



SANTA BARBARA COMMUNITY
COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, and the 2017-2018 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 19 and other required supplementary schedules on pages 70 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Rancho Cucamonga, California
December 5, 2018

INTRODUCTION

This introduction to the District-wide financial statements provides background information regarding the financial position and activities of the Santa Barbara Community College District (the District) for the years ended June 30, 2018 and 2017. We encourage readers to consider the information presented in this Management's Discussion and Analysis in conjunction with the financial statements and accompanying notes to the financial statements.

Overview of the District-Wide Basic Financial Statements

The focus of the Statement of Net Position is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Position focuses on the costs of the District's operational activities, which are supported primarily by local property taxes and State apportionment revenues. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District. The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in the District-wide financial statements.

This Annual Report

This annual report consists of the following sections:

- Management's Discussion and Analysis (MD&A) utilizing a current year/prior year format;
- District-Wide Basic Financial Statements, including required Notes to the Financial Statements; and
- Supplementary Information.

FINANCIAL HIGHLIGHTS

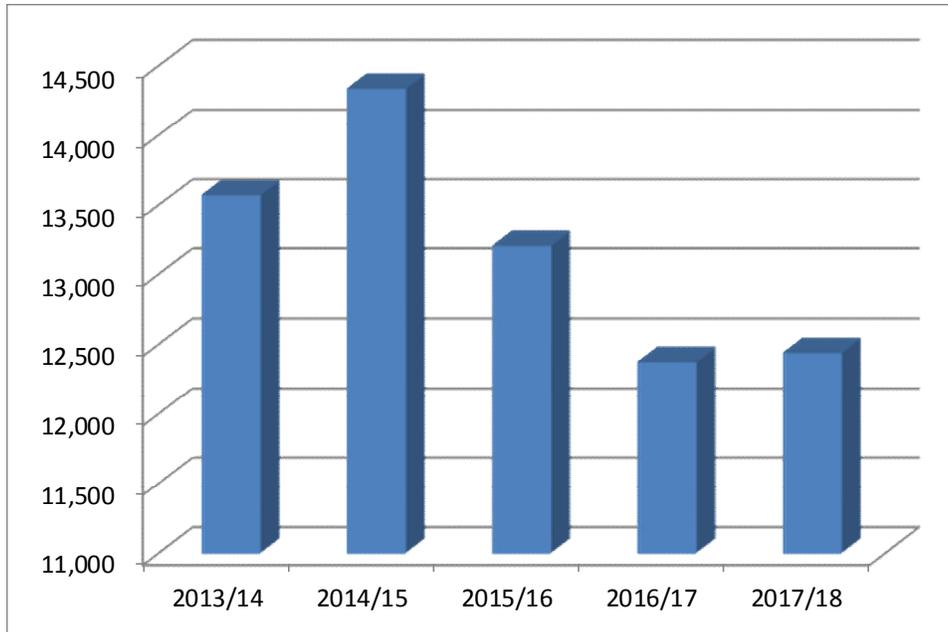
This section provides condensed information for each of the three basic financial statements, as well as illustrative charts, graphs, and tables.

The District's primary funding is based upon an apportionment allocation made by the State of California, Community Colleges Chancellor's Office (System Office). The primary basis for the Chancellor's apportionment calculation is the District's reporting of Full-Time Equivalent Students (FTES). During fiscal years 2017-2018 and 2016-2017, the District's FTES was 12,446 and 12,380, respectively. While The District grew its Noncredit FTES, leading to a growth in total FTES, the District still received stability funding in 2017-2018 due to a continued decline in Credit FTES.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The graph below depicts the District's five-year trend for FTES:



After the Chancellor's Office calculates the District's base apportionment, it reduces the net amount to be distributed by the amount of property taxes, Prop 30 Education Protection Act funds, and enrollment fees expected to be paid directly to the District. The matrix below lists the four components and illustrates the net effect of the actual receipts for fiscal year 2017-2018 as compared to fiscal year 2016-2017:

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Property tax	\$ 31,530,969	\$ 28,777,818	\$ 2,753,151
Enrollment fees	7,136,370	8,108,510	(972,140)
Apportionment	24,769,464	27,183,455	(2,413,991)
Education Protection Act	9,597,230	9,927,530	(330,300)
Total	<u>\$ 73,034,033</u>	<u>\$ 73,997,313</u>	<u>\$ (963,280)</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CONDENSED DISTRICT-WIDE FINANCIAL INFORMATION IS AS FOLLOWS:

Condensed Statement of Net Position as of June 30, 2018 and 2017

	2018	(as restated) 2017	Change
ASSETS			
Current Assets			
Cash and investments	\$ 76,260,644	\$ 77,608,832	\$ (1,348,188)
Accounts receivable (net)	11,866,175	17,770,602	(5,904,427)
Other current assets	3,858,041	3,632,312	225,729
Total Current Assets	<u>91,984,860</u>	<u>99,011,746</u>	<u>(7,026,886)</u>
Capital Assets (net)	<u>153,485,964</u>	<u>153,093,680</u>	<u>392,284</u>
Total Assets	<u>245,470,824</u>	<u>252,105,426</u>	<u>(6,634,602)</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	3,527,387	3,761,247	(233,860)
Deferred outflows related to pensions	<u>31,605,697</u>	<u>22,844,256</u>	<u>8,761,441</u>
Total Assets and Deferred Outflows	<u>\$ 280,603,908</u>	<u>\$ 278,710,929</u>	<u>\$ 1,892,979</u>
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 15,026,029	\$ 16,351,007	\$ (1,324,978)
Unearned revenues	16,797,589	14,246,711	2,550,878
Current portion of long-term debt	<u>4,806,875</u>	<u>7,037,993</u>	<u>(2,231,118)</u>
Total Current Liabilities	<u>36,630,493</u>	<u>37,635,711</u>	<u>(1,005,218)</u>
Long-Term Obligations	<u>187,568,306</u>	<u>185,323,049</u>	<u>2,245,257</u>
Total Liabilities	<u>224,198,799</u>	<u>222,958,760</u>	<u>1,240,039</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	<u>13,354,347</u>	<u>6,303,929</u>	<u>7,050,418</u>
NET POSITION			
Net investment in capital assets	84,698,923	82,573,627	2,125,296
Restricted	25,780,631	32,437,075	(6,656,444)
Unrestricted	<u>(67,428,792)</u>	<u>(65,562,462)</u>	<u>(1,866,330)</u>
Total Net Position	<u>43,050,762</u>	<u>49,448,240</u>	<u>(6,397,478)</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 280,603,908</u>	<u>\$ 278,710,929</u>	<u>\$ 1,892,979</u>

The preceding schedule has been prepared from the District's Statement of Net Position (page 20) which is presented on the accrual basis of accounting whereby assets are capitalized and depreciated. Cash and investments (above) consist primarily of funds held in the Santa Barbara County Treasury.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Cash and investments, and short-term receivables decreased by \$7.3 million, and net capital assets increased by \$0.4 million. The decrease in cash and investments was due primarily to the District completing construction on the West Campus Classroom Building. The decrease in short-term receivables is primarily due to decreases in State and Local accounts receivable. Current liabilities decreased by \$1.4 million due to a decrease in the current portion of the District's long-term Measure V Bond debt and a decrease in payroll liabilities. The decrease in payroll liabilities is related to the timing of payments made for employee health and welfare benefits. These decreases are partially offset by increases in unearned revenues, primarily related to the Strong Workforce grant. Noncurrent liabilities increased by \$2.2 million due to the increase in the net pension liability calculated as part of the GASB Statement No. 68 actuarial report and District's implementation of GASB Statement No. 75 for the recognition of the District's net OPEB liability.

The deferred charge on refunding is related to the District refunding the majority of the Measure V Series A Bond during the year. As part of the refunding, there was initially a \$4.1 million difference between the amount of cash transferred into the escrow account and the bonds that were being refunded. This amount will be amortized as interest expense over the remaining life of the bonds. Amortization expense for this fiscal year was \$233,860. The changes in the deferred inflows and outflows related to pensions are calculated as part of the GASB Statement No. 68 implementation, and will continue to fluctuate from year to year based on the changes in actuarial valuations for the CalPERS and CalSTRS systems.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2018 and 2017

	2018	2017	Change
Operating Revenues			
Tuition and fees	\$ 24,032,565	\$ 25,776,569	\$ (1,744,004)
Federal, State, and local grants and contracts, noncapital	38,918,327	37,067,952	1,850,375
Auxiliary sales and other operating revenues	6,229,282	6,869,444	(640,162)
Total Operating Revenues	<u>69,180,174</u>	<u>69,713,965</u>	<u>(533,791)</u>
Operating Expenses			
Salaries and benefits	103,612,590	109,386,994	(5,774,404)
Supplies, maintenance, and student aid	63,066,795	61,104,557	1,962,238
Depreciation	6,053,471	5,754,576	298,895
Total Operating Expenses	<u>172,732,856</u>	<u>176,246,127</u>	<u>(3,513,271)</u>
Loss on Operations	<u>(103,552,682)</u>	<u>(106,532,162)</u>	<u>2,979,480</u>
Nonoperating Revenues			
State apportionments	24,769,464	27,183,455	(2,413,991)
Property taxes	35,503,670	32,603,949	2,899,721
Other state revenues	3,876,526	4,480,771	(604,245)
Federal and State financial aid grants, noncapital	28,568,136	28,290,250	277,886
Net interest expense	(1,456,829)	(1,412,380)	(44,449)
Other net nonoperating revenues	4,669,729	5,358,869	(689,140)
Total Nonoperating Revenue	<u>95,930,696</u>	<u>96,504,914</u>	<u>(574,218)</u>
Other Revenues and (Losses)			
State and local capital income	1,224,508	2,124,198	(899,690)
Loss on disposal of capital assets	-	(2,488,801)	2,488,801
Total Other Revenues and (Losses)	<u>1,224,508</u>	<u>(364,603)</u>	<u>1,589,111</u>
Net Change in Net Position	<u>\$ (6,397,478)</u>	<u>\$ (10,391,851)</u>	<u>\$ 3,994,373</u>

The schedule presented above has been prepared from the Statement of Revenues, Expenses, and Changes in Net Position. State general apportionment, while budgeted for operations, is considered nonoperating revenue according to the Governmental Accounting Standards Board's (GASB) prescribed reporting format. Grant and contracts revenue includes student financial aid, as well as specific Federal and State grants received for programs serving the students of the District.

