supplies and materials	2,514,536	2.42	1,684,390	1.89	1,847,170	2.01	2,214,733	2.60
Other operating expenses and services	16,430,991	15.79	11,982,351	13.44	12,218,604	13.27	13,309,265	15.61
Capital outlay	3,065,474	2.95	2,380,501	2.67	1,987,049	2.16	2,761,059	3.24
Student financial aid	993,137	0.95	1,212,227	1.36	1,171,977	1.27	979,954	1.15
Other uses (net)	<u>9,771,385</u>	<u>9.38</u>	<u>2,679,386</u>	<u>3.00</u>	<u>6,832,547</u>	<u>7.42</u>	<u>4,009,496</u>	<u>4.70</u>
Total Expenditures	<u>104,088,999</u>	<u>100.00</u>	<u>89,171,010</u>	<u>100.00</u>	<u>92,078,075</u>	<u>100.00</u>	<u>85,248,047</u>	<u>100.00</u>
Change in Fund Balance	<u>\$ (12,007,814)</u>	<u>(11.54)</u>	<u>\$ 4,507,431</u>	<u>5.05</u>	<u>\$ (6,608,091)</u>	<u>(7.19)</u>	<u>\$ 3,094,932</u>	<u>3.64</u>
Ending Fund Balance	<u>\$ 4,904,264</u>	<u>4.71</u>	<u>\$ 16,912,078</u>	<u>18.97</u>	<u>\$ 12,404,647</u>	<u>13.47</u>	<u>\$ 19,012,738</u>	<u>22.30</u>
Full-Time Equivalent Students	<u>15,773</u>		<u>15,314</u>		<u>14,103</u>		<u>13,775</u>	
Total Long-Term Debt, Including								
Retiree Benefit Liability	<u>\$ 454,902,721</u>		<u>\$ 458,633,362</u>		<u>\$ 169,805,313</u>		<u>\$ 172,432,692</u>	

IMPORTANT NOTES:

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of expenditures as a minimum, with a prudent ending fund balance being 5% of expenditures.

The accompanying notes to supplementary information are an integral part of this schedule.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009

PURPOSE OF SCHEDULES

A. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the San Bernardino Community College District for the year ended June 30, 2009 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with OMB Circular A-133 and State requirements, the schedule of expenditures of federal awards and the schedule of State financial assistance were prepared for the San Bernardino Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment

The schedule of workload measures for State general apportionment presents data used as the basis of apportionment to the San Bernardino Community College District.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311. Additional entries were made to comply with the reporting requirements of GASB Statements No. 34 and 35. These entries are not considered audit adjustments for purposes of this reconciliation.

D. Schedule of General Fund Financial Trends and Analysis

This schedule is prepared to show financial trends of the General Fund over the current and past two years as well as the budget for the upcoming year. This schedule is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

EDEN C. CASARENO, C.P.A.
DEBORAH L. CROWLEY, C.P.A.
TODD C. LANDRY, C.P.A.



ADRIENNE J. LINDGREN, C.P.A.
JOHN F. PRENTICE, C.P.A.
DAVID M. THAYER, C.P.A.
FRANK M. ZABALETA, C.P.A.

*Certified Public Accountants
and
Business Advisors*

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
San Bernardino Community College District
San Bernardino, California

We have audited the financial statements of the San Bernardino Community College District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the San Bernardino Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting.

However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs items 09-2 through 09-3 to be significant deficiencies in internal control over financial reporting. In addition, the District does not have effective internal control over the preparation of the financial statements, including the related footnotes.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe finding 09-1 to be a material weakness.

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

This report is intended for the information of the Board of Trustees, management, federal and State awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Eadie and Payne, LLP

December 24, 2009

EDEN C. CASARENO, C.P.A.
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*Certified Public Accountants
and
Business Advisors*

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
San Bernardino Community College District
San Bernardino, California

We have audited the financial statements of San Bernardino Community College District for the year ended June 30, 2009, and have issued our report thereon dated December 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with specified requirements.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with the *Contracted District Audit Manual* issued by the California Community Colleges Chancellor's Office. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

1. **State General Apportionment Funding System**

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

2. **Open Enrollment**

The District complied with the California Code Regulations, Title V, provisions related to open enrollment by the general public for all of the courses submitted for State apportionment funding.

3. **Student Fees - Instructional Materials Fees and Health Fees**

The District has adopted policies that specify the conditions under which students are required to provide instructional materials. The District only requires students to provide instructional materials which are of a continuing value to the students outside of the classroom setting, are tangible personal property that is owned or primarily controlled by the student, and that are not solely or exclusively available from the District, unless the District is the only source of material or there is a health or safety reason for requiring the student to purchase the material from the District or the District can demonstrate that they can offer the materials more cheaply than elsewhere and at the District's actual cost. The District has procedures to clearly notify students of optional fees. The District has advised students of the exemptions from paying health fees and has procedures in place to ensure that students may claim the exemptions.

4. **Apportionment For Instructional Service Agreements/Contracts**

The District acted to ensure programs were approved by the State Chancellor's Office and courses were a part of those approved programs, or the College received delegated authority to separately approve those courses, courses were open to the public, students were under the immediate supervision of a District employee, the District employee possessed valid credentials or met minimum qualifications required for assignment, and the District must obtain certification verifying that the instructional activity was not fully funded by other sources.

5. **Residency Determination for Credit Courses**

The District acted to ensure that only the attendance of California residents is claimed for State support of credit classes.

6. **Concurrent Enrollment of K-12 Students**

The District acted to ensure that the attendance of K-12 pupils who attended courses offered by the District under the concurrent enrollment arrangement were claimed for apportionment purposes only if the following conditions were met: student secured parental consent and obtained his/her principal's recommendation, student was enrolled in a maximum of 11 units per semester, the course met the open course requirements, the credit course approval requirements, and the instructor supervision and qualification requirements, the District maintained primary right to control and direct activities of the instructor, courses were not fully funded through another source, for physical education courses no more than 10 percent of enrollment claimed per course section was comprised of special part-time or full-time students, no more than five percent of the District's total reported FTES of special part-time and full-time students were claimed for enrollment in physical education courses, and for summer sessions principals did not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of recommendation.

7. **Enrollment Fee**

The District reported the total amount of enrollment fees students should have paid for purposes of determining its annual share of apportionment.

8. **Students Actively Enrolled**

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

9. **Salaries of Classroom Instructors**

The District's salaries of classroom instructors exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.

10. **GANN Limit Calculation**

The District calculated appropriation limits and adopted them in public meetings.

