

**BARSTOW COMMUNITY
COLLEGE DISTRICT
COUNTY OF SAN BERNARDINO
BARSTOW, CALIFORNIA**

REPORT ON AUDIT

June 30, 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

June 30, 2005

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BARSTOW COMMUNITY COLLEGE DISTRICT

OBJECTIVES OF THE ANNUAL AUDIT

June 30, 2005

OBJECTIVES OF THE AUDIT

- To determine the fairness of presentation of District's basic financial statements in accordance with accounting principles generally accepted in the United States of America;
- To evaluate the adequacy of the District's system of internal control for financial accounting and reporting purposes and for compliance with certain rules and regulations related to federal financial assistance programs;
- To determine whether federal and state financial reports are presented fairly and in accordance with the terms of the applicable agreements;
- To determine whether the District has complied with laws and regulations that would have a material effect on the financial statements and on each major federal financial assistance program;
- To determine whether the District has met the specified state compliance requirements;
- To make recommendations related to weaknesses or conditions, if any, identified in the course of the audit.

The annual audit is **not** designed to:

- Provide information on whether the District is operating with economy or efficiency;
- Detect small scattered instances of theft, embezzlement, or other dishonest acts;
- Evaluate the results of the educational programs run by the District.

INDEPENDENT AUDITORS' REPORT

Governing Board
Barstow Community College District
Barstow, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Barstow Community College District (the "District") as of and for the year ended June 30, 2005, which collectively comprises the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the District, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the District's basic financial statements. The accompanying information listed as *supplementary information* in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*,

Governing Board
Barstow Community College District

and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The information identified in the accompanying *Management's Discussion and Analysis* on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*", which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*", which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. In June 2001, GASB modified and clarified those statements with the issuance of GASB Statements No. 37 and No. 38. Barstow Community College District adopted these new standards beginning with the 2002-03 fiscal year.

THE BASIC FINANCIAL STATEMENTS

The following discussion and analysis provides an overview of the District's financial activities. The basic financial statements are made up of: 1) the statement of net assets; 2) the statement of revenues, expenses, and changes in net assets; and 3) the statement of cash flows. Each statement is described in detail below.

The statement of net assets presents information on the District's assets and liabilities. Net assets, defined as the difference between assets and liabilities, are one way to measure the financial health of the District. The data allows its readers to determine the assets available to continue the operations of the District.

The statement of revenues, expenses and changes in net assets presents the operating results of the District, as well as the non-operating revenues and expenses. Operating revenues and expenses relate to the principal business activity of the District. All other revenues and expenses are classified as non-operating. Annual state general apportionment funds, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

The statement of cash flows describes to the financial statement user how the District managed its cash during the year. It tells the user from what sources the District received cash and for what purposes cash was used. The statement converts operating income (or loss) from the statement of revenues, expenses, and changes in net assets into actual cash provided by and used in operations. Additionally, the statement of cash flows details how the District obtains and spends cash for investing financing activities.

SUMMARY FINANCIAL INFORMATION ANALYSIS

NET ASSETS

The District continues to maintain a strong financial position, and has total net assets of \$19,688,117. These assets are comprised of capital assets minus the remaining debt for the Honeywell energy management system, the balances of the categorical programs in the restricted fund, and the unrestricted assets including the balances in the unrestricted, capital outlay, and retiree benefit funds.

BARSTOW COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

SUMMARY FINANCIAL INFORMATION ANALYSIS, Continued

NET ASSETS, Continued

As illustrated in the following table, the June 30, 2005 fiscal year ended with an increase in total assets of \$1,054,246:

Assets	
Current assets	\$ 6,573,784
Non-current assets	<u>14,823,608</u>
TOTAL ASSETS	<u>\$ 21,397,392</u>
Liabilities	
Current liabilities	\$ 1,408,736
Non-current liabilities	<u>300,539</u>
Total liabilities	1,709,275
Net assets	<u>19,688,117</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,397,392</u>

CHANGE IN EQUITY

The District increased its net assets by \$1,365,431 during the year, primarily because of an increase in capital assets, as well as a drop in salaries and benefits because of a number of position vacancies.

The following table illustrates a condensed version of the statement of revenues, expenses, and changes in net assets:

Operating revenues	\$ 2,875,988
Non-operating revenues	11,556,441
Other revenues	<u>345,358</u>
Total revenues	14,777,787
Operating expenses	12,891,661
Depreciation	520,695
Non-operating expenses	<u>-</u>
Total expenses	<u>13,412,356</u>
CHANGES IN NET ASSETS	1,365,431
Beginning net assets	<u>18,322,686</u>
Ending net assets	<u>\$ 19,688,117</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2005

SUMMARY FINANCIAL INFORMATION ANALYSIS, Continued

CATEGORIES OF NET ASSETS

The District is required to present its net assets in three categories: 1) invested in capital assets; 2) restricted; and 3) unrestricted.