The District continues to experience a decline in enrollment, which has led to a reduction in revenue from tuition and fees. In total, operating expenses decreased during 2017-2018 due primarily to reductions in staffing levels related to the Supplemental Early Retirement Program (SERP), and delays in filling vacant positions. The fluctuations in Salaries and Benefits also include changes in pension expenses as calculated under GASB Statement No. 68. State apportionment revenue shows a continued decline over prior years due to the decline in enrollment. The 2016-2017 loss on disposal of capital assets is related to writing off prior year construction in progress payments after the District decided not to proceed with the project to replace the Campus Center.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

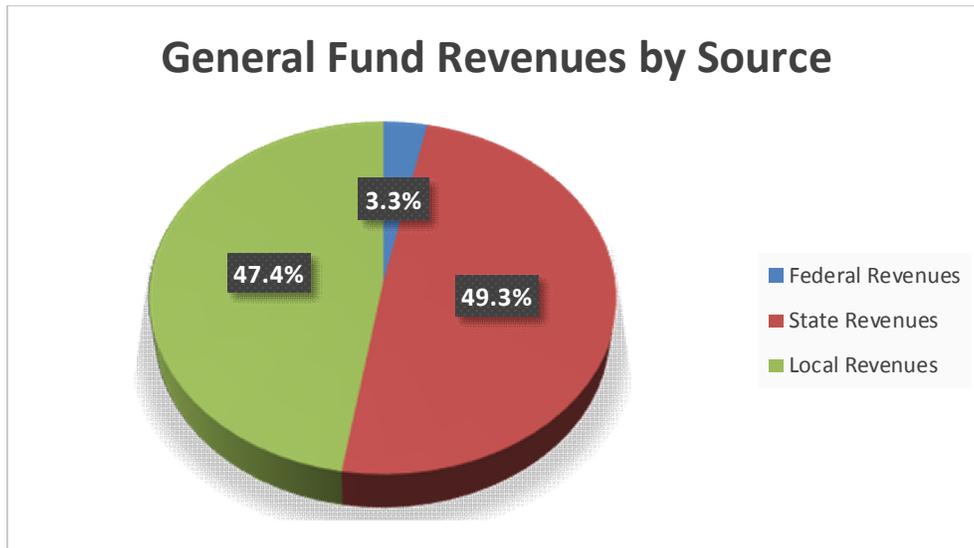
MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

General Fund

While this Management's Discussion and Analysis and the District-wide financial statements report the financial position and results of operations for the District as a whole, the following pie charts are intended to give the reader information specific to the General Fund.

General Fund Revenues by Source

The chart below depicts the District's General Fund total revenues by source:

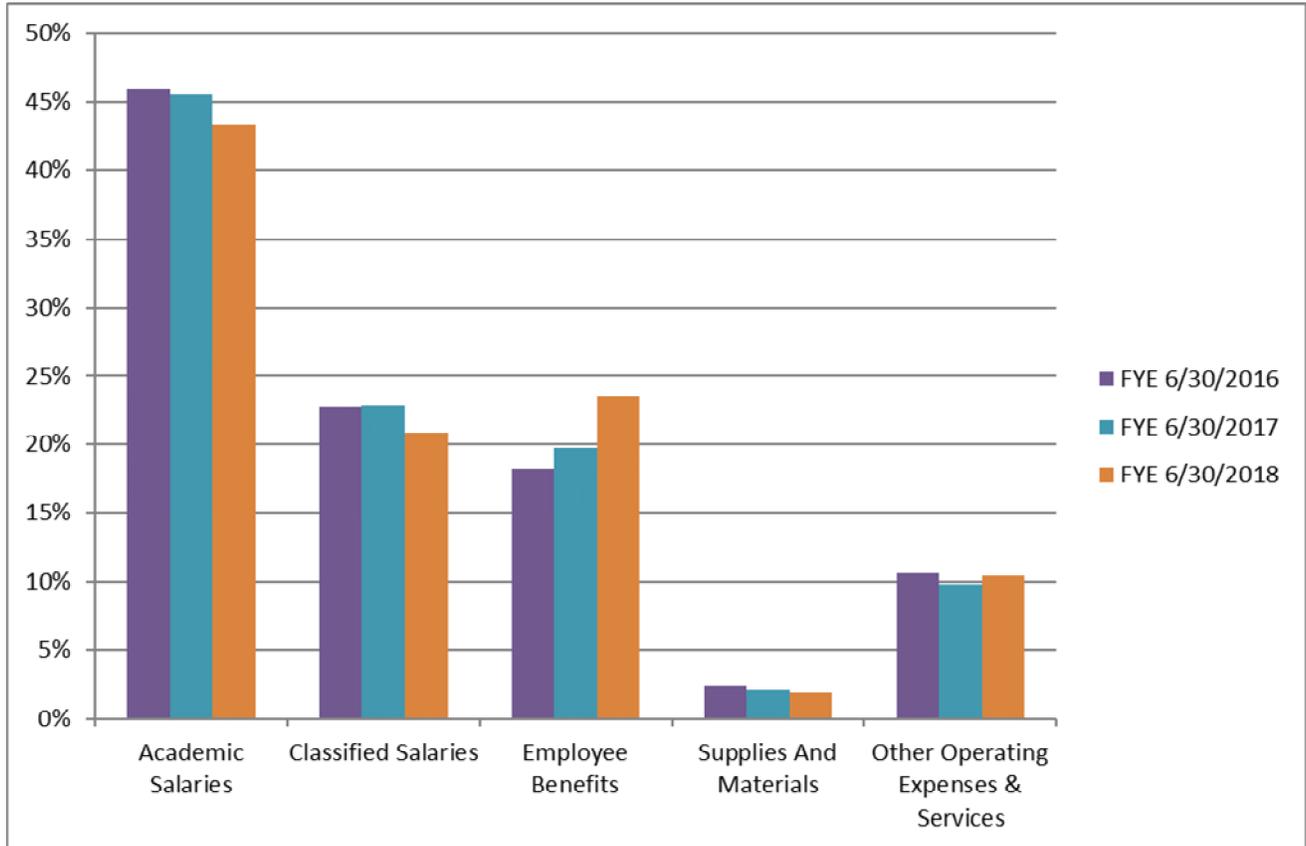


SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

General Fund Expenditures by Type

The chart below depicts a three year review of the District's General Fund total expenditures before transfers by type:



The District's expenditures on employee salaries and benefits made up 87.3 percent of the total General Fund expenditures before transfers. This is down slightly from 88.1 percent in 2016-2017, and slightly higher than the 86.9 percent in 2015-2016. While academic and classified salaries have declined in the past year due to the continued decline in enrollment and a reduction of staffing levels through the SERP, employee benefits have continued to increase due primarily to significant increases in required PERS and STRS contributions.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Expenditures by Activity

The following table summarizes the District's expenditures by activity for the year ended June 30, 2018:

	Salaries and Employee Benefits	Supplies, Material, and Other Expenses and Services	Equipment, Maintenance, and Repairs	Student Aid	Depreciation	Total
Instruction	\$ 54,844,329	\$ 1,990,157	\$ 140,576	\$ -	\$ -	\$ 56,975,062
Instructional Administration	7,915,595	6,286,136	161,135	-	-	14,362,866
Instructional Support Services	2,258,750	126,984	71,975	-	-	2,457,709
Admissions and Records	1,089,022	36,157	-	-	-	1,125,179
Counseling and Guidance	8,134,855	642,182	52,656	-	-	8,829,693
Other Student Services	6,553,835	5,307,606	27,820	-	-	11,889,261
Operations and Maintenance	3,756,340	2,623,263	10,327	-	-	6,389,930
Planning and Policy Making	1,128,425	139,933	-	-	-	1,268,358
General Institutional Services	11,016,652	5,926,085	24,671	-	-	16,967,408
Community Services	1,714,533	446,317	4,203	-	-	2,165,053
Ancillary Services	5,197,408	6,160,142	10,580	-	-	11,368,130
Student Aid	-	-	-	29,493,619	-	29,493,619
Physical Property and Related Acquisitions	2,846	208,123	3,176,148	-	-	3,387,117
Depreciation	-	-	-	-	6,053,471	6,053,471
Total	\$ 103,612,590	\$ 29,893,085	\$ 3,680,091	\$ 29,493,619	\$ 6,053,471	\$ 172,732,856

