

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

REPORT ON AUDIT

June 30, 2007

BARSTOW COMMUNITY COLLEGE DISTRICT

June 30, 2007

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INTRODUCTORY SECTION

BARSTOW COMMUNITY COLLEGE DISTRICT

OBJECTIVES OF THE ANNUAL AUDIT

June 30, 2007

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, 2007, 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, 2007, 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 December 17, 2007, 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 4 through 6 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

December 17, 2007

BARSTOW COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2007

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 \$27,687,941. These assets are comprised of capital assets, 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, Continued For the Fiscal Year Ended June 30, 2007

SUMMARY FINANCIAL INFORMATION ANALYSIS, Continued

Net Assets, Continued

As illustrated in the following table, the June 30, 2007 fiscal year ended with an increase in total assets of \$3,987,375 for a grand total of \$29,807,798:

Assets	
Current assets	\$ 10,697,560
Non-current assets	<u>19,110,238</u>
TOTAL ASSETS	<u>29,807,798</u>
Liabilities	
Current liabilities	1,789,499
Non-current liabilities	<u>330,358</u>
TOTAL LIABILITIES	<u>2,119,857</u>
TOTAL NET ASSETS	<u>\$ 27,687,941</u>

Change in Equity

The District increased its net assets by \$4,114,105 during the year, primarily because of an increase in capital assets from several construction projects and an increase in state apportionments.

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

Operating revenues	\$ 3,705,360
Non-operating revenues	14,136,305
Other revenues	<u>1,238,867</u>
Total revenues	19,080,532
Operating expenses	14,339,728
Depreciation	626,699
Non-operating expenses	<u>-</u>
Total expenses	<u>14,966,427</u>
CHANGES IN NET ASSETS	4,114,105
Beginning net assets	<u>23,573,836</u>
Ending net assets	<u>\$ 27,687,941</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued For the Fiscal Year Ended June 30, 2007

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, 2007, the total of invested in capital assets was \$19,110,238.

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, 2007, the District had restricted nets assets of \$831,911.

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, 2007 were \$7,745,792.

ECONOMIC FACTORS

The District has maintained its strong financial position, continuing to provide 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.

As of June 30, 2007, the District is funding its required share of an ambitious capital improvement program without additional revenue sources. However, the District is continuing to review potential options should new revenue sources be needed in the future.

In addition, although the District's enrollment returned to its base level during the 2006-07 fiscal year, enrollment growth remains a primary concern. The District has expanded its career and technical education (CTE) and basic skills programs, as well as increasing ongoing outreach efforts, to help increase enrollment.

Also, the projected state budget difficulty for the 2008-09 fiscal year is a caution flag. The District's financial condition places it in a strong position to minimize impacts of possible budget reductions. Additional planning and proactive steps should allow the District to meet this potential financial challenge.

FINANCIAL SECTION

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

BUSINESS-TYPE ACTIVITIES

ASSETS

Current assets

Cash and cash equivalents	\$ 8,969,133
Accounts receivable, net	1,498,801
Stores inventory	<u>229,626</u>

Total current assets	10,697,560
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Non-current assets

Capital assets, net	<u>19,110,238</u>
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TOTAL ASSETS	<u>\$ 29,807,798</u>
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See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

BUSINESS-TYPE ACTIVITIES

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 1,613,614
Deferred revenue	69,443
Compensated absences payable – current portion	15,000
Amounts held in trust for others	<u>91,442</u>

Total current liabilities 1,789,499

Non-current liabilities

Compensated absences payable – non-current portion	<u>330,358</u>
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Total non-current liabilities 330,358

Total liabilities 2,119,857

Net assets

Invested in capital assets, net of related debt	19,110,238
Restricted for expendable	831,911
Restricted for non-expendable	-
Unrestricted	<u>7,745,792</u>