Invested in Capital Assets

Invested in capital assets is the component of net assets that consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributable to the acquisition of those assets. At June 30, 2005, the total of invested in capital assets was \$14,469,980.

Restricted

Net assets are reported as restricted when constraints placed on net assets are either externally imposed by creditors (i.e., debt covenants) or imposed by law. At June 30, 2005, the District had restricted net assets of \$342,441.

Unrestricted

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets". The District's unrestricted net assets at June 30, 2005 were \$4,875,696.

ECONOMIC FACTORS

The District remains in a strong financial position, providing a solid foundation for the operation and enhancement of its educational programs and services. It has continued to increase its net assets through capital improvements, while still meeting operating obligations.

Despite the strength of the District's financial resources, it is expected that new revenue sources will be needed in the future to help fund an ambitious capital improvement program. Over \$50 million dollars in capital projects have been approved or submitted to the California Community College system office, and, should state funding be provided, a local match will be required to help make these projects become realities. As construction costs continue to escalate, even more funding may be required than is currently planned.

In addition, there are continuing pressures on fixed costs such as health benefits, utilities, and insurances, ongoing struggles to fund education at the state level, and difficulties associated with being a small college in a rural area. All of these factors require the District to maintain constant vigilance in order to preserve its strong financial foundation.

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

BUSINESS-TYPE ACTIVITIES

ASSETS

Current assets

Cash and cash equivalents	\$ 4,851,294
Accounts receivable, net	1,464,200
Stores inventory	<u>258,290</u>

Total current assets	6,573,784
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Restricted assets

Non-current assets

Capital assets, net	<u>14,823,608</u>
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TOTAL ASSETS	<u>\$ 21,397,392</u>
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See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

BUSINESS-TYPE ACTIVITIES

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 970,248
Compensated absences payable – current portion	15,000
Amounts held in trust for others	143,001
Lease obligations – current portion	<u>280,487</u>

Total current liabilities 1,408,736

Liabilities payable from restricted assets

Non-current liabilities

Compensated absences payable – non-current portion	227,398
Lease obligations – non-current portion	<u>73,141</u>

Total non-current liabilities 300,539

Total liabilities 1,709,275

Net assets

Invested in capital assets, net of related debt	14,469,980
Restricted for expendable	342,439
Restricted for non-expendable	-
Unrestricted	<u>4,875,698</u>

Total net assets 19,688,117

TOTAL LIABILITIES AND NET ASSETS \$ 21,397,392

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2005

BUSINESS-TYPE ACTIVITIES

Operating revenues

Tuition and fees	\$ 1,510,952
Less: scholarship discounts and allowances	<u>(910,451)</u>
Tuition and fees, net	600,501
Grants and contracts, non-capital:	
Federal	194,943
State	1,268,095
Local	8,397
Auxiliary enterprise sales and charges	<u>804,052</u>
Total operating revenues	2,875,988

Operating expenses

Salaries	6,746,530
Employee benefits	2,436,619
Payments to students	290,960
Supplies, materials and other expenses	3,110,768
Utilities	<u>306,784</u>
Total expenses	12,891,661
Depreciation	<u>520,695</u>
Total operating expenses	<u>13,412,356</u>

OPERATING LOSS (10,536,368)

Non-operating revenues (expenses)

State apportionments, non-capital	8,678,950
Local property taxes	2,147,712
States taxes and other revenues	628,431
Investment income, non-capital	91,204
Other income	<u>10,144</u>
Total non-operating revenues (expenses)	<u>11,556,441</u>

INCOME BEFORE OTHER REVENUES 1,020,073

See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2005

BUSINESS-TYPE ACTIVITIES

Other revenues

State apportionments, capital	324,675
Investment income, capital	<u>20,683</u>

Total other revenues	345,358
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CHANGE IN NET ASSETS	1,365,431
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NET ASSETS

Beginning of year	<u>18,322,686</u>
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End of year	<u>\$ 19,688,117</u>
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See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

BUSINESS-TYPE ACTIVITIES

Cash flows from operating activities

Cash received from tuition and fees	\$ 580,161
Cash received from federal grants and contracts	185,746
Cash received from state grants and contracts	1,266,920
Cash received from local grants and contracts	8,922
Cash payments to suppliers	(3,370,927)
Cash payments to utilities	(313,248)
Cash payments to / on behalf of employees	(6,701,975)
Cash payments for benefits	(2,414,672)
Cash payments for student loans / grants	(290,960)
Auxiliary enterprise sales and charges	799,239
Other receipts	<u>1,175</u>

Net cash used in operating activities (10,249,619)

Cash flows from non-capital financing activities

State apportionments and receipts	8,630,582
Property taxes received	2,338,339
State taxes and other revenues received	589,773
Other receipts	<u>87,551</u>

Net cash provided by non-capital financing activities 11,646,245

Cash flows from capital and related financing activities

State apportionments for capital purposes	1,356,558
Purchases of capital assets	(1,992,790)
Principal paid on capital debt	<u>(257,531)</u>

Net cash used in capital and related financing activities (893,763)