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

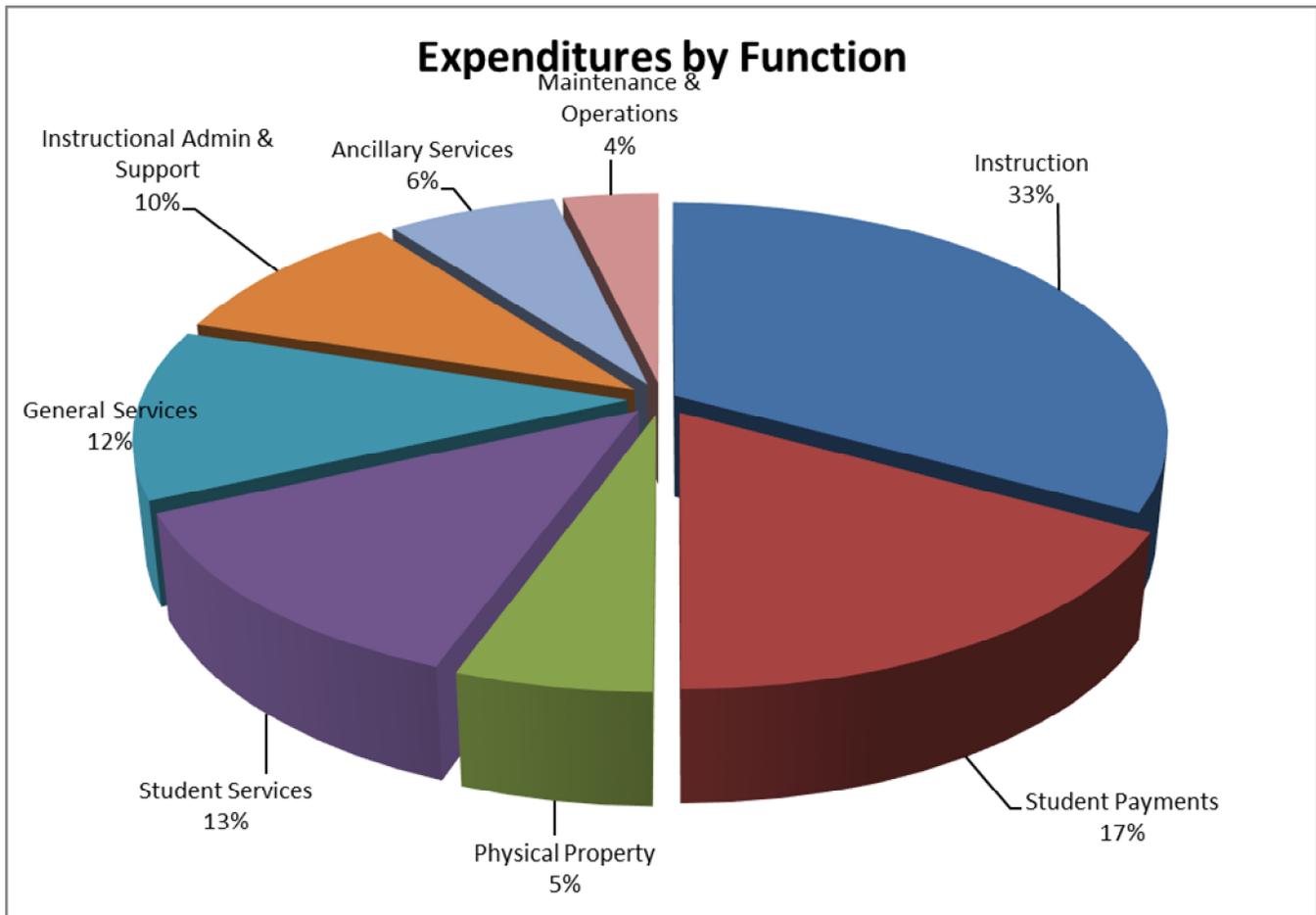
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The following pie chart groups the District's expenditures by activity into major functional areas. The chart definitions below identify which activities are included in each major functional area.

Chart Definitions:

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



SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Condensed Statement of Cash Flows for the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Cash Provided by (Used in)			
Operating activities	\$ (89,961,758)	\$ (99,976,148)	\$ 10,014,390
Noncapital financing activities	99,478,954	95,718,805	3,760,149
Capital financing activities	(11,565,964)	(14,179,264)	2,613,300
Investing activities	<u>700,580</u>	<u>525,170</u>	<u>175,410</u>
Net Decrease in Cash	(1,348,188)	(17,911,437)	16,563,249
Cash, Beginning of Year	<u>77,608,832</u>	<u>95,520,269</u>	<u>(17,911,437)</u>
Cash, End of Year	<u>\$ 76,260,644</u>	<u>\$ 77,608,832</u>	<u>\$ (1,348,188)</u>

The previous schedule has been prepared from the Statement of Cash Flows presented on pages 22 and 23. This statement provides information about cash receipts and cash payments during the fiscal year. It also helps users assess the District's ability to generate positive net cash flows and its ability to meet its obligations as they come due.

The primary operating activities contributing to cash flow are student tuition and fees and Federal, State, and local grants and contracts, while the primary operating activity using cash flow throughout the year is the payment of salaries and benefits.

Even though State apportionment and property taxes are the primary source of District revenue (and cash flow), GASB accounting standards require that these sources of revenue be shown as nonoperating revenue since they come from the general resources of the State and not from the primary users of the District's programs and services (students). Nevertheless, the District depends upon this funding as the primary source of funds to continue operations.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$233,583,792 in a range of capital assets, including land, buildings, and furniture and equipment. At June 30, 2018, the District's net capital assets were \$153,485,964. Major capital improvement projects are ongoing throughout the District. These projects are primarily funded through State Construction Act revenues and District General Obligation Bonds. Projects are accounted for within the construction in progress account until the project is completed at which time the cost of the buildings and/or improvements will be recorded to the depreciable buildings and improvement category.

Note 6 in the financial statements provides additional information on capital assets. A summary of capital assets is presented below.

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	\$ 22,752,655	\$ 182,129	\$ (17,109,277)	\$ 5,825,507
Buildings and improvements	189,823,205	22,824,866	-	212,648,071
Equipment	14,663,327	548,037	(101,150)	15,110,214
Subtotal	227,239,187	23,555,032	(17,210,427)	233,583,792
Accumulated depreciation	(74,145,507)	(6,053,471)	101,150	(80,097,828)
	<u>\$ 153,093,680</u>	<u>\$ 17,501,561</u>	<u>\$ (17,109,277)</u>	<u>\$ 153,485,964</u>

Obligations

At the end of the 2017-2018 fiscal year, the District had \$72,314,428 in General Obligation Bonds and loans payable outstanding. The bonds are repaid in annual installments, in accordance with the obligation requirements for each debt issuance, by way of property tax assessments on property within the District's boundaries.

The District is also obligated to employees of the District for vacation, load banking benefits, supplemental employee retirement plan, retiree health payments, and pension obligations.

Note 10 in the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below.

	(as restated) Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds and loans payable	\$ 77,745,489	\$ -	\$ (5,431,061)	\$ 72,314,428
Aggregate net pension liability	100,290,784	5,625,020	-	105,915,804
Other long-term obligations	14,324,749	1,045,831	(1,225,631)	14,144,949
Total Long-Term Obligations	<u>\$ 192,361,022</u>	<u>\$ 6,670,851</u>	<u>\$ (6,656,692)</u>	<u>\$ 192,375,181</u>
Amount due within one year				<u>\$ 4,806,875</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

Net Pension Liability (NPL)

At year end, the District had a net pension liability of \$105,915,804 as a result of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Fund Balances

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

Fund Type	Ending Fund Balance 6/30/17	Ending Fund Balance 6/30/18	Change in Fund Balance
General Fund	30,082,532	32,070,241	1,987,709
Bond Funds	3,464,189	-	(3,464,189)
Capital Projects Fund	24,179,642	20,646,527	(3,533,115)
Enterprise Funds	6,617,683	6,829,911	212,228
Special Revenue Funds	323,177	149,566	(173,611)
Internal Service & Fiduciary Funds	3,529,956	2,900,809	(629,147)
Total	68,197,179	62,597,054	(5,600,125)

Total ending fund balances decreased \$5.6 million (8.2 percent) from \$68.2 million to \$62.6 million, with the majority of changes due to spending on the construction of the West Campus Classroom Building.

In accordance with Board Policy 6305, the District's board of directors has designated a portion of the Unrestricted General Fund balance as reserves. A reserve fund is an established prudent fiscal management tool, which buffers cash flow fluctuations and provides a resource for contingencies and reasonable yet unforeseen operational needs. The reserve includes 5 percent of annual projected Unrestricted General Fund expenditures, plus funds to cover all banked TLU obligations, plus funds equivalent to any deferrals of the college's State apportionment or 15 percent of annual projected Unrestricted General Fund expenditures, whichever is greater. The Unrestricted General Fund reserve is \$22.0 million or approximately 21.3 percent of the annual projected Unrestricted General Fund expenditures.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FACTORS THAT MAY AFFECT THE FUTURE

Accreditation

- The District is accredited every six years by the Accrediting Commission of Community and Junior Colleges (ACCJC), a branch of the Western Association of Schools and Colleges. Being an accredited college is of critical importance. This status allows the District to provide Federal financial aid to students, receive Federal funding, grant degrees to students as coming from an accredited institution and articulate courses with other colleges and universities. In January 2016, the ACCJC reaffirmed the District's accreditation status.
- In March of 2017, the District filed a follow up report with the ACCJC. On June 23, 2017, the ACCJC issued a letter stating that the District resolved deficiencies and meets the ACCJC Standards. The next report due to ACCJC is the Midterm Report and is due in Fall 2018.

State Economy

- The economic position of the District is closely tied to that of the State of California. The District receives over half of its general unrestricted funding through State apportionments, local property taxes, and student enrollment fees. These three sources comprise the District's general apportionment, the main funding support for California community colleges.
- On June 27, 2018, the Governor signed the 2018-2019 Budget, which included significant changes to the funding formula for all California Community Colleges. The previous formula relied solely on FTES to determine the funding for a district. The new funding formula, which is being called the Student Centered Funding Formula, shifts to a model that includes three factors: Base Funding, a Supplemental Allocation, and a Student Success Allocation. The formula will be phased in over three years with the Base Funding Portion going from 70 percent in fiscal year 2018-2019 to 60 percent in fiscal year 2020-2021, and the Success Allocation going from 10 percent in 2018-2019 to 20 percent in 2020-2021. The Supplemental Allocation will remain at 20 percent for all three years of the phase-in of this new formula.
 - The Base Funding factor continues to be based on the FTES generated by the district.
 - The Supplemental Allocation is calculated based on a count of the districts Pell Grant recipients, California College Promise Grant Recipients and AB 540 Students.
 - The Student Success Allocation is based on the number outcomes a district achieves in the following measures:
 - Associate degrees granted
 - Associate degrees for transfer granted
 - Baccalaureate degrees granted
 - Credit certificates (16 units or more)
 - Completion of transfer-level mathematics and English courses within first academic year of enrollment
 - Successful transfer to four-year university
 - Completion of nine or more CTE units
 - Attainment of a regional living wage

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- The District participates in the Public Employees Retirement System (CalPERS) and State Teachers Retirement System (CalSTRS). The District and the employee each pay a percentage of the employee's salary into one of these systems. The State of California has contributed to these systems as well. The rates that are paid are set by the CalPERS Board for CalPERS and by the State legislature for CalSTRS. Over the years, the employee rates for both systems have not changed, but the CalPERS Board has decreased or increased the employer rate as deemed necessary. At this time, both systems are underfunded in terms of their total liability. The CalPERS Board projected (subject to change) and the State legislature set (in law) rates that are projected to increase to just over 19 percent for CalSTRS and just under 26 percent for CalPERS by fiscal year 2023-2024. The increases are a significant cost obligation for schools and colleges.