Total net assets 27,687,941

TOTAL LIABILITIES AND NET ASSETS \$ 29,807,798

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2007

BUSINESS-TYPE ACTIVITIES

Operating revenues

Tuition and fees	\$ 1,579,429
Less: scholarship discounts and allowances	<u>(928,815)</u>
Tuition and fees, net	650,614

Grants and contracts, non-capital:

Federal	220,491
State	2,010,514
Local	20,094
Auxiliary enterprise sales and charges	<u>803,647</u>

Total operating revenues	3,705,360
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Operating expenses

Salaries	8,045,316
Employee benefits	2,552,234
Payments to students	268,978
Supplies, materials and other expenses	2,952,803
Utilities	<u>520,397</u>

Total expenses	14,339,728
Depreciation	<u>626,699</u>

Total operating expenses	<u>14,966,427</u>
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OPERATING LOSS	(11,261,067)
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Non-operating revenues (expenses)

State apportionments, non-capital	11,482,943
Local property taxes	1,822,770
States taxes and other revenues	551,313
Investment income, non-capital	278,421
Other income	<u>858</u>

Total non-operating revenues (expenses)	<u>14,136,305</u>
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INCOME BEFORE OTHER REVENUES	2,875,238
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BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2007

BUSINESS-TYPE ACTIVITIES

Other revenues

State apportionments, capital	1,184,376
Investment income, capital	<u>54,491</u>

Total other revenues	1,238,867
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CHANGE IN NET ASSETS	4,114,105
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Net assets

Beginning of year, July 1, 2006	<u>23,573,836</u>
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End of year, June 30, 2007	<u>\$ 27,687,941</u>
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BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2007

BUSINESS-TYPE ACTIVITIES

Cash flows from operating activities

Cash received from tuition and fees	\$ 713,042
Cash received from federal grants and contracts	220,491
Cash received from state grants and contracts	2,010,514
Cash received from local grants and contracts	20,094
Cash payments to suppliers	(2,864,429)
Cash payments to utilities	(520,397)
Cash payments to / on behalf of employees	(8,103,162)
Cash payments for benefits	(2,552,234)
Cash payments for student loans / grants	(268,978)
Auxiliary enterprise sales and charges	803,647
Other receipts	<u>-</u>
Net cash used in operating activities	(10,541,412)

Cash flows from non-capital financing activities

State apportionments and receipts	12,474,315
Property taxes received	1,904,252
State taxes and other revenues received	551,313
Other payments	<u>(223,469)</u>
Net cash provided by non-capital financing activities	14,706,411

Cash flows from capital and related financing activities

State apportionments for capital purposes	1,184,376
Purchases of capital assets	(2,758,464)
Principal paid on capital debt	<u>(73,141)</u>
Net cash used in capital and related financing activities	(1,647,229)

Cash flows from investing activities

Interest received on non-capital investments	<u>332,913</u>
Net cash provided by investing activities	<u>332,913</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 2,850,683

Cash and cash equivalents

Beginning of year, July 1, 2006	<u>6,118,450</u>
End of year, June 30, 2007	<u>\$ 8,969,133</u>

See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2007

BUSINESS-TYPE ACTIVITIES

Reconciliation of operating loss to cash used in operating activities

Operating loss	\$ (11,261,067)
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Adjustments

Depreciation	626,699
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Changes in assets and liabilities

Decrease in accounts receivables	175,819
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Increase in inventory	(29,273)
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Decrease in accounts payable	(57,545)
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Increase in accrued compensation balances	57,846
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Decrease in other liabilities	<u>(53,891)</u>
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NET CASH USED IN OPERATING ACTIVITIES

	<u>\$ (10,541,412)</u>
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See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

BARSTOW COLLEGE FOUNDATION
(A Component Unit of Barstow Community College District)

STATEMENT OF FINANCIAL POSITION
June 30, 2007

DISCRETELY PRESENTED COMPONENT UNIT

ASSETS

Cash on hand and in bank	\$ 119,952
Investments	<u>377,621</u>

TOTAL ASSETS	<u>\$ 497,573</u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	<u>\$ 2,350</u>
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Total current liabilities / total liabilities	2,350
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Net assets