Cash flows from investing activities

Interest received on capital investments	<u>19,020</u>
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Net cash provided by investing activities 19,020

NET CHANGE IN CASH 521,883

CASH

Beginning of year 4,329,411

End of year \$ 4,851,294

See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

BUSINESS-TYPE ACTIVITIES

Reconciliation of operating loss to cash used in operating activities

Operating loss	\$ (10,536,368)
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Adjustments

Depreciation	520,695
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Changes in assets and liabilities

Increase in accounts receivables	(71,643)
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Increase in inventory	(108,649)
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Decrease in accounts payable	(39,633)
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Decrease in accrued compensation balances	(15,196)
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Increase in other liabilities	<u>1,175</u>
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NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (10,249,619)</u>
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See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

STATEMENT OF FINANCIAL POSITION

June 30, 2005

DISCRETELY PRESENTED COMPONENT UNIT

ASSETS

Current assets

Cash on hand and in bank

\$ 72,439

Investments

347,020

Total current assets

419,459

Property and equipment

Office equipment

4,517

TOTAL ASSETS

\$ 423,976

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable

\$ 605

Total current liabilities / total liabilities

605

Net assets

Unrestricted

166,153

Temporarily restricted

-

Permanently restricted

257,218

Total net assets

423,371

TOTAL LIABILITIES AND NET ASSETS

\$ 423,976

See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2005

DISCRETELY PRESENTED COMPONENT UNIT

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total Net Assets</u>
Revenues and gains			
Public support contributions, net of fund-raising costs of \$9,578	\$ 38,647	\$ -	\$ 38,647
Interest, dividend income and unrealized gain in investments	<u>8,278</u>	<u>32,480</u>	<u>40,758</u>
Total revenues and gains	46,925	32,480	79,405
Expenses			
Program services – scholarships and awards	19,723	4,810	24,533
General and administrative	<u>6,230</u>	<u>0</u>	<u>6,230</u>
Total expenses	<u>25,953</u>	<u>4,810</u>	<u>30,763</u>
 INCREASE IN NET ASSETS	 20,972	 27,670	 48,642
 NET ASSETS			
Beginning, July 1, 2004	<u>145,181</u>	<u>229,548</u>	<u>374,729</u>
Ending, June 30, 2005	<u>\$ 166,153</u>	<u>\$ 257,218</u>	<u>\$ 423,371</u>

See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2005

DISCRETELY PRESENTED COMPONENT UNIT

General and administrative expenses

Audit and accounting fees	\$ 340
Miscellaneous expenses	4,460
Office and administrative expenses	<u>1,430</u>

TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 6,230</u>
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See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

DISCRETELY PRESENTED COMPONENT UNIT

Cash flows from operating activities

Change in net assets	\$ 48,642
Change in assets and liabilities	<u>184</u>

Net cash provided by operating activities	48,826
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Cash flows from investing activities

	<u>-</u>
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NET INCREASE IN CASH	48,826
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NET CASH

Beginning, July 1, 2004	<u>370,633</u>
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Ending, June 30, 2005	<u>\$ 419,459</u>
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See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Barstow Community College District (the “District”), is located in Barstow, California and in the County of San Bernardino. It is a political subdivision of the State of California and is governed by an elected Board of Trustees. The District, which has one community college campus in Barstow, provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State, in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement No. 14, as amended by GASB Statement No. 39. Because of the nature and significance of the District’s relationship with the Barstow College Foundation (the “Foundation”), the District has identified the Foundation as a component unit.

The Foundation is a non-profit public benefit corporation, organized under the laws of the State of California. It is operated exclusively to promote and assist the educational services of the District and to receive gifts, property and funds to be used for the benefit of the District. The voting members of the Foundation’s Board of Directors are selected independent of the District’s Board of Trustees. The Foundation’s Board is responsible for approving its own budget, the accounting and the finance related activities. Since the Foundation is a tax exempt entity that raises and holds economic resources for the direct benefit of the District, it is reportable as a component unit of the District. The Foundation’s financial statements are included in this report as separate financial statements to emphasize that it is legally separated from the District.

Basis of Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*. GASB Statement No. 35 was effective in three phases, based on the public institution’s total annual revenues in the first fiscal year ending after June 15, 1999. The District adopted the provisions of these Statements, along with GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus (an amendment of GASB Statements No. 21 and No. 34)*, as of July 1, 2001. In June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, to re-evaluate certain disclosure requirements in the context of the reporting model in Statement No. 34. The District adopted the provisions of Statement No. 38 as of July 1, 2002.

The financial statement presentation required by GASB Statements No. 34, 35, 37, and 38 provides a comprehensive, entity-wide perspective of the District’s assets and cash flows, and replaces the fund-group perspective previously required. The District now follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the District’s financial activities.

Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. All significant intra-agency transactions have been eliminated.

The District has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 20, 1989, unless FASB conflicts with GASB. The District has not elected to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office, California Community Colleges.