11. **Uses of Matriculation Funds**

The District used local funds to support at least 75 percent of matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and local funded portions, were consistent with the District's State-approved matriculation plan and identifiable within the ten claimable activities. The State matriculation allocation was used to expand levels of services that were in place in 1986-1987, or to add entirely new services.

12. **CalWORKS - Use of State and Federal TANF Funding**

The District expended CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

13. Scheduled Maintenance Program

The District has protected the State's investment in community colleges through the timely repair and maintenance of facilities, correction and avoidance of health and safety hazards, maintenance of an environment conducive to learning, and improvement of the long-term cost effectiveness of facility operations. The District has expended for scheduled maintenance an amount in excess of the 1995-1996 base year amount of \$3,865,586 plus the amount claimed for reimbursement in the current year.

14. Child Development Program

The District has complied with contractual agreements regarding attendance, enrollment, and reporting for child development programs.

In our opinion, except for findings 09-4 through 09-8 described in the accompanying schedule of findings and questioned costs, the San Bernardino Community College District complied, in all material respects, with the compliance requirements for the State programs listed and tested above for the year ended June 30, 2009. Furthermore, nothing came to our attention as a result of the aforementioned procedures to indicate that the San Bernardino Community College District had not complied with the terms and conditions of State-assisted educational programs not selected for testing.

Our examination of compliance conducted for the purposes set forth above would not necessarily disclose all instances of noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management, federal and State awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

December 24, 2009

Eadie and Payne, LLP

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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
San Bernardino Community College District
San Bernardino, California

COMPLIANCE

We have audited the compliance of San Bernardino Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. San Bernardino Community College District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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 San Bernardino Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on San Bernardino Community College District's compliance with those requirements.

In our opinion, the San Bernardino Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

This report is intended solely for the information and use of the Board of Trustees, management, federal and State awarding agencies, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Eadie and Payne, LLP

December 24, 2009

**SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

SUMMARY OF AUDITORS' RESULTS

This information is provided to meet the requirements of OMB Circular A-133.

Financial Statements

The auditors' report expresses an unqualified opinion on the financial statements of San Bernardino Community College District.

The audit disclosed significant deficiencies related to internal control over financial reporting; one significant deficiency was considered a material weakness.

The audit did not disclose any items of noncompliance that are material to the basic financial statements of the District.

State Awards

The auditors' report on compliance for the State award programs for San Bernardino Community College District expresses a qualified opinion. Audit findings that are required to be disclosed are reported in this schedule.

Federal Awards

The auditors' report on compliance for the major federal award programs for San Bernardino Community College District expresses an unqualified opinion on all major federal programs.

The audit did not disclose any material weaknesses or significant deficiencies related to internal control over major programs.

The following programs were tested as major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.033, and 84.007	Student Financial Aid Cluster
84.048	Vocational and Technical Education Act
84.031S	Hispanic-Serving Institutions

The threshold used to distinguish between type A and type B programs was \$440,000.

The District was not determined to be a low-risk auditee.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

09-1 *Reference:* Capital Assets

Condition and Criteria: A capital asset ledger is maintained by the District for inventory tracking and financial reporting purposes. However, we noted instances where capital asset acquisitions were not properly capitalized, improper class lives were assigned, items were not properly included in furniture and equipment, and related asset costs including tax, freight, and discounts were not properly included in capitalized assets. A similar finding was reported in the prior year as finding 08-4.

Effect: The District's capital asset ledger was not complete and accurate at year-end.

Cause: Failure to follow District policies and procedures, improper training, and ineffective monitoring.

Population and Items Tested: A sample of \$16,008,742 of capital expenditures were selected for audit out of a population of \$49,301,927. The following instances of improper capitalization were noted during testing:

- For 16 items tested, incidental costs including tax, freight, discounts, and installation costs totaling \$67,851 were not capitalized with the respective asset. It appears that if more than one item is included on an invoice, the item is not properly accounted for in the fixed assets ledger.
- Wireless network project costs of \$130,309 were improperly classified in building improvements and were not included in the capital asset ledger.
- Costs related to a backup computer system totaling \$350,821 were not properly included in construction in progress as of year-end.
- Two identical assets were capitalized at a cost of \$9,517 each with one being properly depreciated over three years and the other improperly depreciated over eight years.

Auditor's Recommendation: We recommend that District employees responsible for recording capital assets and construction in progress be reminded of the proper procedures to ensure that the system is maintained properly. It is also recommended that the District employ clear written policy instructions and receive additional training concerning their implementation.

Grantee's Response: Upon notification of the errors, the District took corrective action on each of the findings noted and as a result, corrected figures were used to prepare the financial statements. The District will continue to hold training sessions with staff on administrative procedures and the appropriate use of the asset tracking software. The District will investigate the possibility of programming the computer tracking system to reject inconsistent data or records with missing information. The District has also developed a procedure to review all financial transactions and identify each eligible asset to ensure data is entered into the fixed assets system correctly and timely.

09-2 *Reference:* Purchase orders - Matriculation, VATEA and HSI

Condition and Criteria: The District policy is that approved purchase orders must be obtained prior to the purchase of goods and services. During our audit, we noted five instances where purchase orders were approved after the purchase of goods and services had been made. Similar instances were identified in prior years and reported as findings 08-7, 07-1, 06-2, and 05-4.

Effect: Goods and services were purchased without the proper approval.

Cause: A purchase requisition had been submitted; however, the goods and services were purchased before the purchase order was approved by the department director and the District.

Auditor's Recommendation: The employees responsible for purchasing goods and services should be reminded of District purchasing policies.

Grantee's Response: Per Administrative Regulation 6330, the procurement of goods or services must be made through the Purchasing Department and upon final approval by the Business Manager or other designated signer. In order to reduce or eliminate the instances noted, the Purchasing Department has implemented a regular employee training and education program where workshops are held quarterly to inform employees of proper purchasing procedures. The District will continue to enforce its procedure of requiring an audit exception letter to be written by the employee who violates the regulation.

09-3 *Reference:* Student Accounts Receivable

Condition and Criteria: The District administrative regulation 5035AR states that specified college services, including registration for classes in a subsequent semester, access to student records, issuance of a diploma or certificate, transcripts requests and enrollment verification, and other services normally afforded to students in good standing, shall be withheld from the students whose liabilities and obligations are not cleared in a timely manner. In addition, students that do not pay enrollment fees within a given time period will be dropped for nonpayment. During the audit, we noted various cases where students enrolled in courses were not dropped for nonpayment and/or were not being restricted from enrolling due to prior nonpayment. The following circumstances were noted:

- In four instances, students with account balances were not dropped for nonpayment of fees.
- In two of the four instances, an account hold was only effective the first semester and the student was allowed to enroll in the subsequent semester with an existing account balance.