Employer Rates	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
CalSTRS	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%	19.10%	19.10%	19.10%
CalPERS	11.85%	13.89%	15.80%	18.06%	20.80%	23.50%	24.60%	25.30%	25.80%

District Budget

- The District received stability funding during the 2017-2018 fiscal year. Stability funding allows for a hold harmless year in the first year of enrollment decline, which provided the District with apportionment funding based on the prior year enrollment levels.
- The District benefited significantly from the new Student Centered Funding Formula. Based on a simulator provided by the Chancellor's Office in August 2018, the District has included an increase to its Total Computational Revenue of \$9.1 million in the 2018-2019 budget.
- When State revenue budget estimates for property tax and student enrollment fees are not achieved, the shortfall is apportioned among all community college districts as a deficit factor to reduce allocated revenue. There was no deficit factor for the District in 2017-2018. No deficit factor was included in the District's 2018-2019 Adopted Budget.
- Due to uncertainty generated by the Student Centered Funding Formula, and ongoing negotiations with collective bargaining groups, the District's Adopted Budget set aside a total of \$7.1 million in an appropriation for contingencies (\$6.5 million in the Unrestricted General Fund, and \$636 thousand in the Restricted General Fund) to allow for salary increases, as well as to have a reserve set aside in the event that State revenues are lower than anticipated.
- The enacted 2017-2018 State budget provided funding for a 2.71 percent COLA. Through collective bargaining, the District has agreed to provide all employee groups with a seven percent increase in their base salaries effective July 1, 2018. This increase is projected to cost the District \$6.2 million in fiscal year 2018-2019.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Santa Barbara Community College District, 721 Cliff Drive, Santa Barbara, California 93109.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT JUNE 30, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 5,968,618
Investments	70,292,026
Accounts receivable	9,484,447
Student accounts receivable, net	2,342,359
Due from fiduciary funds	39,369
Prepaid expenses	2,594,025
Inventories	1,264,016
Total Current Assets	<u>91,984,860</u>

Noncurrent Assets

Nondepreciable capital assets	5,825,507
Depreciable capital assets, net of depreciation	147,660,457
Total Noncurrent Assets	<u>153,485,964</u>
TOTAL ASSETS	<u>245,470,824</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred charges on refunding	3,527,387
Deferred outflows of resources related to pensions	31,605,697
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>35,133,084</u>

LIABILITIES

Current Liabilities

Accounts payable	12,609,361
Accrued interest payable	1,165,198
Due to fiduciary funds	1,251,470
Unearned revenue	16,797,589
Current portion of long-term obligations other than pensions	4,806,875
Total Current Liabilities	<u>36,630,493</u>

Noncurrent Liabilities

Noncurrent portion of long-term obligations other than pensions	81,652,502
Aggregate net pension obligation	105,915,804
Total Noncurrent Liabilities	<u>187,568,306</u>
TOTAL LIABILITIES	<u>224,198,799</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pensions	13,354,347
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NET POSITION

Net investment in capital assets	84,698,923
Restricted for:	
Debt service	2,990,321
Capital projects	20,646,527
Educational programs	2,143,783
Unrestricted	(67,428,792)
TOTAL NET POSITION	<u>\$ 43,050,762</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2018**

OPERATING REVENUES	
Student Tuition and Fees	\$ 31,653,930
Less: Scholarship discount and allowance	(7,621,365)
Net tuition and fees	<u>24,032,565</u>
Grants and Contracts, Noncapital	
Federal	4,046,348
State	32,971,209
Local	1,900,770
Total grants and contracts, noncapital	<u>38,918,327</u>
Auxiliary Enterprise Sales and Charges	
Campus Store	4,807,626
Center for Lifelong Learning	1,228,146
Other Operating Revenues	193,510
TOTAL OPERATING REVENUES	<u>69,180,174</u>
OPERATING EXPENSES	
Salaries	73,662,537
Employee benefits	29,950,053
Supplies, materials, and other operating expenses and services	29,893,085
Equipment, maintenance, and repairs	3,680,091
Student financial aid	29,493,619
Depreciation	6,053,471
TOTAL OPERATING EXPENSES	<u>172,732,856</u>
OPERATING LOSS	<u>(103,552,682)</u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	24,769,464
Local property taxes, levied for general purposes	31,530,969
Taxes levied for other specific purposes	3,972,701
Federal financial aid grants, noncapital	25,686,950
State financial aid grants, noncapital	2,881,186
State taxes and other revenues	3,876,526
Investment income	762,112
Interest expense on capital related debt	(2,262,154)
Investment income on capital asset-related debt	43,213
Transfer from fiduciary funds	538,343
Transfer to fiduciary funds	(1,104)
Other nonoperating revenue	4,132,490
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>95,930,696</u>
LOSS BEFORE OTHER REVENUES	<u>(7,621,986)</u>
OTHER REVENUES	
State revenues, capital	757,430
Local revenues, capital	467,078
TOTAL OTHER REVENUES	<u>1,224,508</u>
CHANGE IN NET POSITION	(6,397,478)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	49,448,240
NET POSITION, END OF YEAR	<u>\$ 43,050,762</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 23,741,374
Grants and contracts, noncapital	42,202,916
Payments to vendors for supplies and services	(32,127,944)
Payments to or on behalf of employees	(100,001,727)
Payments to students for scholarships and grants	(29,493,619)
Auxiliary enterprise sales and charges	5,717,242
Net Cash Flows From Operating Activities	<u>(89,961,758)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	29,047,032
Federal and State financial aid grants	28,568,136
Property taxes	31,530,969
State taxes and other apportionments	4,654,635
Other nonoperating	5,678,182
Net Cash Flows From Noncapital Financing Activities	<u>99,478,954</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(9,273,187)
State revenue, capital projects	757,430
Local revenue, capital projects	467,078
Deferred charges on refunding	233,860
Property taxes - related to capital debt	3,972,701
Principal paid on capital debt	(5,431,061)
Interest paid on capital debt	(2,335,998)
Interest received on capital asset-related debt	43,213
Net Cash Flows From Capital Financing Activities	<u>(11,565,964)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	700,580
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NET CHANGE IN CASH AND CASH EQUIVALENTS

(1,348,188)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

77,608,832

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 76,260,644

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Loss	<u>\$ (103,552,682)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	6,053,471
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables, net	(69,520)
Inventories	(89,369)
Prepaid expenses	(136,360)
Deferred outflows of resources related to pensions	(8,761,461)
Accounts payable and accrued liabilities	1,473,803
Accrued interest payable	73,844
Unearned revenue	2,550,878
Compensated absences and teacher load units	230,419
Supplemental early retirement program	(840,426)
Aggregate net OPEB liability	430,207
Aggregate net pension obligation	5,625,020
Deferred inflows of resources related to pensions	<u>7,050,418</u>
Total Adjustments	<u>13,590,924</u>
Net Cash Flows From Operating Activities	<u><u>\$ (89,961,758)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash on hand and in banks	\$ 5,968,618
Cash with local agency investment fund	26,586
Cash with county treasury	<u>70,265,440</u>
Total Cash and Cash Equivalents	<u><u>\$ 76,260,644</u></u>

NONCASH TRANSACTIONS

California College Promise Grant (BOG waivers)	\$ 7,621,365
On behalf payments for benefits	<u>3,742,588</u>
	<u><u>\$ 11,363,953</u></u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	<u>Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,800
Investments	895,913
Accounts receivable	25,283
Due from primary government	<u>1,251,470</u>
Total Assets	<u>2,175,466</u>
LIABILITIES	
Accounts payable	38,925
Due to primary government	39,369
Unearned revenue	<u>36,674</u>
Total Liabilities	<u>114,968</u>
NET POSITION	
Unrestricted	<u>2,060,498</u>
Total Net Position	<u>\$ 2,060,498</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

	<u>Trust Funds</u>
ADDITIONS	
Local revenues	<u>\$ 2,577,697</u>
DEDUCTIONS	
Classified salaries	31,970
Books and supplies	587,669
Services and operating expenditures	465,575
Capital outlay	<u>1,440</u>
Total Deductions	<u>1,086,654</u>
OTHER FINANCING SOURCES (USES)	
Transfers from primary government	1,104
Transfers to primary government	(538,343)
Other uses	<u>(1,619,714)</u>
Total Other Financing Sources (Uses)	<u>(2,156,953)</u>
Change in Net Position	(665,910)
Net Position - Beginning of Year	<u>2,726,408</u>
Net Position - End of Year	<u>\$ 2,060,498</u>

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - ORGANIZATION

Santa Barbara Community College District (the District) was established in 1964 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two campuses/centers located within Santa Barbara County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the District.

The District has analyzed the financial and accountability relationship with the Foundation for Santa Barbara City College (the Foundation) in conjunction with the GASB Statement No. 61 criteria. The Foundation is a separate, not for profit organization, and the District does provide and receive direct benefits to and from the Foundation. However, it has been determined that all criteria under GASB Statement No. 61 have not been met to require inclusion of the Foundation's financial statements in the District's annual report. Information on the Foundation may be requested through the Foundation for the Santa Barbara City College office.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive government-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees, noncapital grants and contracts, and auxiliary activities through the Campus Store and cafeteria.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State financial aid grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State financial aid grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Position - Primary Government
 - Statement of Revenues, Expenses, and Changes in Net Position - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2018, are stated at fair value. Fair value is estimated based on quoted market prices at year end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair value of investments in County and State investment pools are determined by the program sponsor.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$1,016,863 for the year ended June 30, 2018.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Inventories

Inventories consist primarily of Campus Store merchandise and cafeteria food and supplies held for resale to the students and faculty of the colleges. Inventories are stated at cost, utilizing the lower of cost or market or first-in, first-out (FIFO) method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 50 years; portable buildings and building equipment, 15 years; land improvements, 10 years; equipment and vehicles, 8 years; technology equipment, 3 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the financial statements.

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Charges on Bond Refunding

Deferred charges on refunding is amortized using the straight-line method over the remaining life of the new or old debt, whichever is shorter.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the MPP's fiduciary net position have been determined on the same basis as they are reported by the MPP. For this purpose, the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. The current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year-end that have not yet been paid within the fund from which the employees who have accumulated the leave are paid. The District also participates in "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period. The liability for this benefit is reported on the government-wide financial statements.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Unearned Revenue

Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Noncurrent Liabilities

Noncurrent liabilities include bonds and loans payable, compensated absences, teacher load units, supplemental early retirement plan, aggregate net OPEB liability, and the aggregate net pension obligation with maturities greater than one year.