The District's net assets are classified into four components: 1) invested in capital, net of related debt; 2) restricted net assets – expendable; 3) restricted net assets – non-expendable; and 4) unrestricted. These classifications are defined as follows:

1) *Invested in Capital, Net of Related Debt*

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

2) *Restricted Net Assets – Expendable*

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

3) *Restricted Net Assets – Non-Expendable*

Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

4) *Unrestricted Net Assets*

Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purposes. Although the governing board may designate these funds for special purposes, the funds remain unrestricted.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to utilize available restricted resources, followed by unrestricted resources.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

Accounts Receivable

Accounts receivable 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. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts.

Inventory

Inventory – primarily bookstore merchandise – is carried at the lower of cost or market, using the first-in, first-out ("FIFO") method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Capitalized equipment includes all items with a unit cost of \$5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

State Apportionments

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2006 will be recorded in the year computed by the State.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contracted sponsors that have not yet been earned.

Classification of Revenues

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Classifications of Revenues, Continued

Revenues and expenses are classified according to the following criteria:

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state and local grants and contracts and federal appropriations; and (4) interest on institutional student loans.

Non-Operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value. However, cash in the County Treasury and some investments are recorded at cost, which approximates fair value.

Restricted Cash and Cash Equivalents

Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other non-current assets, is classified as a non-current asset in the statement of net assets.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at fiscal year-end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees, whereby the employee may teach extra courses in one period in exchange for time off in another period.

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

NOTE 1-A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

-- DISCRETELY PRESENTED COMPONENT UNIT -- FOUNDATION

Basis of Accounting

The accompanying financial statements for the Foundation have been prepared on the accrual basis of accounting, under which revenue is recognized when earned and expenses are recognized when incurred.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2005

NOTE 1-A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- DISCRETELY PRESENTED COMPONENT UNIT -- FOUNDATION, Continued

Classifications of Net Assets

The Foundation's net assets are classified into three components: (1) unrestricted; (2) permanently restricted; and (3) temporarily restricted. These classifications are defined as follows:

(1) *Unrestricted Net Assets*

Net assets that are not subject to donor-imposed stipulations.

(2) *Permanently Restricted Net Assets*

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes.

(3) *Temporarily Restricted Net Assets*

Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and / or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation has no temporarily restricted net assets.

Contributions

Contributions are recorded when made. All contributions are available for unrestricted use unless specifically restricted by the donor. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Donations restricted by donors where the restriction is met in the same fiscal year as the donation, are classified as unrestricted assets.

Cash and Investments

The Foundation's cash in banks and specifically identifiable investments are classified as to credit risk by three categories outlined in Note 2. Investments are recorded at fair value based on quoted market values. Gain or loss on investments is recognized at the time of sale or redemption of the investment.

Fixed Assets

Fixed assets are carried at cost, or in the case of donated assets, at fair market value at the time received. Purchased fixed assets are depreciated over useful life using the straight-line method.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities.

Tax Exempt Status

The Foundation is a non-profit organization other than a private foundation which is exempt from federal income taxes under Section 501(c)(3) and from state taxes under Revenue and Taxation Code Section 23701c.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury	\$ 4,684,918
Cash on hand and in banks	<u>166,376</u>
TOTAL CASH	<u>\$ 4,851,294</u>

As required by Education Code Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer to enhance interest earnings through county investment activities. California Government Code Sections 16520-16522 require California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

Under provisions of the District's investment policy, and in accordance with Sections 53601 and 53602 of the California Government Code, the District may do the following types of investments:

- Bonds issued by the District
- Securities of the U.S. Government, or its agencies
- Registered state warrants or treasury notes or bonds of the State
- Small Business Administration loans
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper (prime quality)
- Local Agency Investment Fund (LAIF) deposits (state pool)
- Passbook savings account demand deposits
- Medium-term notes (remaining maturity of five years or less; rated "A" or better)
- Repurchase agreements or reverse repurchase agreements
- Mortgage pass-through security

Classifications of Credit Risk

Cash in banks and specifically identifiable investments are classified as to credit risk by three categories and summarized as follows:

Category 1 –

Includes investments that are insured or registered or for which securities are held by the District or its agent in the District's name and deposits insured or collateralized with securities held by the District.

Category 2 –

Includes uninsured and unregistered investments for which securities are held by the broker's or dealers trust department or agent in the District's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 2 – CASH AND INVESTMENTS, Continued

Classifications of Credit Risk, Continued

Category 3 –

Includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

Barstow Community College District:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Cash in County Treasury	\$ -	\$ 4,684,918	\$ -	\$ 4,684,918	\$ 4,684,918
Cash in banks	<u>166,376</u>	<u>-</u>	<u>-</u>	<u>166,376</u>	<u>166,376</u>
Total cash and cash equivalents	<u>\$ 166,376</u>	<u>\$ 4,684,918</u>	<u>\$ -</u>	<u>\$ 4,851,294</u>	<u>\$ 4,851,294</u>