Similar findings were noted in the two prior years and reported as findings 08-3 and 07-2.

Effect: Students are enrolling in courses and not paying enrollment fees and tuition costs.

Cause:

- Procedures are not being followed to drop students for nonpayment of fees.
- The automatic computer hold is not effective if the student balances are greater than one semester past due.

Population and Items Tested: A sample of five items with a total balance of \$1,420 was selected for audit from current-year additions to student receivables. Of the sample selected:

- Two accounts totaling \$855.50 were found to be for students who were not dropped for nonpayment according to District policy.
- Two students selected for testing that had outstanding fees from previous semesters were allowed to register for classes during the current fiscal year. One student's fees were for classes taken in the Fall of 2001 and the other fees were from the Fall of 2003. The District's virtual hold system did not prevent the students from enrolling in Fall 2008 or Spring 2009.

Auditors' Recommendation: We recommend that the District review procedures to drop students for nonpayment with Admissions and Records personnel to design and implement controls to prevent future instances of noncompliance. We recommend that the District review their computer controls for weaknesses that allow students to enroll in courses when prior debts have not been paid.

Grantee's Response: Admission and Records and District Computing Services will work collectively to determine why the student holds are expiring in the computer system and implement controls to prevent future occurrences. DCS and A&R will continue to examine the DREG process to ensure compliance with District policies.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO STATE AWARDS
JUNE 30, 2009

09-4 *Reference:* State General Apportionment

Condition and Criteria: The California Code of Regulations, Title 5 require that each district governing board must adopt procedures to document all course enrollment, attendance, and disenrollment, to support timely, accurate, and complete information in the calculation of State General Apportionment. Two original positive attendance instructor enrollment sheets could not be located and hours on one attendance roster were incorrectly entered.

Effect: The District is not in compliance with State regulations to maintain supporting documentation and accurate information was not used in the calculation of State General Apportionment.

Cause: The District's process of collecting instructor rosters does not include verification that all rosters have been collected. Also, the District's staff did not adhere to the proper retention process of the rosters once they had been collected. In addition, the District's staff incorrectly entered clock hours rather than contact hours for one roster.

Population and Items Tested: We tested 6 positive attendance courses from the CCFS 320 report, of which 2 original instructor's enrollment rosters could not be located and incorrect hours were entered on 1 roster.

Auditors' Recommendation: We recommend that the District implement controls to detect noncompliance, strengthen controls for record retention, and strengthen controls for proper recording of positive attendance hours.

Grantee's Response: Admissions and Records have begun a process of imaging rosters and other documents upon receiving them into the department. This will allow for greater accountability and assist in the retrieval of these documents. A&R will continue to discuss this issue with the divisional administrative staff to provide information and training as needed to ensure all positive attendance rosters are collected and retained. A&R staff has begun and will continue to reconcile a missing rosters report and will contact the divisions that have delinquent rosters at the end of each term.

09-5 *Reference:* Residency Determination for Credit Courses

Condition and Criteria: The California Code of Regulations, Title V, Sections 54000-54072 require each district to implement controls that ensure that state apportionment for credit courses is only claimed for student attendance allowed by statute and regulation. Student residency as of the residency determination date is a major factor for allowing districts to claim state apportionment for credit courses. Nonresidents are students who do not have legal residency in the state at the time of the residency determination date and, therefore, must be charged nonresident fees and whose attendance is not allowed to be claimed for state apportionment. The residency determination date is that day immediately preceding the opening day of instruction of the quarter, semester, or other session as set by the district governing board, during which the student proposes to attend a college. Each district must act to ensure that only the attendance of California residents is claimed for State support of credit courses. In our testing, we noted that attendance was being claimed for students whose residency status could not be verified. A similar finding was reported in the prior year as finding 08-13.

Effect: The District overstated the FTES by .18 with respect to two of the students tested. We were unable to perform audit procedures to determine the residency status for certain students at Crafton Hills College and San Bernardino Valley College. The District may not be in compliance and apportionment may be effected.

Cause: Students were determined to be nonresidents at the beginning of the fall and spring terms and paid the applicable nonresident fees. During the fall and spring terms, the students registered for subsequent terms and changed their residency status to resident; they paid the appropriate resident tuition. However, for 320 purposes, the system did not pull the residency as of the residency determination date; therefore, the students were inappropriately claimed for the fall and spring terms. It was also noted that Crafton Hills College is currently in the process of making student documents paperless. Multiple student documents could not be located due to the movement of documents and the failure to return the documents to the student files. At San Bernardino Valley College the employee normally responsible for the retention of documentation was not available and a substitute employee was unable to locate documentation for 2 students.

Population and Items Tested: Tested 54 students. Residency determination forms could not be located for 4 students from Crafton Hills College and 2 students from San Bernardino Valley College. Additionally, of the 54 students tested, 28 students coded as nonresidents were tested to determine proper classification on the 320 report. Two were inappropriately claimed.

Auditor's Recommendation: We recommend that the District remind staff to consistently file and return student documents to the students' files in a timely manner so that the risk of misplacing a student document can be minimized. We also recommend that data collection for 320 reporting be reviewed and revised so that student residency status is collected properly and attendance is reported correctly.

Grantee's Response: Admissions and Records staff will be reminded of the importance of proper retention of residency documentation. The A&R offices have begun using an integrated system of managing applications and enrollment called CCC Apply, which will add accountability in determining and documenting residency.

09-6 *Reference:* Apportionment for Instructional Service Agreements/Contracts

Condition and Criteria: The California Code of Regulations, Title 5, Sections 58050, 58051(a)(1), (c)-(g), 58051.5, 58055, 58056, 58058(b), 58060, and 58100-58106 require that appropriate instructional service agreements exist. In the year under audit, we noted one instructional service agreement that was not finalized prior to the commencement of instruction.

Effect: The state apportionment may be in error. A total of 9.19 FTES were claimed for the courses.

Cause: The Sheriff's Department signed the contract on July 25, 2008, the District signed it on August 5, 2008, and the County of San Bernardino did not sign the contract until August 12, 2008. The courses began July 14, 2008 and July 22, 2008.

Auditor's Recommendation: We recommend that the District implement a procedure to ensure that contracts are finalized prior to the commencement of instruction.

Grantee's Response: The Criminal Justice Division has been advised of the need to have Instructional Service Agreements in place prior to the start of instruction. The District continues to work closely with the County of San Bernardino in order to provide for adequate lead time to get agreements signed in a timely manner.