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" and represent the difference between assets and liabilities. The net position is classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets.

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The government-wide financial statements report \$25,780,631 of restricted net position.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances, Federal, State, and local grants and contracts, and sales and services of auxiliary enterprises.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Barbara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in 2008 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected as noted above and remitted to the District when collected.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG) Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Early implementation is encouraged. The requirements of this Statement should be applied prospectively.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in Santa Barbara County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with the Santa Barbara County Treasurer (County Pool) (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the County Pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in LAIF is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments of the District as of June 30, 2018, consist of the following:

Primary Government	\$ 76,260,644
Fiduciary Funds	898,713
Total Deposits and Investments	<u>\$ 77,159,357</u>
Cash on hand and in banks	\$ 5,949,665
Cash in revolving	21,753
Investments	71,187,939
Total Deposits and Investments	<u>\$ 77,159,357</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Santa Barbara County Investment Pool and LAIF.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Weighted Average Days to Maturity</u>
Santa Barbara County Investment Pool	\$71,161,353	\$70,676,770	448
LAIF	26,586	26,586	193
Total	<u>\$ 71,187,939</u>	<u>\$ 70,703,356</u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Santa Barbara County Investment Pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2018.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance of \$5,469,382 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Santa Barbara County Investment Pool and Local Agency Investment Funds are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Santa Barbara County Investment Pool	\$ 70,676,770	\$ 70,676,770
LAIF	26,586	26,586
Total	<u>\$ 70,703,356</u>	<u>\$ 70,703,356</u>

All assets have been valued using a market approach, with quoted market prices.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	<u>Primary Government</u>
Federal Government	
Categorical aid	\$ 776,845
State Government	
Categorical aid	4,058,022
Lottery	617,304
Local Sources	
Interest	232,912
Other local sources	3,799,364
Total	<u>\$ 9,484,447</u>
Student receivables	\$ 3,359,222
Less allowance for bad debt	<u>(1,016,863)</u>
Student receivables, net	<u>\$ 2,342,359</u>
	<u>Fiduciary Funds</u>
Local Sources	
Other local sources	<u>\$ 25,283</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Not Being Depreciated				
Land	\$ 5,336,616	\$ -	\$ -	\$ 5,336,616
Construction in progress	17,416,039	182,129	17,109,277	488,891
Total Capital Assets Not Being Depreciated	<u>22,752,655</u>	<u>182,129</u>	<u>17,109,277</u>	<u>5,825,507</u>
Capital Assets Being Depreciated				
Buildings	189,165,802	22,824,866	-	211,990,668
Leasehold improvements	657,403	-	-	657,403
Equipment	14,663,327	548,037	101,150	15,110,214
Total Capital Assets Being Depreciated	<u>204,486,532</u>	<u>23,372,903</u>	<u>101,150</u>	<u>227,758,285</u>
Total Capital Assets	<u>227,239,187</u>	<u>23,555,032</u>	<u>17,210,427</u>	<u>233,583,792</u>
Less Accumulated Depreciation				
Buildings	61,898,242	5,179,717	-	67,077,959
Leasehold improvements	509,485	32,870	-	542,355
Equipment	11,737,780	840,884	101,150	12,477,514
Total Accumulated Depreciation	<u>74,145,507</u>	<u>6,053,471</u>	<u>101,150</u>	<u>80,097,828</u>
Net Capital Assets	<u>\$ 153,093,680</u>	<u>\$ 17,501,561</u>	<u>\$ 17,109,277</u>	<u>\$ 153,485,964</u>

Depreciation expense for the year was \$6,053,471.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	<u>Primary Government</u>
Accrued payroll	\$ 6,912,654
Construction payables	590,097
Other vendor payables	<u>5,106,610</u>
Total	<u>\$ 12,609,361</u>
	 <u>Fiduciary Funds</u>
Other vendor payables	<u>\$ 38,925</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	<u>Primary Government</u>
Federal financial assistance	\$ 30,628
State categorical aid	7,774,080
Enrollment fees	6,727,466
SBCC Foundation	1,098,095
Other local	<u>1,167,320</u>
Total	<u>\$ 16,797,589</u>
	 <u>Fiduciary Funds</u>
Other local	<u>\$ 36,674</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 9 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the primary government and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2018, the amounts owed between the primary government and the fiduciary funds were \$39,369 and \$1,251,470, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2018 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to \$538,343. The amount transferred to the fiduciary funds from the primary government amounted to \$1,104.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2018 fiscal year consisted of the following:

	(as restated)			Balance June 30, 2018	Due in One Year
	Balance July 1, 2017	Additions	Adjustments/ Deductions		
Bonds and Loans Payable					
General obligation bonds, 2008 Series A	\$ 2,005,000	\$ -	\$ 925,000	\$ 1,080,000	\$ 1,080,000
General obligation bonds, 2008 Series B	11,950,000	-	380,000	11,570,000	380,000
General obligation bonds, 2008 Series C	15,240,000	-	3,040,000	12,200,000	585,000
General obligation bonds, 2016 Refunding Bonds	36,080,000	-	-	36,080,000	-
Unamortized bond premium	10,782,667	-	783,475	9,999,192	-
Loans payable	1,687,822	-	302,586	1,385,236	298,174
Total Bonds and Loans Payable	77,745,489	-	5,431,061	72,314,428	2,343,174
Other Liabilities					
Compensated absences	1,798,338	183,374	-	1,981,712	1,337,825
Teacher load units	1,359,787	47,045	-	1,406,832	285,050
Supplemental early retirement plan (SERP)	4,126,729	-	840,426	3,286,303	840,826
Aggregate net other postemployment benefits (OPEB) liability	7,039,895	815,412	385,205	7,470,102	-
Aggregate net pension obligation	100,290,784	5,625,020	-	105,915,804	-
Total Other Liabilities	114,615,533	6,670,851	1,225,631	120,060,753	2,463,701
Total Long-Term Obligations	\$ 192,361,022	\$ 6,670,851	\$ 6,656,692	\$ 192,375,181	\$ 4,806,875

Description of Debt

Payments on the loans payable are paid by the Construction Fund. Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The accrued compensated absences, teacher load units, and the supplemental early retirement plan will be paid by the fund for which the employee worked. Pension expense related to the aggregate net pension obligation will be paid by the fund for which the employee worked. OPEB payments are paid by the General Fund.

General obligation bonds were approved by a local election in June 2008. The total amount approved by the voters was \$77,242,012. At June 30, 2018, \$77,240,000 had been issued, and \$60,930,000 was outstanding. Interest rates on the bonds are 1.25 to 5.75 percent.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Bonded Debt

2008 General Obligation Bonds, Series A

During November 2008, the District issued the 2008 General Obligation Bonds, Series 2008A in the amount of \$47,000,000. The bonds mature beginning on August 1, 2015 through August 1, 2018, with interest yields ranging from 3.50 to 5.75 percent. At June 30, 2018, the principal outstanding was \$1,080,000 and unamortized premium cost of \$14,216. Premium costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds are being used for the purposes of financing the costs of renovating, acquiring, construction, repairing, and equipping District buildings and to pay all legal, financial, and contingent costs in connection with the issuance of the bonds. The bonds are general obligations of the District payable solely from the proceeds of ad valorem property taxes. Interest with respect of the bonds accrues from the date of their delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2009.

2008 General Obligation Bonds, Series B

During April 2013, the District issued the 2008 General Obligation Bonds, Series 2008B in the amount of \$15,000,000. The bonds mature beginning on August 1, 2009 through August 1, 2038, with interest yields ranging from 1.25 to 5.00 percent. At June 30, 2018, the principal outstanding was \$11,570,000 and unamortized premium cost of \$1,020,406. Premium costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds are being used for the purposes of financing the costs of renovating, acquiring, construction, repairing, and equipping District buildings and to pay all legal, financial, and contingent costs in connection with the issuance of the bonds. The bonds are general obligations of the District payable solely from the proceeds of ad valorem property taxes. Interest with respect of the bonds accrues from the date of their delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2014.

2008 General Obligation Bonds, Series C

During January 2016, the District issued the 2008 General Obligation Bonds, Series 2008C in the amount of \$15,240,000. The bonds mature beginning on August 1, 2017 through August 1, 2040, with interest yields ranging from 3.15 to 5.00 percent. At June 30, 2018, the principal outstanding was \$12,200,000 and unamortized premium cost of \$1,535,448. Premium costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds are being used for the purposes of financing the costs of renovating, acquiring, construction, repairing, and equipping District buildings and to pay all legal, financial, and contingent costs in connection with the issuance of the bonds. The bonds are general obligations of the District payable solely from the proceeds of ad valorem property taxes. Interest with respect of the bonds accrues from the date of their delivery and is payable semiannually on February 1 and August 1 of each year, commencing August 1, 2016.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2016 General Obligation Refunding Bonds

During January 2016, the District issued the 2016 General Obligation Refunding Bonds in the amount of \$36,275,000. Amounts paid to the refunded bond escrow agent in excess of outstanding debt at the time of payment are recorded as deferred charges on refunding on the Statement of Net Position and are amortized to interest expense over the life of the liability. The refunding resulted in an economic gain of \$7,145,343 based on the difference between the present value of the existing debt service requirements and the new debt service requirements discounted at 2.197 percent.