Barstow College Foundation:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Balance</u>
Cash in bank	\$ 72,439	\$ -	\$ -	<u>\$ 72,439</u>
Investments:				
Money market	\$ -	\$ -	\$ 23,403	\$ 23,403
Corporate bonds and debentures	-	-	\$ 133,361	133,361
Stocks and mutual funds	-	-	\$ 190,256	<u>190,256</u>
Total Foundation investments				<u>\$ 347,020</u>

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2005 are as follows:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General fund	\$ 50,004	\$ 877,515	\$ 404,267	\$ 1,331,786
Bookstore fund	-	-	43,013	43,013
Capital outlay fund	-	76,885	6,202	83,087
Self-insurance fund	<u>-</u>	<u>-</u>	<u>6,314</u>	<u>6,314</u>
TOTAL ACCOUNTS RECEIVABLE	<u>\$ 50,004</u>	<u>\$ 954,400</u>	<u>\$ 459,796</u>	<u>\$ 1,464,200</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 4 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Historical cost				
Building	\$ 8,758,946	\$ 7,906,475	\$ -	\$ 16,665,421
Construction in progress	6,508,142	364,173	6,508,142	364,173
Furniture and equipment	1,059,883	24,166	12,000	1,072,049
Land	119,462	-	-	119,462
Site improvements	<u>1,190,862</u>	<u>206,118</u>	<u>-</u>	<u>1,396,980</u>
Total historical cost	<u>17,637,295</u>	<u>8,500,932</u>	<u>6,520,142</u>	<u>19,618,085</u>
Accumulated depreciation				
Building	3,165,842	339,746	-	3,505,588
Furniture and equipment	553,024	125,755	12,000	666,779
Site improvements	<u>566,916</u>	<u>55,194</u>	<u>-</u>	<u>622,110</u>
Total accumulated depreciation	<u>4,285,782</u>	<u>520,695</u>	<u>12,000</u>	<u>4,794,477</u>
CAPITAL ASSETS, NET	<u>\$ 13,351,513</u>	<u>\$ 7,980,237</u>	<u>\$ 6,508,142</u>	<u>\$ 14,823,608</u>

NOTE 5 – LONG-TERM LIABILITIES

Long-term liabilities for the fiscal year ended June 30, 2005 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Capitalized lease	\$ 611,159	\$ -	\$ 257,531	\$ 353,628
Compensated absences	<u>257,594</u>	<u>-</u>	<u>15,196</u>	<u>242,398</u>
TOTALS	<u>\$ 868,753</u>	<u>\$ -</u>	<u>\$ 272,727</u>	<u>\$ 596,026</u>

In 1996, the District entered into a lease agreement with Honeywell, Inc. for certain building improvements and equipment known as the Energy Management System. The remaining payments required under the capital lease, which extends up to September 2006, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
Fiscal year,			
2005 – 2006	\$ 280,487	\$ 14,270	\$ 294,757
2006 – 2007	<u>73,141</u>	<u>1,042</u>	<u>74,183</u>
	<u>\$ 353,628</u>	<u>\$ 15,312</u>	<u>\$ 368,940</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

State Teachers' Retirement System (STRS) -- Certificated Employees

Plan Description

<u>Defined Benefit Plan (DB Plan)</u>	<u>Cash Balance Benefit Program (CB Benefit Program)</u>
All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan.	Part-time educators hired under a contract of less than 50 percent or on a hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program.

Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the California Education Code, Section 22000 et seq.) established benefit provisions for STRS.

Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

Plan Description – Defined Benefit Plan (DB Plan)

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits. Depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55, or as early as age 50, with at least 30 years of service. While early retirement can reduce the 2 percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credit service, members become 100 percent vested in retirement benefits earned to date.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS, Continued

State Teachers' Retirement System (STRS) -- Certificated Employees, Continued

Plan Description – Cash Balance Benefit Program (CB Benefit Program)

If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting; variable contributions rates that can be bargained; guaranteed interest rates; and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-2005 was 6.25% of annual payroll. The contribution requirements of the plan members are established by State statute.

The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the District and employee contributions always being equal to or greater than 8%.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ending:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
State Teachers' Retirement System contributions	\$ 296,287	\$ 286,023	\$ 319,070

These amounts equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

In their most recent actuarial valuation of the DB Plan, as of June 30, 2001, the independent actuaries for STRS determined that the actuarial value of the DB Plan's actuarial accrued liabilities exceeded the Plan's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal costs and to amortize the actuarial unfunded obligation of \$2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other membership related factors.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2005

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS, Continued

California Public Employees' Retirement System (CalPERS) -- Classified Employees

Plan Description

All full-time classified employees participate in CalPERS, an agent multiple-employer contributory public employee retirement system. This system acts as a common investment and administrative agent for participating public entities within the State of California.

The District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33, if the member participates in Social Security). The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute.

The District's contribution rate to CalPERS for fiscal year 2004-2005 was 9.952%. On May 18, 2005, CalPERS approved a school employer contribution rate of 9.116% beginning with the first pay period that ends in July 2005.