09-7 *Reference:* Concurrent Enrollment of K-12 Students in Community College Credit Courses

Condition and Criteria: The California Educational Code Sections 48800(A), 48800.5, and 76001(d) requires that the District obtain verification from the K-12 school district that the student can benefit from advanced scholastic or vocational work. The campuses utilize a Special Student Attendance Form to obtain these verifications and to approve or deny enrollment. Special-admit students were allowed to enroll without an approved form. The District was not able to locate special-admit forms for 8 students selected for testing. Similar instances were noted in prior-years as findings 08-12, 07-7 and 06-10.

Effect: High school students that do not qualify for attendance may be allowed to enroll. The District may not be in compliance with State regulations and apportionment may be affected.

Cause: The District does not have procedures in place to ensure that Special Student Attendance Forms are obtained from all special-admit students.

Population and Items Tested: Haphazardly selected 50 students, of which 47 were special-admit students. Special-admit forms for 8 students enrolled in classes were not available.

Auditors' Recommendation: We recommend that the District remind responsible employees in the admissions and records' offices that special-admit students should not be enrolled in classes unless all required information is complete on the attendance approval forms. We also recommend that the admissions and records' offices implement procedures to ensure special-admit students submit required documentation prior to enrollment and that this information be filed appropriately to support District records.

Grantee's Response: Admissions and Records staff has been advised of the procedures to qualify and register special-admit students and the importance of proper collection and retention of approval documentation. Both A&R directors will continue to monitor proper collection and usage of the approval form and train their staff as needed.

09-8 *Reference:* Concurrent Enrollment of K-12 Students in Community College Credit Courses

Condition and Criteria: The California Education Code Sections 48800, 48800(d), 76001(i), and 76002(a)(4) require the following:

- (i) For summer sessions, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of recommendation;
- (ii) If the class is a physical education class, no more than ten percent of the course section's enrollment may be claimed for apportionment for special part-time or full-time students; and
- (iii) A community college district may not receive State apportionment for part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES of special part-time and full-time students.

We were unable to perform audit procedures on items (ii) and (iii) due to the District not having accurate enrollment data. We were unable to perform audit procedures for item (i) due to the District not having supporting documentation for the entire sample selected.

Similar instances were noted in the prior year findings 08-11, 07-8 and 06-11.

Effect: The District may not be in compliance with State regulations and apportionment may be affected.

Cause: The District does not have procedures in place to ensure that Special Student Attendance Forms are obtained for all special-admit students.

Population and Items Tested: Haphazardly selected 50 students, of which 47 were special-admit students. Special-admit forms for 8 students enrolled in classes were not available. Since referential file data is used by the District to calculate the limitations in (ii) and (iii) above, those calculations could not be relied on.

Auditors' Recommendation: We recommend that the District remind responsible employees in the admissions and records' offices that special-admit students should not be enrolled in classes unless all required information is complete on the attendance approval forms. We also recommend that the admissions and records' offices implement procedures to ensure special-admit students submit required documentation prior to enrollment and that this information be filed appropriately to support District records.

Grantee's Response: District Computing Services, in collaboration with the A&R departments at CHC and SBVC, have implemented a change in procedure to ensure a special-admit student cannot register for any class in any term unless that class has been pre-approved in the registrar's office. This pre-approval requires that the registrar enter a specific class in an electronic form on the student information system prior to registration. This effectively mandates that the proper forms are completed to the extent necessary for data entry so the classes can be pre-approved and entered prior to student registration.

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009

08-1 *Reference:* Collateralized Cash Balances

Condition and Criteria: Pursuant to District Administrative Regulation 6320AR, all District cash deposits are required to be collateralized as outlined in Government Code Section 53601. During testing of cash balances, it was noted that there are two checking accounts with balances in excess of \$100,000 that have not been properly collateralized.

Effect: A portion of the deposits at two financial institutions are uninsured and at risk.

Cause: Cash accounts are not being monitored by District personnel to ensure compliance with collateral requirements.

Auditors' Recommendation: We recommend that policies with regard to collateralization of cash deposits be reviewed and procedures to prevent future oversight be implemented.

Grantee's Response: Staff with responsibility over these accounts have reviewed the cash collateralization requirements. Each checking account has now been properly collateralized and Fiscal Services staff will continue to monitor these accounts for compliance.

Current Status: No exceptions noted in the current year.

08-2 *Reference:* KVCR Accounts Receivable

Condition and Criteria: The Public Broadcasting Service Digital Distribution Fund Grant Agreement, Attachment C section 5.iii requires that the final financial report is due no later than 45 days after June 30, 2005. An amendment was filed and granted on March 2, 2006 to extend the final report to no later than 45 days after November 15, 2006. During our audit, we noted that KVCR listed as a current receivable the final portion (\$166,057) of the Digital Distribution Fund Grant as of June 30, 2007. It was again listed as a current receivable at June 30, 2008; the report had not been filed as of December 15, 2008.

Effect: KVCR is not filing reports in a timely manner and receivables may be uncollectible.

Cause: The previously extended final financial report due no later than 45 days after November 15, 2006 was not filed on time and an extension was not granted.

Auditors' Recommendation: We recommend that grants be reviewed periodically to determine proper compliance and filing requirements. Timely financial status reports should be filed with the governing body to ensure compliance and reimbursement of funds expended. We also recommend that the accounts receivable aging be reviewed periodically and that old outstanding accounts be investigated for potential collection issues.

Grantee's Response: KVCR completed construction of the digital master control project in September 2007. This project was funded with three federal grants and local matching funds. The grants are: PTFP Grant, CPB/DDF Grant Round 8, CPB/DDF Grant Round 4.2.

During the period of time the grants were active, we had four different TV Station managers that were responsible for the grants. The former station manager failed to file for extensions and CPB changed our CPB contact four times. The CPB staff did not hand off files from one to another and thus the normal notices that go out were not sent. Consequently, KVCR was not aware that we were delinquent with any extensions or reports.

Once we completed construction, we contacted both agencies in order to begin closeout of the grants. The first grant, PTFP was closed out without issues. CPB/DDF Round 8 has been closed out as well. We are currently in the closeout stage for CPB/DDF Round 4.2. We had to refile extensions that should have been in their files already but were not handed off to the new CPB contacts. Once we enter the closeout period, extensions are no longer required. We are working closely with CPB to finalize close out and expect to receive the full amount due.

Current Status: No exceptions noted in current year.