The bonds have a final maturity to occur on August 1, 2033, with interest rates from 3.00 to 5.00 percent. The net proceeds of \$44,935,468 (representing the principal amount of \$36,275,000 plus premium on issuance of \$8,660,468) from the issuance were used to advance refund a portion of the District's outstanding 2008 General Obligation Bonds, Series 2008A and pay the costs associated with the issuance of the refunding bonds. At June 30, 2018, the principal balance outstanding was \$36,080,000. Unamortized premium received on issuance of the bonds amounted to \$7,429,122 as of June 30, 2018. The issuance resulted in the recognition of deferred charges on refunding of \$4,112,037, with a remaining unamortized balance of \$3,527,387 as of June 30, 2018.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds
				Outstanding July 1, 2017	Redeemed	Outstanding June 30, 2018
11/18/2008	8/1/2018	3.50%-5.75%	\$ 47,000,000	\$ 2,005,000	\$ 925,000	\$ 1,080,000
4/18/2013	8/1/2038	1.25%-5.00%	15,000,000	11,950,000	380,000	11,570,000
1/12/2016	8/1/2040	3.15%-5.00%	15,240,000	15,240,000	3,040,000	12,200,000
1/12/2016	8/1/2033	3.00%-5.00%	36,275,000	36,080,000	-	36,080,000
				<u>\$ 65,275,000</u>	<u>\$ 4,345,000</u>	<u>\$ 60,930,000</u>

Debt Maturity

The General Obligation Bonds, Series 2008A mature through 2019 as follows:

Fiscal Year	Current Interest to		Total
	Principal	Maturity	
2019	<u>\$ 1,080,000</u>	<u>\$ 31,050</u>	<u>\$ 1,111,050</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The General Obligation Bonds, Series 2008B mature through 2039 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 380,000	\$ 462,350	\$ 842,350
2020	380,000	451,900	831,900
2021	395,000	436,400	831,400
2022	410,000	420,300	830,300
2023	430,000	403,500	833,500
2024-2028	2,410,000	1,743,500	4,153,500
2029-2033	2,885,000	1,271,750	4,156,750
2034-2038	3,480,000	645,150	4,125,150
2037-2039	800,000	20,000	820,000
Total	<u>\$ 11,570,000</u>	<u>\$ 5,854,850</u>	<u>\$ 17,424,850</u>

The General Obligation Bonds, Series 2008C mature through 2041 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 585,000	\$ 514,650	\$ 1,099,650
2020	450,000	493,950	943,950
2021	-	484,950	484,950
2022	-	484,950	484,950
2023	-	484,950	484,950
2024-2028	-	2,424,750	2,424,750
2029-2033	-	2,424,750	2,424,750
2034-2038	5,360,000	1,926,875	7,286,875
2039-2041	5,805,000	368,300	6,173,300
Total	<u>\$ 12,200,000</u>	<u>\$ 9,608,125</u>	<u>\$ 21,808,125</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The 2016 Refunding General Obligation Bonds mature through 2034 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ -	\$ 1,740,200	\$ 1,740,200
2020	1,070,000	1,718,800	2,788,800
2021	1,265,000	1,665,775	2,930,775
2022	1,480,000	1,597,150	3,077,150
2023	1,650,000	1,527,150	3,177,150
2024-2028	11,225,000	6,176,125	17,401,125
2029-2033	15,730,000	2,777,000	18,507,000
2034	3,660,000	73,200	3,733,200
Total	<u>\$ 36,080,000</u>	<u>\$ 17,275,400</u>	<u>\$ 53,355,400</u>

Loans Payable

On June 21, 2007, the District signed a Promissory Note and Loan Agreement for \$1,950,000 with the State of California, Energy Resources Conservation and Development Commission (the Commission), in order to finance energy efficiency projects. The principal and interest at 3.95 percent per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2012. Loan funds are disbursed to the District on a reimbursement basis based on invoices submitted by the District which totaled \$1,950,000. At June 30, 2018, the outstanding principal balance on the loan payable was \$1,013,853.

At June 30, 2018, future minimum payments were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 153,293	\$ 38,553	\$ 191,846
2020	159,323	32,523	191,846
2021	172,376	26,083	198,459
2022	165,763	19,471	185,234
2023	179,252	12,595	191,847
2024	183,846	5,454	189,300
Total	<u>\$ 1,013,853</u>	<u>\$ 134,679</u>	<u>\$ 1,148,532</u>

In February 2013, the District signed a Promissory Note and Loan Agreement for \$750,000 with the Commission in order to finance energy efficiency projects. The District received the loan disbursement in October 2013. The principal and interest at 1.00 percent per annum on the unpaid principal is due and payable in semiannual installments beginning on December 22, 2013. At June 30, 2018, the outstanding principal balance on the loan payable was \$315,508.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

At June 30, 2018, future minimum payments were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2019	\$ 89,006	\$ 2,934	\$ 91,940
2020	89,893	2,046	91,939
2021	90,799	1,140	91,939
2022	45,810	231	46,041
Total	<u>\$ 315,508</u>	<u>\$ 6,351</u>	<u>\$ 321,859</u>

In December 2013, the District signed a Promissory Note and Loan Agreement for \$333,114 with Southern California Edison in order to finance energy efficiency projects. The District received the loan disbursement in March 2014. Payments on the unpaid principal are due and payable in monthly installments beginning on April 29, 2014. There is no interest charged on this loan. At June 30, 2018, the outstanding principal balance on the loan payable was \$55,875.

At June 30, 2018, future minimum payments were as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2019	<u>\$ 55,875</u>

Compensated Absences

At June 30, 2018, the liability for compensated absences was \$1,981,712.

Teacher Load Units

At June 30, 2018, the liability for teacher load units was \$1,406,832.

Supplemental Employee Retirement Plan (SERP)

The District entered into two agreements with Keenan & Associates to provide early retirement incentives for qualifying employees. Each SERP is payable by the District over a five-year period. As of June 30, 2018, the outstanding balance was \$3,286,303.

<u>Year Ending June 30,</u>	
2019	\$ 840,426
2020	840,426
2021	840,426
2022	765,025
Total	<u>\$ 3,286,303</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Aggregate Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported aggregate net OPEB liability and OPEB expense for the following plans:

<u>OPEB Plan</u>	<u>Aggregate Net OPEB Liability</u>	<u>OPEB Expense</u>
District Plan	\$ 6,952,485	\$ 548,594
Medicare Premium Payment (MPP) Program	517,617	(118,387)
Total	<u>\$ 7,470,102</u>	<u>\$ 430,207</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

Management of the Plan is vested in the District management.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	23
Active employees	<u>482</u>
	<u>505</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District's governing board. For fiscal year 2017-2018, the District contributed \$266,818 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$6,952,485 was measured as of June 30, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent
Investment rate of return	3.80 percent
Healthcare cost trend rates	4.00 percent

The discount rate was based on the Bond Buyer 20-Bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study as of July 2018.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 6,403,891
Service cost	566,663
Interest	248,749
Benefit payments	<u>(266,818)</u>
Net change in total OPEB liability	<u>548,594</u>
Balance at June 30, 2018	<u><u>\$ 6,952,485</u></u>

There were no changes in benefit terms since the previous valuation.

Changes of assumptions and other inputs reflect a change in the discount rate from 4.50 percent to 3.80 percent since the previous valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (2.80%)	\$ 7,477,694
Current discount rate (3.80%)	6,952,485
1% increase (4.80%)	6,479,072

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using health care cost trend rates that are one percent lower or higher than the current health care costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB Liability</u>
1% decrease (3.00%)	\$ 6,566,041
Current healthcare cost trend rate (4.00%)	6,952,485
1% increase (5.00%)	7,316,841

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District contributions. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities and OPEB Expense Related to the OPEB

At June 30, 2018, the District reported a liability of \$517,617 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating community college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1230 percent and 0.1359, respectively, resulting in a net decrease in the proportionate share of 0.0129 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(118,387).

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 2, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 573,038
Current discount rate (3.58%)	517,617
1% increase (4.58%)	463,708

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 467,746
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	517,617
1% increase (4.7% Part A and 5.1% Part B)	566,990

Aggregate Net Pension Obligation

At June 30, 2018, the liability for the aggregate net pension obligation amounted to \$105,915,804. See Note 11 for additional information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

For the fiscal year ended June 30, 2018, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 62,848,497	\$ 18,897,898	\$ 10,604,417	\$ 5,683,106
CalPERS	43,067,307	12,707,799	2,749,930	7,004,463
Total	<u>\$ 105,915,804</u>	<u>\$ 31,605,697</u>	<u>\$ 13,354,347</u>	<u>\$ 12,687,569</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the District's total contributions were \$5,389,209.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 62,848,497
State's proportionate share of net pension liability associated with the District	37,180,640
Total	<u>\$ 100,029,137</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.0680 percent and 0.0764 percent, respectively, resulting in a net decrease in the proportionate share of 0.0084 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,683,106. In addition, the District recognized pension expense and revenue of \$3,742,588 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,389,209	\$ -
Net change in proportionate share of net pension liability	1,632,851	7,834,407
Differences between projected and actual earnings on the pension plan investments	-	1,673,831
Differences between expected and actual experience in the measurement of the total pension liability	232,420	1,096,179
Changes of assumptions	11,643,418	-
Total	<u>\$ 18,897,898</u>	<u>\$ 10,604,417</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

The deferred outflows/(inflows) of resources related to the difference between projected and actual earning on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,391,517)
2020	1,052,968
2021	151,832
2022	(1,487,114)
Total	<u>\$ (1,673,831)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	Deferred Outflows/(Inflows) of Resources
2019	\$ 760,453
2020	760,453
2021	760,453
2022	760,451
2023	479,661
Thereafter	1,056,632
Total	<u>\$ 4,578,103</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 92,281,547
Current discount rate (7.10%)	62,848,497
1% increase (8.10%)	38,961,583

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above, and the total District contributions were \$3,384,383.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$43,067,307. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2017 and June 30, 2016, was 0.1804 percent and 0.1949 percent, respectively, resulting in a net decrease in the proportionate share of 0.0145 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$7,004,463. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,384,383	\$ -
Net change in proportionate share of net pension liability	-	2,242,866
Differences between projected and actual earnings on the pension plan investments	1,489,834	-
Differences between expected and actual experience in the measurement of the total pension liability	1,542,924	-
Changes of assumptions	6,290,658	507,064
Total	<u>\$ 12,707,799</u>	<u>\$ 2,749,930</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (40,369)
2020	1,718,946
2021	627,090
2022	(815,833)
Total	<u>\$ 1,489,834</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, changes of assumptions be amortized over the EARSL of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 1,579,343
2020	1,877,626
2021	1,626,683
Total	<u>\$ 5,083,652</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 63,365,809
Current discount rate (7.15%)	43,067,307
1% increase (8.15%)	26,227,999

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2018, which amounted to \$3,742,588 (9.328 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of operating revenue and employee benefit expense.