Annual Pension Cost

The District's total contributions to CalPERS for the fiscal years ending:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
CalPERS contributions	\$ 242,304	\$ 225,057	\$ 66,857

The contributions equaled 100 percent of the required contributions for each year.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 6 – EMPLOYEE RETIREMENT SYSTEMS, Continued

California Public Employees' Retirement System (CalPERS) -- Classified Employees, Continued

Deferred Compensation

The District offers to its employees a CalPERS administered 457 Deferred Compensation Program (the "Program"). The Program, available to all permanent employees, is a supplemental retirement savings program which permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board holds the assets in trust for the exclusive benefit of participating employees.

NOTE 7 – JOINT POWERS AGREEMENT

The District participated in two Joint Powers Agreements (JPAs): Southern California Schools Employee Benefits Association (SCSEBA) and Southern California Schools Risk Management (SCSRM). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

	<u>Southern California Schools Employee Benefits Association (SCSEBA)</u>	<u>Southern California Schools Risk Management (SCSRM)</u>
Purpose	To operate and maintain medical, dental, vision and life insurance plans for employees of member districts	Arranges for and provides workers' compensation, general liability, and property insurance coverage for all member districts
Participants	School districts in southern California	Schools districts in southern California
Governing Board	The Board consists of representatives of each member district. The Board controls the operations of SCSEBA, including the selection of management and approval of operating budgets.	The Board consists of a representative of each member district. The Board controls the operations of SCSRM, including the selection of management and approval of operating budgets.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits in proportion to its participation in the JPA.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2005

NOTE 7 – JOINT POWERS AGREEMENT, Continued

Condensed audited financial information for both JPAs for the fiscal year ended June 30, 2005 is as follows:

<u>Southern California Schools Employee Benefits Association (SCSEBA)</u>		<u>Southern California Schools Risk Management (SCSRM)</u>	
Total assets	\$ 22,801,941	Total assets	\$ 34,245,576
Total liabilities	<u>6,068,924</u>	Total liabilities	<u>28,730,665</u>
Net assets (deficit)	<u>\$ 16,733,017</u>	Net assets (deficit)	<u>\$ (5,514,911)</u>
Total operating revenues	\$ 67,899,085	Total operating revenues	\$ 32,709,029
Total operating expenses	(60,357,681)	Total operating expenses	(28,804,936)
Total non-operating loss	<u>(261,119)</u>	Total non-operating income	<u>9,194,864</u>
Increase in net assets	<u>\$ 7,280,285</u>	Increase in net assets	<u>\$ 13,098,957</u>

The District's share of year-end assets, liabilities or equity (deficit) has not been calculated by SCSEBA and SCSRM.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Sick Leave

Employees do not gain a vested right to accumulated sick leave. However, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

Federal and State Allowances, Awards and Grants

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

Litigation

The District is a party to claims and legal proceedings, arising from the normal course of business. Based on consultation with legal counsel, management believes that the ultimate resolution of these matters, individually and in the aggregate, will not have a material adverse effect on the District's financial position.

Construction Commitments

As of June 30, 2005, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Construction Commitment</u>	<u>Date Completed</u>
Gym locker room renovation	\$ 364,173	July 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005

NOTE 9 – RELATED PARTY

The District provides administrative services to the Foundation, a component unit. Such services have not been included in the financial statements since the amounts cannot be objectively determined. The District also provides office space to the Foundation. The fair rental value of the space has not been quantified and is not included in the financial statements.

ADDITIONAL INFORMATION

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OPERATING EXPENSES

For the Year Ended June 30, 2005

	Salaries and Benefits	Payments to Students	Supplies, Materials, and Other Expenses and Services	Total
Admissions and records	\$ 347,492	\$ -	\$ 43,435	\$ 390,927
Ancillary services	572,130	-	766,234	1,338,364
Community services and economic development	390,529	-	12,832	403,361
General institutional support services	934,836	-	946,546	1,881,382
Instructional activities	4,122,731	290,960	369,518	4,783,209
Instructional administration	309,538	-	8,560	318,098
Instructional support services	193,998	-	73,141	267,139
Physical property and acquisitions	239,546	-	172,356	411,902
Planning, policy making, coordination, general support	383,017	-	199,948	582,965
Plant operations and maintenance	334,149	-	523,435	857,584
Student services – counseling and guidance	431,692	-	26,029	457,721
Student services – other	923,491	-	275,518	1,199,009
	<u>\$ 9,183,149</u>	<u>\$ 290,960</u>	<u>\$ 3,417,552</u>	12,891,661
Depreciation expense				<u>520,695</u>
TOTAL OPERATING EXPENSES				<u>\$ 13,412,356</u>

See accompanying notes and auditors' report

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Governing Board
Barstow Community College District
Barstow, California

We have audited the basic financial statements of Barstow Community College District (the "District") for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2005. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the standards identified by the *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information includes the following:

- Schedule of Expenditures of Federal Awards (required by OMB Circular A-133)
- Schedule of State Financial Awards
- Schedule of Workload Measures for Program Based Funding and Annual Apprenticeship Hours of Instruction
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements
- Notes to Supplementary Information

The information contained in the supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2005

Barstow Community College District was officially formed in September 1959. The District began instruction during the 1960-1961 school year.