08-3 *Reference:* Student Accounts Receivable

Condition and Criteria: The District administrative regulation 5035AR states that specified college services, including registration for classes in a subsequent semester, access to student records, issuance of a diploma or certificate, transcripts requests and enrollment verification, and other services normally afforded to students in good standing, shall be withheld from the students whose liabilities and obligations are not cleared in a timely manner. In addition, the District enforces that students that do not pay enrollment fees within a given time period will be dropped for nonpayment. During the audit, we noted various cases where students enrolled in courses and were not dropped for nonpayment and/or were not being restricted from enrolling due to prior nonpayment. The following circumstances were noted:

- In eight instances, students with account balances were not dropped for nonpayment of fees.
- In three of the cases noted above, a student's account hold was removed and an arrangement to pay was put in its place.
- In one instance, the account hold was only effective the first semester and the student was allowed to enroll in the subsequent semester with an existing account balance.

Effect: Students are enrolling in courses and not paying enrollment fees and tuition costs.

Cause:

- Procedures are not being followed to drop students for nonpayment of fees.
- Admissions and records staff have the ability to override the control in place to prevent registration if student balances are greater than \$0 or if they have a restriction placed on their record.
- The automatic computer hold is not effective if the student balances are greater than one semester past due.

Population and Items Tested: A sample of ten items with a total balance of \$11,509 was selected for audit out of a population of approximately \$1,100,000. Of the sample selected:

- Eight accounts totaling \$8,392 were found to be for students who were not dropped for nonpayment according to District policy.
- In three of these cases, the hold on the students account was overridden.
- In addition, in one case a student had fees due for summer 2007, the hold was effective during fall 2007; however, it did not prevent the student from enrolling in spring 2008.

Auditors' Recommendation: We recommend the following:

- Policies with regards to enrollment and unpaid fees be reviewed and procedures to drop students for nonpayment be implemented. We noted that this policy is included in the campus schedule of classes.
- Procedures be implemented so that controls are only overridden when approved by personnel with the proper authority and that the override is documented accordingly.
- The District review their computer controls for loopholes that allow students to enroll in courses when prior debts have not been paid.

Grantee's Response: DCS and A&R will continue to examine the DREG process and will make programming and procedural changes accordingly. The practice of overriding holds based on an agreement to pay is not authorized under District policy. SBVC staff will be reminded that this practice is not allowed. SBVC Admissions and Records staff will undergo training to identify students who have an outstanding balance and, under policy, must be dropped. Although, the computerized registration system is working as currently programmed, A&R will work with DCS to review procedural processes and staff security to enforce stricter controls on overrides.

Current Status: Exceptions noted in current year. See finding 09-3 and finding 07-2 noted in prior reports.

08-4 *Reference:* Capital Assets

Condition and Criteria: A capital asset ledger is maintained by the District for inventory tracking and financial reporting purposes. However, we noted instances where capital asset acquisitions were under the capitalization threshold, items were not properly included in construction in progress, and costs were not appropriately allocated to construction projects. In addition, we noted that one parcel of property was retired prior to the close of escrow.

Effect: The District capital asset ledger was not complete and accurate at year-end.

Cause: Several orders of desktop computers were capitalized as a single asset rather than evaluating each computer as a separate asset. Construction and project management costs were not allocated to construction projects and were inappropriately excluded from the balance of construction in progress. Expenditures related to specific projects were inappropriately allocated to multiple campus projects. The District's policy is to retire assets when they are deemed surplus property. Surplus land and a building were recorded as retired during the current year, the sale transaction had not been completed, and the property was not identified as held for sale for financial statement purposes.

Population and Items Tested: A sample of \$9,183,140 of capital expenditures were selected for audit out of a population of \$28,183,730. Desktop computers totaling \$33,103 were capitalized and were under the capitalization threshold. Construction and project management costs of \$2,985,337 for SBVC projects were not included in construction in progress. Construction costs of \$2,825,201 related directly to the CHC Learning Resource Center and the Community Pool were inappropriately allocated to eight CHC construction projects rather than being added directly to their respective projects. A parcel of land and the associated building with a total book value of \$854,643 was retired in the current year; however, the sale of the property was not complete until the subsequent fiscal year.

Auditor's Recommendation: We recommend that District employees responsible for recording fixed assets and construction in progress be reminded of the proper procedures to ensure that the system is maintained properly.

Grantee's Response: The District has reviewed the errors noted by the auditors and their related causes. Based upon this review, the District will: 1) increase the number of training sessions held to educate appropriate staff on capitalization policies and administrative regulations and how to appropriately use the capital asset software program, and 2) during the fiscal year periodically conduct random audits to verify that capital assets have been appropriately and timely entered into the capital asset software program.

Current Status: Exceptions noted in current year. See finding 09-1.

08-5 *Reference:* Accounts Payable Cutoff

Condition and Criteria: The District's accounts payable cutoff procedures include reviewing all open purchase orders at year-end and recording estimated payables. In addition, construction retains payable are recorded at year-end. During the audit, we noted that various purchase orders had not been adjusted or had been adjusted to an incorrect amount and the process to record construction retains was not followed.

Effect: Accounts payable was understated at year-end.

Cause: Cutoff procedures were not followed properly.

Population and Items Tested: A sample of approximately \$1,300,000 of accounts payable items were selected for audit out of a population of approximately \$1,700,000. Of the sample selected, approximately \$207,795 was erroneously accrued in accounts payable and approximately \$236,610 was erroneously excluded from accounts payable. All invoices noted in error were related to construction contracts.

Current Status: No exceptions noted in current year.

Auditors' Recommendation: We recommend that employees be reminded of proper procedures to adjust payables, including construction retains, at year-end.

Grantee's Response: During May and June when the open Purchase Order list was distributed for review and action, there were personnel changes that hindered the effectiveness of the year-end process. New personnel have been hired since and have been trained in a more specific manner to eliminate unnecessary accruals.

Current Status: No exceptions noted in current year.

08-6 *Reference:* Employee and Retiree Benefits

Condition and Criteria: Employee medical benefits are provided by the District for current employees who opt for the coverage. Benefit providers should be notified timely when employees are terminated or request a change in benefits. In addition, District policy states that retirees are allowed continued benefits up to a dollar limit set by the Board. Excess benefits are to be reimbursed by the retirees. During the audit, we noted the following:

- The District's total expense for medical benefits was approximately \$465,000 more than the calculated and recorded expense per their payroll system as of June 30, 2008. There was a discrepancy between the total payments to providers and charges to operations made during payroll processing.