NOTE 12 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

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

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

The relationship between the District and ASCIP is such that ASCIP is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statements No. 39 and No. 61.

Southern California Community College Districts Joint Powers Authority (SCCCD)

The District participates in an additional banking JPA for workers' compensation self-insurance coverage through the Southern California Community College Districts Joint Powers Authority (SCCCD). SCCCDD provides workers' compensation coverage and a reserve to be used toward funding long-term retiree health insurance liabilities for its six member districts. Payments transferred to funds maintained under the JPA are expensed when made. Based upon an actuarial study, District administrators are of the opinion that the procedures for accumulating and maintaining reserves are sufficient to cover future contingencies under potential workers' compensation claims; however, the reserve for retiree health insurance is not yet sufficient to cover future potential payments.

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

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The relationship between the District and the SCCCDC is such that the SCCCDC is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statements No. 39 and No. 61.

Schools Excess Liability Fund (SELF)

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

The relationship between the District and SELF is such that SELF is not a component unit of the District for financial reporting purposes under the criteria of GASB Statement No. 14, amended by GASB Statements No. 39 and No. 61.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

<u>Primary Government</u>	
Net Position - Beginning	\$ 53,007,888
Inclusion of aggregate net OPEB liability from the adoption of GASB Statement No. 75	<u>(3,559,648)</u>
Net Position - Beginning, as Restated	<u>\$ 49,448,240</u>

REQUIRED SUPPLEMENTARY INFORMATION

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 566,663
Interest	248,749
Benefit payments	<u>(266,818)</u>
Net changes in total OPEB liability	548,594
Total OPEB Liability - beginning	<u>6,403,891</u>
Total OPEB Liability - ending	<u><u>\$ 6,952,485</u></u>
Covered payroll	<u>N/A¹</u>
District's total OPEB liability as a percentage of covered payroll	<u>N/A¹</u>

¹ In The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Year ended June 30,	
District's proportion of the net OPEB liability	<u>0.1230%</u>
District's proportionate share of the net OPEB liability	<u>\$ 517,617</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
District's proportion of the net pension liability	<u>0.0680%</u>	<u>0.0764%</u>
District's proportionate share of the net pension liability	\$ 62,848,497	\$ 61,801,366
State's proportionate share of the net pension liability associated with the District	<u>37,180,640</u>	<u>35,182,415</u>
Total	<u>\$ 100,029,137</u>	<u>\$ 96,983,781</u>
District's covered-employee payroll	<u>\$ 38,566,280</u>	<u>\$ 39,287,661</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>162.96%</u>	<u>157.30%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>69%</u>	<u>70%</u>
CalPERS		
District's proportion of the net pension liability	<u>0.1804%</u>	<u>0.1949%</u>
District's proportionate share of the net pension liability	<u>\$ 43,067,307</u>	<u>\$ 38,489,418</u>
District's covered-employee payroll	<u>\$ 22,024,726</u>	<u>\$ 23,383,017</u>
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	<u>195.54%</u>	<u>164.60%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>72%</u>	<u>74%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0808%</u>	<u>0.0798%</u>
\$ 54,372,346	\$ 46,749,600
<u>28,756,977</u>	<u>28,161,175</u>
<u>\$ 83,129,323</u>	<u>\$ 74,910,775</u>
<u>\$ 37,716,059</u>	<u>\$ 35,546,073</u>
<u>144.16%</u>	<u>131.52%</u>
<u>74%</u>	<u>77%</u>
<u>0.1976%</u>	<u>0.2053%</u>
\$ 29,127,988	\$ 23,306,549
\$ 21,319,599	\$ 21,497,297
<u>136.63%</u>	<u>108.42%</u>
<u>79%</u>	<u>83%</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
CalSTRS		
Contractually required contribution	\$ 5,389,209	\$ 4,851,638
Contributions in relation to the contractually required contribution	<u>5,389,209</u>	<u>4,851,638</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 37,347,256</u>	<u>\$ 38,566,280</u>
Contributions as a percentage of covered-employee payroll	<u>14.43%</u>	<u>12.58%</u>
CalPERS		
Contractually required contribution	\$ 3,384,383	\$ 3,058,794
Contributions in relation to the contractually required contribution	<u>3,384,383</u>	<u>3,058,794</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 21,791,147</u>	<u>\$ 22,024,726</u>
Contributions as a percentage of covered-employee payroll	<u>15.531%</u>	<u>13.888%</u>

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

2016	2015
\$ 4,215,566	\$ 3,349,186
<u>4,215,566</u>	<u>3,349,186</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 39,287,661	\$ 37,716,059
<u>10.73%</u>	<u>8.88%</u>
\$ 2,770,186	\$ 2,509,530
<u>2,770,186</u>	<u>2,509,530</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 23,383,017	\$ 21,319,599
<u>11.847%</u>	<u>11.771%</u>

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, the Plan's fiduciary net position, and the total OPEB liability. As of June 30, 2018, the District had no assets accumulated in a trust that meets the criteria outlined in paragraph 4 of GASB Statement No. 75 to related OPEB benefits. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - Changes of assumptions and other inputs reflect a change in the discount rate from 4.50 percent to 3.80 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB liability - MPP program and the Plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions - The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the Plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions for Pensions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2018

Santa Barbara Community College District was established in 1964. There were no changes in the boundaries of the District during the current year. The District's college is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Veronica Gallardo	President	2020
Mr. Jonathan Abboud	Vice-President	2018
Mr. Craig Nielsen	Member	2020
Ms. Marty Blum	Member	2018
Ms. Marsha S. Croninger	Member	2018
Dr. Peter O. Haslund	Member	2018
Mr. Robert K. Miller	Member	2018

ADMINISTRATION

Dr. Anthony Beebe	Superintendent/President
Dr. Pamela Ralston	Interim Executive Vice-President, Educational Programs
Ms. Lyndsay Maas	Vice-President, Business Services
Dr. Monalisa Hasson	Vice-President, Human Resources
Dr. Paul Bishop	Vice-President, Information Technology

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		\$ 15,181,269	\$ -
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007		282,960	-
Federal Direct Student Loans	84.268		10,190,955	-
Federal Work-Study Program	84.033		448,408	-
Federal Work-Study Program Allowance	84.033		15,223	-
Total Student Financial Assistance Cluster			26,118,815	-
HIGHER EDUCATION ACT				
Title III - STEM	84.031C		1,520,214	-
Title V - Hispanic Serving Institutions	84.031S		727,278	157,485
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)				
Passed through from California Department of Education (CDE)				
Adult Basic Education & ELA	84.002A	14508	157,351	-
Adult Secondary Education	84.002A	13978	10,408	-
English Literacy & Civics Education - Local Grant	84.002A	14109	24,150	-
English Literacy & Civics Education	84.002A	14750	30,000	-
CAREER AND TECHNICAL EDUCATION (CTE) ACT				
Passed through from California Community Colleges Chancellor's Office (CCCCO)				
CTE Transitions	84.048A	17-C01-053	41,592	-
Career and Technical Education Act, Perkins Title I, Part C	84.048A	17-C01-053	700,491	-
Perkins Title I, Part B Regional Consortium	84.048	17-150-005	220,000	-
Total U.S. Department of Education			29,550,299	157,485
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES				
Passed through from California Community Colleges Chancellor's Office (CCCCO)				
Temporary Assistance to Needy Families (TANF)	93.558	[1]	36,636	-
Foster and Kinship Care Education Program	93.658	[1]	58,126	-
Total U.S. Department of Health and Human Services			94,762	-
U.S. DEPARTMENT OF AGRICULTURE				
Passed through from California Department of Education (CDE)				
Child and Adult Care Food Program	10.558	04381-CACFP- 42-CC-IC	21,642	-
NATIONAL SCIENCE FOUNDATION				
Passed through The Regents of the University of California, Santa Barbara				
ESTEEM Enhancing Success in Transfer Education for Engineering Majors*	47.076	KK1729	33,445	-
U.S. DEPARTMENT OF VETERANS AFFAIRS				
Post-9/11 Veterans Educational Assistance	64.028		1,384	-
Total Expenditures of Federal Awards			\$ 29,701,532	\$ 157,485

[1] Pass-Through Entity Identifying Number not available.

* Research and Development Program.

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Program	Program Revenues				Program Expenditures
	Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	
Adult Basic ED ESL Grant	\$ 691,110	\$ -	\$ 362,902	\$ 328,208	\$ 328,208
Veterans Resource Center	27,540	-	27,540	-	-
IEPI - Institutional Effectiveness	200,000	-	-	200,000	200,000
Guided Pathways	342,650	-	303,278	39,372	39,372
Student Success Equity	1,231,021	-	496,751	734,270	734,270
BFAP Board Financial Assistance	510,037	-	-	510,037	510,037
Basic Skills and Student Outcomes	306,751	84,818	-	391,569	391,569
AEBG Data and Accountability	123,711	-	107,201	16,510	16,510
Strong Workforce- Local SBCC Yr 2	5,563,215	-	4,363,620	1,199,595	1,199,595
Hunger Free Campus Support	33,290	-	29,114	4,176	4,176
Textbook Affordability Program	37,593	-	31,389	6,204	6,204
Cal Works	180,530	-	-	180,530	180,530
CARE	110,840	-	-	110,840	110,840
Child Development Training	4,500	-	-	4,500	4,500
Regional Data Unlock Sub Award	30,336	-	9,757	20,579	20,579
DSN Global Trade and Logistics Augmentation	50,449	-	-	50,449	50,449
Disabled Students Programs	1,482,801	-	-	1,482,801	1,482,801
CSEC Foster and Kinship Care Program	4,800	11,950	-	16,750	16,750
Enrollment Growth ADN Programs	57,040	85,560	-	142,600	142,600
Extended Opportunity Program and Services	1,318,549	-	-	1,318,549	1,318,549
ADN Assessment Remediation	31,920	47,880	-	79,800	79,800
HIT Regional - College of the Canyons	13,121	-	-	13,121	13,121
Financial Aid Media Campaign (even year)	1,578,407	-	-	1,578,407	1,577,223
Financial Aid Media Campaign (odd year)	-	3,607,384	-	3,607,384	3,607,384
Foster and Kinship Care Education Program	71,756	-	-	71,756	71,756
DSN - Global Trade and Logistics	-	199,910	-	199,910	199,910
AEBG Adult Education Block Grant	37,794	-	-	37,794	37,794
AB 86 Adult Ed Consortium Planning	740,860	-	275,430	465,430	465,430
Strong Workforce - Local SBCC	653,974	-	329,063	324,911	324,911
Strong Workforce - SBCC Regional	493,914	-	298,423	195,491	195,491
Strong Workforce Regional Consortium	2,178,454	-	-	2,178,454	2,178,454
Student Success Equity	497,406	-	-	497,406	497,406
AEBG - Adult Ed Block Grant	773,016	-	735,964	37,052	37,052
MESA Program (odd year)	29,806	20,379	-	50,185	50,185
MESA Program (even year)	33,792	-	-	33,792	33,792
Credit Student Success (odd year)	2,216,548	-	368,598	1,847,950	1,847,950
Credit Student Success (even year)	888,068	-	-	888,068	888,068
Non-Credit Matriculation SSSP	118,651	-	2,923	115,728	115,728
Staff Diversity	50,679	-	32,127	18,552	18,552
California State Preschool Program	91,323	-	-	91,323	91,323
Child Development Program	122,245	141	-	122,386	122,386
Child and Adult Care Food Program	1,125	-	-	1,125	1,125
CAL GRANT	1,650,956	-	-	1,650,956	1,650,956
Cal Grant B - FT Student Success	815,000	-	-	815,000	815,000
CC Completion Grant	352,500	-	-	352,500	178,125
Nonresident Dreamer Grant	64,648	-	-	64,648	63,000
Total State Program Expenditures	\$ 25,812,726	\$ 4,058,022	\$ 7,774,080	\$ 22,096,668	\$ 21,919,461