The school districts within the boundaries of Barstow Community College District are:

- (1) Baker Unified School District;
- (2) Barstow Unified School District; and
- (3) Silver Valley Unified School District.

BOARD OF TRUSTEES

The District is governed by a Board of Trustees, consisting of five members, who are elected to staggered four-year terms. The members and officers of the Board of Trustees, as of June 30, 2005, were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Marcia Zableckis	President	2007
Fernando (Fred) Baca	Member	2007
Phillip M. Harris	Member	2005
Timothy T. Heiden	Member	2005

DISTRICT ADMINISTRATION

Dr. Clifford Brock	District President
Dr. Gaither D. Loewenstein	Vice-President: Academic Affairs
Charles C. Mitchell	Vice-President: Administrative Services

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended June 30, 2005

<u>Federal Grantor</u>	<u>Pass-Through Grantor</u>	<u>Program or Cluster Title</u>	<u>Federal Catalog Number</u>	<u>Total Program Expenditures</u>
U.S. Department of Education	---	Pell Grant	84.063	\$ 2,582,820
U.S. Department of Education	---	College Work Study	84.033	80,229
Supplemental Education Opportunity Grant	---	---	84.007	34,923
U.S. Department of Education	Calif. Dept. of Education	Vocational & Applied Technology Education Act, Title III	84.048	91,843
U.S. Department of Health and Human Services	Calif. Dept. of Education	Temporary Assistance to Needy Families (TANF)	93.558	<u>21,268</u>
TOTAL FEDERAL FINANCIAL AWARDS				<u>\$ 2,811,083</u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2005

Program Name	Program Revenues			Total Program Revenues	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
California Work Opportunity and Responsibility to Kids	\$ 93,076	\$ -	\$ -	\$ 93,076	\$ 109,304
CARE	97,485	-	-	97,485	94,870
Disabled Student Program	193,925	-	-	193,925	231,496
Extended Opportunity Program	397,530	-	-	397,530	394,597
Financial Aid Administration	137,287	-	-	137,287	140,495
Infrastructure Program (TTIP)	53,103	-	-	53,103	106,860
Instructional Equipment Grant	100,000	-	-	100,000	42,061
Lottery	7,379	50,750	-	58,129	58,129
Matriculation	139,253	-	-	139,253	139,253
Others	249,869	-	-	249,869	235,224
Staff Diversity	8,863	-	-	8,863	13,309
	<u>\$ 1,477,770</u>	<u>\$ 50,750</u>	<u>\$ -</u>	<u>\$ 1,528,520</u>	<u>\$ 1,565,598</u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT For the Year Ended June 30, 2005

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
Credit full-time equivalent students (FTEs)			
1. Weekly census	695	-	695
2. Daily census	313	-	313
3. Actual hours of attendance	30	-	30
4. Independent study / work experience	866	-	866
5. Summer intersession	<u>291</u>	<u>-</u>	<u>291</u>
Total	2,195	-	2,195
Non-credit full-time equivalent students			
1. Actual hours of attendance	91	-	91
2. Summer intersession	<u>7</u>	<u>-</u>	<u>7</u>
Total	<u>98</u>	<u>-</u>	<u>98</u>
TOTAL FULL-TIME EQUIVALENT STUDENTS	<u><u>2,293</u></u>	<u><u>-</u></u>	<u><u>2,293</u></u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS For the Year Ended June 30, 2005

	<u>General Fund</u>	<u>Bookstore Fund</u>	<u>Capital Outlay Fund</u>	<u>Self Insurance Fund</u>	<u>Trust Funds</u>
June 30, 2005					
Annual financial and budget report (CCFS-311) fund balance	\$ 2,869,093	\$ 310,835	\$ 1,235,285	\$ 1,104,873	\$ 155,103
Adjustments:					
Adjust ending inventory to physical count	-	(35,785)	-	-	-
Net adjustments	-	(35,785)	-	-	-
June 30, 2005 Audited Financial Statements Fund Balance	<u>\$ 2,869,093</u>	<u>\$ 275,050</u>	<u>\$ 1,235,285</u>	<u>\$ 1,104,873</u>	<u>\$ 155,103</u>

can
Later in 2005-06, inventory adjustment was determined to be (12,712)-
ending balance = 298,043

should be 59,553 at time of audit

275,282

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

June 30, 2005

NOTE 1 – PURPOSE OF SCHEDULES

The audit of the Barstow Community College District for the fiscal year ended June 30, 2005 was conducted in accordance with OMB Circular A-133. Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with Circular A-133 and state requirements, the Schedule of Federal Financial Awards and the Schedule of State Financial Assistance were prepared for Barstow Community College District.