Unrestricted	209,163
Permanently restricted	<u>286,060</u>

Total net assets	<u>495,223</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 497,573</u>
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BARSTOW COLLEGE FOUNDATION
(A Component Unit of Barstow Community College District)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

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 \$15,728	\$ 44,957	\$ 4,100	\$ 49,057
Interest, dividend income and unrealized gain in investments	<u>11,872</u>	<u>26,376</u>	<u>38,248</u>
Total revenues and gains	56,829	30,476	87,305
Expenses			
Program services – scholarships and awards	23,300	7,000	30,300
General and administrative	<u>15,780</u>	<u>2,614</u>	<u>18,394</u>
Total expenses	<u>39,080</u>	<u>9,614</u>	<u>48,694</u>
INCREASE IN NET ASSETS	17,749	20,862	38,611
Net assets			
Beginning, July 1, 2006	<u>191,414</u>	<u>265,198</u>	<u>456,612</u>
Ending, June 30, 2007	<u>\$ 209,163</u>	<u>\$ 286,060</u>	<u>\$ 495,223</u>

See accompanying notes and auditors' report

BARSTOW COLLEGE FOUNDATION

(A Component Unit of Barstow Community College District)

STATEMENT OF FUNCTIONAL EXPENSES

For the Fiscal Year Ended June 30, 2007

DISCRETELY PRESENTED COMPONENT UNIT

General and administrative expenses

Miscellaneous expenses	\$ 14,677
Office and administrative expenses	<u>3,717</u>

TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 18,394</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 Fiscal Year Ended June 30, 2007

DISCRETELY PRESENTED COMPONENT UNIT

Cash flows from operating activities

Change in net assets	\$ 38,611
Change in assets and liabilities	<u>6,596</u>

Net cash provided by operating activities	45,207
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Cash flows from investing activities

	<u>-</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS	45,207
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Net cash and cash equivalents

Beginning, July 1, 2006	<u>452,366</u>
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Ending, June 30, 2007	<u>\$ 497,573</u>
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See accompanying notes and auditors' report

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Reporting Entity

Barstow Community College District (the “District”) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college located in Barstow, California. While the District is a political subdivision of the State, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501 (c)(3), and is therefore exempt from federal taxes. 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 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the “direct benefit” criterion, the “entitlement/ability to access” criterion, and the “significance” criterion. The District identified the Barstow College Foundation (the “Foundation”) as its only potential component unit.

The District will report the Foundation as a component unit. The Foundation was established as a legally separate, not-for-profit corporation to support the District and its students. It contributes to various scholarship funds for the benefit of District students and contributes directly to the college. The funds contributed directly by the Foundation to Barstow Community College are significant to the college’s financial statements. Therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District’s annual financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

GASB released Statement No. 34, “Basic Financial Statement and Management’s Discussion and Analysis for State and Local Government” in June 1999, 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 University”, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 27 and No. 38. The District adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Statement No. 39, “Determining Whether Certain Organizations Are Component Units”, which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2003-04 fiscal year as required.

The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District’s assets, cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All material intra-agency transactions have been eliminated.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. It has also elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 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 Chancellor's Office's *Budget and Accounting Manual*.

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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants and contracts and amounts.

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. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

Inventories

Inventories, primarily bookstore merchandise, is carried at the lower of cost of 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 an 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 asset are capitalized. Routine repairs and maintenance are charged as 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.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net Assets

The District's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of associated outstanding debt obligations. To the extent 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.
- *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.
- *Restricted net assets – nonexpendable* – Nonexpendable 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.
- *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 funds, the District's policy is to utilize available restricted resources, followed by unrestricted resources.

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.

On-Behalf Payments

GASB Statement 24 requires that direct on-behalf payments for firing benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments.

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 contract sponsors that have not yet been earned.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Operating Revenues

Operating revenues include all revenues from programmatic sources. Non-operating revenues include state apportionments, state and local tax revenues, investment income and gifts.