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2018**

CATEGORIES	<u>*Revised Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession (Summer 2017 only)			
1. Noncredit	50.64	-	50.64
2. Credit	663.27	-	663.27
B. Summer Intersession (Summer 2018 - Prior to July 1, 2018)			
1. Noncredit	-	-	-
2. Credit	3.89	-	3.89
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	6,835.84	-	6,835.84
(b) Daily Census Contact Hours	549.29	-	549.29
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	734.05	-	734.05
(b) Credit	1,031.54	-	1,031.54
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,882.62	-	1,882.62
(b) Daily Census Contact Hours	694.37	-	694.37
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	<u>12,445.51</u>	<u>-</u>	<u>12,445.51</u>
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	346.71	-	346.71
2. Credit	745.10	-	745.10
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	489.98	-	489.98
Centers FTES			
1. Noncredit**	781.68	-	781.68
2. Credit	832.58	-	832.58

* Annual report revised as of October 22, 2018.

** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2018**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 18,613,258	\$ -	\$ 18,613,258	\$ 18,722,070	\$ -	\$ 18,722,070
Other	1300	15,606,036	-	15,606,036	15,662,964	-	15,662,964
Total Instructional Salaries		34,219,294	-	34,219,294	34,385,034	-	34,385,034
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	4,775,012	-	4,775,012
Other	1400	-	-	-	1,257,708	-	1,257,708
Total Noninstructional Salaries		-	-	-	6,032,720	-	6,032,720
Total Academic Salaries		34,219,294	-	34,219,294	40,417,754	-	40,417,754
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	15,058,333	-	15,058,333
Other	2300	-	-	-	863,221	-	863,221
Total Noninstructional Salaries		-	-	-	15,921,554	-	15,921,554
Instructional Aides							
Regular Status	2200	1,923,031	-	1,923,031	1,923,573	-	1,923,573
Other	2400	1,185,397	-	1,185,397	1,190,448	-	1,190,448
Total Instructional Aides		3,108,428	-	3,108,428	3,114,021	-	3,114,021
Total Classified Salaries		3,108,428	-	3,108,428	19,035,575	-	19,035,575
Employee Benefits	3000	10,324,556	-	10,324,556	18,806,847	-	18,806,847
Supplies and Material	4000	-	-	-	1,442,660	-	1,442,660
Other Operating Expenses	5000	-	-	-	9,631,037	-	9,631,037
Equipment Replacement	6420	-	-	-	49,669	-	49,669
Total Expenditures Prior to Exclusions		47,652,278	-	47,652,278	89,383,542	-	89,383,542

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 44,224	\$ -	\$ 44,224	\$ 44,224	\$ -	\$ 44,224
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	159,935	-	159,935
Objects to Exclude							
Rents and Leases	5060	-	-	-	346,358	-	346,358
Lottery Expenditures							
Academic Salaries	1000	979,803	-	979,803	1,590,172	-	1,590,172
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	313,537	-	313,537	508,855	-	508,855
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF EDUCATION CODE SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2018**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Outlay	6000						
Library Books	6300	-	-	-	8,879	-	8,879
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	84,389	-	84,389
Equipment - Replacement	6420	-	-	-	49,669	-	49,669
Total Equipment		-	-	-	134,058	-	134,058
Total Capital Outlay					142,937		142,937
Other Outgo	7000	-	-	-	9,600	-	9,600
Total Exclusions		1,337,564	-	1,337,564	2,802,081	-	2,802,081
Total for ECS 84362, 50 Percent Law		\$46,314,714	\$ -	\$46,314,714	\$86,581,461	\$ -	\$86,581,461
Percent of CEE (Instructional Salary Cost/Total CEE)		53.49%		53.49%	100.00%		100.00%
50% of Current Expense of Education					\$43,290,731		\$43,290,731

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACCOUNT (EPA)
EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				\$ 9,597,230
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 9,597,230	\$ -	\$ -	\$ 9,597,230
Total Expenditures for EPA		\$ 9,597,230	\$ -	\$ -	\$ 9,597,230
Revenues Less Expenditures					\$ -

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018**

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance:

General Funds:		
General Fund - Unrestricted	\$ 29,926,458	
General Fund - Restricted	2,143,783	
Debt Service Funds:		
Bond Interest and Redemption	4,155,519	
Special Revenue Funds:		
Food Services	132,542	
Child Development	17,024	
Capital Project Funds:		
Equipment and Construction	20,646,527	
Enterprise Funds:		
Campus Store	6,829,911	
Internal Service Funds:		
Self Insurance	366,699	
Other Internal Service	44,847	
Fiduciary Funds:		
Associated Student Body	55,289	
Student Representation Fee Trust	157,172	
Student Financial Aid	428,765	
Scholarship and Loan Trust	71,042	
Other Trust	1,710,351	
Student Clubs	66,644	
	Total Fund Balance - All District Funds	\$ 66,752,573

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	233,583,792	
Accumulated depreciation is	(80,097,828)	
Less fixed assets already recorded in the enterprise funds	(4,751,965)	148,733,999

Amounts held in trust on behalf of others (Trust Funds)

(2,060,498)

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.

(1,165,198)

Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds.

Deferred outflows of resources related to pensions at year-end consist of:

Pension contributions subsequent to measurement date	8,773,592	
Net change in proportionate share of the net pension liability	1,632,851	
Differences between projected and actual earnings on pension plan investments	1,489,834	
Differences between expected and actual experience in the measurement of the total pension liability	1,775,344	
Changes of assumptions	17,934,076	
Total Deferred Outflows of Resources Related to Pensions		31,605,697

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION, Continued
JUNE 30, 2018**

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:

Net change in proportionate share of net pension liability	\$ (10,077,273)	
Differences between projected and actual earnings on pension plan investments	(1,673,831)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,096,179)	
Changes of assumptions	<u>(507,064)</u>	
Total Deferred Inflows of Resources Related to Pensions		\$ (13,354,347)

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.

3,527,387

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds payable, net of premium	70,929,192	
Loans payable	1,385,236	
Compensated absences	1,981,712	
Teacher load units	1,406,832	
Supplemental employee retirement plan	3,286,303	
Aggregate net OPEB liability	7,470,102	
Aggregate net pension obligation	105,915,804	
Less loans payable and accrued interest already recorded in the funds	<u>(1,386,330)</u>	<u>(190,988,851)</u>
Total Net Position		<u>\$ 43,050,762</u>

See accompanying note to supplementary information.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:		\$29,733,298
Federal Pell Grant Program	84.063	(94,881)
Federal Pell Grant Program Administrative Assistance	84.063	(40,060)
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	(2,040)
Federal Direct Student Loans	84.268	105,215
Total Expenditures of Federal Awards		<u>\$29,701,532</u>

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

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

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's audited financial statements.

Proposition 30 Education Protection Account (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the government-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the 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, the financial statements of the business-type activities and the aggregate remaining fund information of Santa Barbara Community College District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 14 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of This Report

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

 Vanine T. Day & Co. LLP

Rancho Cucamonga, California
December 5, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Santa Barbara Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2018. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
December 5, 2018



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Santa Barbara Community College District's (the District) compliance with the types of compliance requirements as identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with State laws and regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 the standards and procedures identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the State programs noted below that were audited for the year ended June 30, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Dual Enrollment (CCAP and Non-CCAP)
Section 428	Student Equity
Section 429	Student Success and Support Program (SSSP) Funds
Section 430	Scheduled Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 439	Proposition 39 Clean Energy Fund
Section 440	Intersession Extension Programs
Section 444	Apprenticeship Related and Supplemental Instruction (RSI) Funds
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged Hours (TBA)
Section 490	Proposition 1D and 51 State Bond Funded Projects
Section 491	Education Protection Account Funds

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

The District did not participate in the Intersession Extension Program; therefore, the compliance tests within this section were not applicable.

The District reports no Apprenticeship Related and Supplemental Instruction (RSI) Funds; therefore, the compliance tests within this section were not applicable.

The District reports no To Be Arranged Hours (TBA) for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

The District did not have any expenditures under Proposition 1D and 51 State Bond Funded Projects funding; therefore, the compliance tests within this section were not applicable.

Vaivnek-Tune, Day & Co. LLP

Rancho Cucamonga, California
December 5, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Assistance Cluster</u>
	CTE Transitions; Career and Technical Education Act, Perkins Title I, Part C; Perkins Title I, Part B Regional
<u>84.048, 84.048A</u>	<u>Consortium</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 891,046</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SANTA BARBARA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.