The Schedule of Workload Measures for State General Apportionment and Annual Apprenticeship Hours of Instruction represent the basis of apportionment of Barstow Community College District.

The Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements provides the information necessary to reconcile the fund balances of all funds reported on Form CCFS-311 to the audited financial statements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Barstow Community College District
Barstow, California

We have audited the basic financial statements of Barstow Community College District (the "District") for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2005. Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

General Directives

Management Information System Implementation – Required Data Elements

Administration

Apportionments:

- Apportionment for Instructional Service Agreements / Contracts
- Residency Determination for Credit Courses
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Enrollment Fee

Fiscal Operations:

- Salaries of Classroom Instruction (50 Percent Law)
- Gann Limit Calculation

Open Enrollment

Student Services

Matriculation – Uses of Matriculation Funds

Special Programs

Extended Opportunity Programs and Services (EOPS):

- Allocation of Costs
- Administrator / Director Requirements

Disabled Student Program and Services (DSPS):

- Allocation of Costs

Facilities

Schedule Maintenance Program

Governing Board
Barstow Community College District

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2005.

This report is intended solely for the information and use of the Governing Board, management, audit committee and other within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS

For the Year Ended June 30, 2005

Financial Statements

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
-- Material weakness(es) identified?	No
-- Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
-- Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
-- Material weakness(es) identified?	No
-- Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No
Identification of major programs:	
-- CFDA number	84.063
-- Name of federal program or cluster	Pell Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal control over state programs:	
-- Material weakness(es) identified?	No
-- Reportable condition(s) identified that are not considered to be material weaknesses?	Yes

Financial Statement Findings

The following findings represent reportable conditions related to the financial statements that are required to be reported in accordance with generally accepted government audit standards.

2005-1 Instructional Service Contracts

Finding

The District must obtain a certification from the contractor verifying the instructional activity conducted was not fully funded by other sources. The District did not obtain such certification.

BARSTOW COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS, Continued For the Year Ended June 30, 2005

Financial Statement Findings, Continued

2005-1 Instructional Service Contracts, Continued

Recommendation

The District should implement procedures to ensure that certifications from instructional service contractors are obtained.

District Response

Although this instructional activity is not fully funded by other sources, the District has not obtained a certification to that effect from the contractor. The District will obtain this certification.

2005-2 Standards of Scholarship

Finding

The District shall establish and publish policies in the catalog regarding standards of scholarship: grading policies; credit-no credit options; credit by examination; articulation of high school courses; advanced placement examinations; standards and notification for probation and dismissal; remedial coursework limit; units attempted; academic record symbols; grade point averaging; grade changes; course repetition (substandard work, legally mandated training, extenuating circumstances, elapse of significant time); and academic renewal. The District has published necessary policies in the catalog for standards of scholarship for all categories **except** course repetition for extenuating circumstances and where a legally mandated training requires the repeat.

Recommendation

The District should publish revised policies in the catalog for standards of scholarship.

District Response

The District will revise, and publish in the catalog, existing policies regarding repeat of courses to include extenuating circumstances and legally mandated training. In addition, the District will review, and revise as needed, all policies and procedures concerning Standards of Scholarship to ensure they are current and consistent with regulations.

2005-3 Attendance

Finding

Attendance claimed for apportionment must be supported by proper documentation. One out of eight census sheets tested was missing. One additional sheet to substitute was requested and it was missing.

Recommendation

The District should implement procedures to ensure the proper collection of all attendance documents.

District Response

The Admissions and Records office has implemented office procedures to ensure the collection of all attendance documentation. A spreadsheet has been created to track all outgoing and incoming census sheets.

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

Governing Board
Barstow Community College District
Barstow, California

Compliance

We have audited the compliance of Barstow Community College District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the Summary of Auditors' Results in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Governing Board
Barstow Community College District

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, management, and the District's federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

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

Governing Board
Barstow Community College District
Barstow, California

We have audited the financial statements of the business-type activities and the discretely presented component unit of Barstow Community College District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2005. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, management, the federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

BARSTOW COMMUNITY COLLEGE DISTRICT

Management Letter

For the Year Ended June 30, 2005

Governing Board
Barstow Community College District
Barstow, California

In planning and performing our audit of the financial statements of Barstow Community College District for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 26, 2005 on the financial statements of Barstow Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Governing Board, management and others within the administration of Barstow Community College District, and is not intended to be and should not be used by anyone other than these specified parties.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

September 26, 2005

CURRENT YEAR CONDITIONS:

Scholarship and Loan Fund

A check was issued to a student for the balance of the scholarship. This is allowed as specifically provided for in the scholarship award. It was clear the procedure was authorized through a verbal request from the student. However, no signed request from the student was in the file. A policy should be established that any disbursement of these funds should be evidenced by a written request.

BARSTOW COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2005

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 audit findings and questioned costs and of any other as yet unresolved audit findings from previous years.

Finding Reference No.	Recommendation	Current Status	Explanation if Not Fully Implemented
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None