- District employees performed an audit of the benefit payments for active employees and noted that benefit providers were not being notified timely for changes in employee status. The benefit providers were contacted and credits were received for a portion of the overpayments.
- With regard to retiree medical benefits, we noted that the District paid for benefits in excess of the Board-approved threshold and did not bill the retiree for the difference. In some instances, the District paid for full family benefits, but billed the retiree as if only individual coverage had been provided.

Effect: The District may be overpaying for medical benefits.

Cause: The District does not have written procedures for reconciling benefit payments. The payroll system records the District's medical expense for current and retiree benefit costs in the general ledger. The recorded expense is based on the cost per participant as provided to the payroll department from Human Resources (HR). Payroll provides HR a listing of benefit costs for employees to be used as a reconciliation tool on a monthly basis. A previous HR employee used this listing for reconciliation purposes. However, the current HR employee was not trained on how to use it.

Reimbursements for excess coverage are recorded as payments are received. In addition, segregation of duties appears to be weak with respect to the invoicing and collection of excess benefits paid on a retiree's behalf. Payments received are given directly to HR who is also responsible for invoicing; HR then forwards the checks to the District accounting department. Invoices are not posted to accounts receivable; the receivable is maintained in a spreadsheet by the District accounting department and updated as the checks are forwarded from HR.

Auditors' Recommendation: We recommend that the District provide training on procedures to reconcile benefits paid on behalf of current and retired employees to amounts charged by payroll processing. We also recommend that a procedure be implemented to insure that the reconciliation is being performed on a timely basis. In addition, we recommend that management evaluate the segregation of duties with respect to invoicing retirees and the handling of cash receipts.

Grantee's Response: Beginning in October 2008, the District started using a third-party administrator to coordinate billing and receivables for retiree medical benefits. This updated process includes a full reconciliation of retiree billing and COBRA administration to ensure individuals are paying for benefits received. Starting in February 2009, through our third-party administrator, the District will begin using a benefits tracking system called "Benefit Bridge" that will automatically send updates to the benefit providers, which will also be accessible to HR and payroll staff. This control mechanism will eliminate over- or under-billing, as information on new hires, terminations, and other account changes will be instantly downloaded to the benefit providers.

Current Status: It is our understanding that the District has contracted with a third party to properly account for employee and retiree benefits. Immaterial exceptions noted prior to the employment of the third-party administrator.

08-7 *Reference:* Purchase Orders - Matriculation and HSI

Condition and Criteria: The District policy is that approved purchase orders must be obtained prior to the purchase of goods and services. During our audit, we noted six instances where purchase orders were approved after a purchase had been made.

Effect: Goods were purchased without the proper approval.

Cause: A purchase requisition had been submitted; however, the goods were purchased before the purchase order was approved by the department director and the District.

Auditors' Recommendation: The employees responsible for purchasing goods and services should be reminded of District purchasing policies.

Grantee's Response: Per Administrative Regulation 6330, the procurement of goods or services must be made through the Purchasing Department and upon final approval by the Business Manager. In an effort to avert the continuation of such instances noted, the Purchasing Department has implemented a regular employee training and education program where workshops will be held quarterly to inform employees of proper purchasing procedures. In each of the cases above, the employee was required to write an audit exception letter acknowledging their error and violation of Board policy.

Current Status: Exceptions noted in current year. See finding 09-2 and findings 07-1, 06-2, and 05-4 noted in prior reports.

08-8 *Reference:* Students Actively Enrolled

Condition and Criteria: The California Code of Regulations, Title 5, Section 58004 require that each district governing board must adopt procedures to document all course enrollment, attendance, and disenrollment, to support timely, accurate, and complete information in the calculation of State General Apportionment. During our audit, one instructor roster could not be located for a positive attendance course.

Effect: The CCFS 320 may be misstated. The District is not in compliance with State regulations.

Cause: Instructor-prepared attendance roster was misplaced after student contact hours were entered into system.

Population and Items Tested: We tested 20 weekly, daily, positive attendance and independent study courses from the CCFS 320 report. In one instance, an instructor roster could not be located.

Auditors' Recommendation: We recommend that the District implement procedures to ensure maintenance of required documentation. This can be accomplished by maintaining electronic copies of manual attendance rosters.

Grantee's Response: SBVC Admissions and Records have met with the divisional administrative staff to provide information and training on the process to ensure all positive attendance rosters are collected and retained. The A&R Office distributes e-mails to remind the divisional staff of this requirement. As an added control, A&R staff will continue to reconcile a missing rosters report and contact the divisions that have delinquent rosters.

Current Status: Exceptions noted in current year. See finding 09-4.

08-9 *Reference:* Students Actively Enrolled

Condition and Criteria: The California Code of Regulations, Title 5, Section 58003.1 and 58004 require that each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date. Census day for weekly census procedure courses is the Monday of census week. Census week is the week nearest one-fifth of the number of weeks of the primary term. The District reported attendance as of the wrong census date for all Crafton Hills College for weekly census courses. In addition, one daily census course was given a census date prior to the first day of instruction.

Effect: The CCFS 320 was overstated by 49.23 FTES.

Cause: A process was ran on the District's attendance and course data that changed the census date from the Monday of the fourth week to the Monday of the third week for Crafton Hills College weekly census courses. The process was intended to be applied to fall 2008; however, it erroneously revised the data for fall 2007 and spring 2008; therefore, CCFS 320 data submitted to the State was overstated. For the daily census course noted in error, the District's MIS department investigated the error and was unable to determine why the course was assigned a census date prior to the beginning of the term.

Population and Items Tested: We tested 25 courses from the CCFS 320 report, of which five courses were from Crafton Hills College and census dates for these courses were in error. The census date for one of the San Bernardino Valley College courses tested was reported in error.

Auditors' Recommendation: We recommend that the District implement computer controls that prohibit changes to census dates. In addition, we recommend that internal controls be tested periodically to detect errors.

Grantee's Response: DCS re-ran the process to assign the correct census date and the District recalculated the 320 data. The District will adjust its FTES figures accordingly at P1 in FY 2009. DCS has hard-coded the census date, which serves as an added control to prevent this type of error from occurring again.

Current Status: No exceptions noted in current year.

08-10 *Reference:* Students Actively Enrolled

Condition and Criteria: The California Code of Regulations, Title 5, Section 58003.1 and 58004 require that each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date. However, due to the override of controls, admissions personnel have backdated various enrollment transactions, causing students to be erroneously included and excluded from FTES calculation. In one case, the system automatically assigned void dates due to a co-requisite not being fulfilled by the student.

Effect: The CCFS 320 was overstated by .216 FTES due to three students being improperly included and understated by .172 FTES due to two students being improperly excluded.

Cause: Controls were overridden by admissions and records. District policy was not followed.

Population and Items Tested: We tested 25 courses, with a total of 45 FTES, of which we noted five students being claimed or excluded from FTES calculation in error due to records being backdated. Net error overstated FTES by .044.

Auditors' Recommendation: We recommend that the District implement computer controls that prohibit backdating of student records. Exceptions should be documented and approved by management to ensure accurate records are kept for apportionment purposes.

Grantee's Response: Admissions and Records staff will undergo specific training to better understand the relationship between enrollment and disenrollment codes and dates in Datatel. As an additional control, manual date changes will continue to be authorized by the Director of A&R. In the case at CHC, the computer system automatically assigned the void date due to a co-requisite not being fulfilled. DCS will investigate re-programming this process to avoid further errors.

Current Status: No exceptions noted in current year.

08-11 *Reference:* Concurrent Enrollment of K-12 Students in Community College Credit Courses

Condition and Criteria: The California Education Code Sections 48800, 48800(d), 76001(i), and 76002(a)(4) require the following:

- (i) For summer sessions, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of the recommendation;
- (ii) If the class is a physical education class, no more than ten percent of the course section's enrollment may be claimed for apportionment for special part-time or full-time students; and
- (iii) A community college district may not receive State apportionments for special part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES of special part-time and full-time students.

The data elements used to monitor compliance with these requirements were not accurately maintained. The District was not able to prepare these calculations properly due to the errors. The District did not implement procedures to monitor compliance with requirement (i) until spring 2008.

Effect: The District may not be in compliance with State requirements and apportionment may be affected. We were unable to perform audit procedures on items (ii) and (iii) due to the District not having accurate enrollment data. We were unable to perform audit procedures on item (i) due to the District not having supporting documentation for the entire fiscal year.

Cause: The District has controls in place that require students coded as special admits to enroll in courses in person in the admissions and records office. Admissions and records clerks are required to verify that the student has an approved special-admit form prior to enrolling. If the student has graduated, then the admissions and records clerk is required to change the student's education status (data element SB11) from 10000 to an appropriate code so that they may register without the special-admit form. This control has failed. Students' education status is not being updated when students enroll after graduation from high school. The District did not implement procedures to obtain certification from high school principals to monitor compliance with (i) above until spring 2008.

Population and Items Tested: Obtained referential data files and selected a sample of 50 students with SB11 code 10000, special admits. Of the 50 tested, nine were found to be coded improperly. Since referential file data is used by the District to calculate the limitations in (ii) and (iii) above, those calculations could not be relied on. In addition, certifications from principals of K-12 schools verifying compliance with (i) were not obtained for summer and fall semesters.

Auditors' Recommendation: We recommend that the District remind admissions and records' clerks of the procedures in place when enrolling special admits and the proper guidelines on changing student enrollment status.

Grantee's Response: A program was created by DCS to end specified student types and A&R staff presumed it to be working correctly. Now that the current process is found to be deficient in ending special-admit status, A&R will work with DCS to modify the process to identify and remove inappropriate special-admit designations. The updated approval form, which includes the K-12 principal's certification, was instituted during the fall 2007 term.

Current Status: Exceptions noted in current year. See finding 09-8 and findings 07-8 and 06-11 noted in prior reports.

08-12 *Reference:* Concurrent Enrollment of K-12 Students in Community College Credit Courses

Condition and Criteria: The California Education Code Sections 48800(A), 48800.5, and 76001(d) requires that the District obtain verification from the K-12 school district that the student can benefit from advanced scholastic or vocational work. The campuses utilize a Special Student Attendance Form to obtain these verifications and to approve or deny enrollment. Special-admit students were allowed to enroll without an approved form. The District was not able to locate special-admit forms for 12 students selected for testing. In addition, two special-admit forms were not approved by a District designee; however, the students were permitted to enroll in classes.

Effect: High school students that do not qualify for attendance may be allowed to enroll. The District may not be in compliance with State regulations and apportionment may be affected.

Cause: The District does not have procedures in place to ensure that Special Student Attendance Forms are obtained for all special-admit students.

Population and Items Tested: Haphazardly selected 50 special-admit students, of which 41 were special-admit students. Special-admit forms for 12 students enrolled in classes were not available. Two students were denied admittance by a District designee; however, they were permitted by admissions and records to enroll in courses.

Auditors' Recommendation: We recommend that the District remind responsible employees in the admissions and records' offices that special-admits should not be enrolled in classes unless attendance approval forms have been approved by a District employee. In addition, we recommend that the admissions and records' offices implement procedures to ensure special-admit students submit required documentation prior to enrollment and that this information be filed appropriately to support District records.

Grantee's Response: SBVC Admissions and Records staff have been advised of the procedures to qualify and register special admit students. The District began using the updated Concurrent Enrollment Approval Form during the Fall 2007 term. Both A&R directors will continue to monitor proper usage of the form and compliance with these regulations.

Current Status: Exceptions noted in current year. See finding 09-7 and findings 07-7 and 06-10 noted in prior reports.

08-13 *Reference:* Residency Determination for Credit Courses

Condition and Criteria: The California Code of Regulations, Title V, Sections 54000-54072 require each district to implement controls that ensure that state apportionment for credit courses is only claimed for student attendance allowed by statute and regulation. Student residence as of the residence determination date is a major factor for allowing districts to claim state apportionment for credit courses. Nonresidents are students who do not have legal residence in the state at the time of the residency determination date and therefore must be charged nonresident fees and whose attendance is not allowed to be claimed for state apportionment. Residence determination date is that day immediately preceding the opening day of instruction of the quarter, semester, or other session as set by the district governing board, during which the student proposes to attend a college. Each district must act to ensure that only the attendance of California residents is claimed for State support of credit courses. In our testing, we noted that attendance was being claimed for students who were not residents of California.

Effect: The District overstated the FTES by .550.

Cause: Students were determined to be nonresidents at the beginning of the fall term and paid the applicable nonresident fees. During the fall term, the students registered for spring classes and changed their residency status to resident; they paid the appropriate resident tuition. However, for 320 purposes, the system did not pull the residency as of the residency determination date; therefore, the student's attendance was inappropriately claimed for the fall term.

Population and Items Tested: Tested 43 students coded as nonresidents of which two were claimed inappropriately on the 320 report.

Auditors' Recommendation: We recommend that data collection for 320 reporting purposes be reviewed and revised so that student residency status is collected properly and attendance is reported correctly.

Grantee's Response: DCS has begun examining the way in which the system reads the residency data for 320 reporting purposes. DCS will determine a way in which the system will read residency data for proper 320 reporting.

Current Status: Exceptions noted in current year. See finding 09-5.

08-14 *Reference:* Enrollment Fee

Condition and Criteria: The Education Code sections 76300 and 76140 require districts to charge enrollment fees in the amount determined by the State. Enrollment fees for fiscal year 2007-2008 were \$20 per semester unit and additional nonresident tuition fees were \$160 per unit for summer and fall terms and \$175 per unit for the spring term. During our testing, we noted that one student was not charged the proper fees and nonresident enrollment fee revenue was understated.

Effect: The District understated nonresident tuition fees by \$1,440.

Cause: Student registered as a resident and enrolled in courses during the fall and spring. At the end of the spring semester, admissions and records noted that this student's residency determination was in error. The student's residency status was backdated and revised appropriately; however, fees were not adjusted accordingly. The student was charged nonresident fees for only 17 of the 26 units taken during the fiscal year.

Population and Items Tested: Tested enrollment fees for 93 students, of which fees for one student were inappropriately charged.

Auditors' Recommendation: We recommend when errors are noted that revisions to enrollment fees be reviewed by management to ensure proper changes have been made.

Grantee's Response: In-service training will be provided to SBVC Admissions staff on the appropriateness of entries to the Datatel system. Admissions staff will be advised of the importance of the accuracy of dates and other data entered into the system.

Current Status: No exceptions noted in current year.

08-15 *Reference:* Child Development Program, Contract CCTR-7310

Condition and Criteria: The California Department of Education, Child Development Fiscal Services Division requires that Attendance and Fiscal Reports for Child Development Programs be filed quarterly. These reports report attendance by age group for funding purposes. During our audit, we noted that attendance was not being reported in the proper age classification.

Effect: Days of enrollment were overstated on quarterly reports.

Cause: The District does not have controls in place to track attendance by age group for changes in age after enrollment date. In addition, classrooms that contained children of more than one age group were not split accordingly for reporting.

Population and Items Tested: We tested 27 classifications by calculating the age of the child and tracing their attendance to the quarterly report. Of the 24 children chosen for testing, 16 were improperly classified. The net effect of findings for the three months selected for testing totaled an overstatement of 203.20 adjusted days of enrollment.

Auditors' Recommendation: We recommend that birth dates are included in the attendance spreadsheet so that age classifications can be monitored and reporting be adjusted accordingly.

Grantee's Response: Prior to submitting quarterly reports, CDC staff will ensure that all supporting documentation is complete and accurate. These reports will be checked for mathematical accuracy by both CDC administrative staff and the CDC Director. Quarterly audits of these reports will continue to be conducted by the Director, Internal Audits. In this case, the discrepancy has been corrected and an amended report has been sent to the State Department of Education to reflect the corrected data. As a new control, birth dates have been added to the monthly class totals reporting sheet.

Current Status: It was noted during current-year testing that errors were found on the 3rd and 4th quarterly reports by District personnel prior to audit and given to the auditor. However, the quarterly reports were still submitted in error and corrected copies resubmitted following the audit. The California Department of Education allows reports to be corrected and resubmitted for approval after quarterly deadlines up to March 1st of the following year.

08-16 *Reference:* Child Development Program, Contract GPRE-7300

Condition and Criteria: The California Department of Education, Child Development Fiscal Services Division requires that Attendance and Fiscal Reports for Child Development Programs be filed quarterly. The District has implemented an internal audit function to detect errors in reporting. During our audit, we noted that the internal auditor had discovered an error in the reporting; however, the report was not amended and corrections were not sent to the State.

Effect: Days of enrollment were overstated on quarterly reports.

Cause: An error was discovered by the internal auditor. The error was caught and was believed to be corrected for fourth quarter reporting but was instead carried forward from the third quarter.

Population and Items Tested: We tested enrollment attendance registers by tracing 20 students to attendance sign-in sheets. No exceptions were noted. However, during our review of the attendance registers it was noted that one student was identified by the internal auditor as not having an attendance sign-in sheet. The auditor noted that the attendance should be adjusted in the subsequent quarter to exclude the unsupported claim, however the error was not subsequently adjusted, causing an overstatement of 19 days of cumulative enrollment.

Auditors' Recommendation: It is recommended that the internal auditor's findings be correctly implemented to achieve accurate financial reporting.

Grantee's Response: Prior to submitting quarterly reports, CDC staff will ensure that all supporting documentation is complete and accurate. Quarterly audits of these reports will continue to be conducted by the Director, Internal Audits. This error has been corrected and an amended report has been sent to the State Department of Education to reflect the corrected data.

Current Status: It was noted during current-year testing that errors were found on the 3rd quarter report by District personnel prior to audit and given to the auditor. However, the quarterly report was still submitted in error and a corrected copy resubmitted following the audit. The California Department of Education allows reports to be corrected and resubmitted for approval after quarterly deadlines.

Current Status: It was noted during current-year testing that errors were found on the 3rd and 4th quarterly reports by District personnel prior to audit and given to the auditor. However, the quarterly reports were still submitted in error and corrected copies resubmitted following the audit. The California Department of Education allows reports to be corrected and resubmitted for approval after quarterly deadlines up to March 1st of the following year.

08-17 Vocational and Technical Education Act

Condition and Criteria: Perkins Title IC Article I - Reporting designates that the Grantee shall submit quarterly "Year-to-Date Expenditure and Progress Reports," which are due on October 25, 2007, January 24, 2008, April 25, 2008, and July 25, 2008. A final report is due on August 31, 2008. During our audit, we noted that the first and fourth quarterly reports and the final expenditure report were not submitted on time.

Effect: The District is not in compliance with Perkins Title IC Reporting requirements.

Cause: Narratives, which are required for submission of reports, had not been submitted to the proper agent for a timely report transmission.

Auditors' Recommendation: The employee in charge of written narratives for quarterly reports should submit their narrative to the proper processing agent in order to transmit the completed report on time.

Grantee's Response: The responsible administrator has been reminded of the report due dates and advised of the importance of timely reporting. Employees with responsibility over VTEA funds and programming will establish deadlines to ensure narratives and other reporting elements are submitted to the processing agent in advance of the reporting due date.

Current Status: During the year ended June 30, 2009, SBVC transferred the duties of VTEA reporting to a different administrator who implemented a system to monitor submittals and ensure reporting deadlines are met. The District's internal review indicates that reports have been submitted on time since this error occurred. We noted that the first quarterly report was submitted late; however, all subsequent reports were filed timely.