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. Revenues 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.

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 3 – CASH AND INVESTMENTS

Cash in County Treasury	\$ 8,643,789
Cash on hand and in banks	<u>325,344</u>
 TOTAL CASH	 <u>\$ 8,969,133</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. The *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 also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

Cash in banks and specifically identifiable investments are classified according to credit risk into one of 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 the securities are held by the broker's or dealer's 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.

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.

All certificates of deposit are collateralized as required by California state law for any amount exceeding FDIC or FSLIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007

NOTE 3 – CASH AND INVESTMENTS, Continued

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	\$ -	\$ 8,643,789	\$ -	\$ 8,643,789	\$ 8,643,789
Cash in banks	<u>325,344</u>	<u>-</u>	<u>-</u>	<u>325,344</u>	<u>325,344</u>
Total cash and cash equivalents	<u>\$ 325,344</u>	<u>\$ 8,643,789</u>	<u>\$ -</u>	<u>\$ 8,969,133</u>	<u>\$ 8,969,133</u>

Barstow College Foundation:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Balance</u>
Cash in bank	\$ 119,952	\$ -	\$ -	<u>\$ 119,952</u>
Investments:				
Money market	\$ -	\$ -	\$ 90,816	\$ 90,816
Corporate bonds and debentures	-	-	75,532	75,532
Stocks and mutual funds	-	-	<u>211,273</u>	<u>211,273</u>
Total Foundation investments			<u>\$ 377,621</u>	<u>\$ 377,621</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2007 are as follows:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Total</u>
General fund	\$ 65,872	\$ 1,047,514	\$ 144,035	\$ 1,257,421
ASB fund	-	-	61	61
Bookstore fund	-	-	24,874	24,874
Capital outlay fund	-	124,554	12,040	136,594
Financial aid fund	43,523	-	-	43,523
Scholarship fund	-	-	18,981	18,981
Self-insurance fund	<u>-</u>	<u>-</u>	<u>17,347</u>	<u>17,347</u>
TOTAL ACCOUNTS RECEIVABLE	<u>\$ 109,395</u>	<u>\$ 1,172,068</u>	<u>\$ 217,338</u>	<u>\$ 1,498,801</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Historical cost				
Building	\$ 17,527,082	\$ 3,839,535	\$ -	\$ 21,366,617
Construction in progress	2,018,088	825,030	(1,981,208)	861,910
Furniture and equipment	1,276,704	75,107	-	1,351,811
Land	119,462	-	-	119,462
Site improvements	<u>1,396,980</u>	<u>-</u>	<u>-</u>	<u>1,396,980</u>
Total historical cost	22,338,316	4,739,672	(1,981,208)	25,096,780
Accumulated depreciation				
Building	3,912,440	435,574	-	4,348,014
Furniture and equipment	764,945	130,777	-	895,722
Site improvements	<u>682,458</u>	<u>60,348</u>	<u>-</u>	<u>742,806</u>
Total accumulated depreciation	<u>5,359,843</u>	<u>626,699</u>	<u>-</u>	<u>5,986,542</u>
CAPITAL ASSETS, NET	<u>\$ 16,978,473</u>	<u>\$ 4,112,973</u>	<u>\$ (1,981,208)</u>	<u>\$ 19,110,238</u>

NOTE 6 – LONG-TERM LIABILITIES

Long-term liabilities for the fiscal year ended June 30, 2007 are summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capitalized lease	\$ 73,141	\$ -	\$ (73,141)	\$ -
Compensated absences	<u>287,512</u>	<u>57,846</u>	<u>-</u>	<u>345,358</u>
TOTALS	<u>\$ 360,653</u>	<u>\$ 57,846</u>	<u>\$ (73,141)</u>	<u>\$ 345,358</u>

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 7 – 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)

Plan Descriptions

<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.

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.

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and 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 ("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. Disability benefits are available up to 90 percent of final compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CD Benefit Program include immediate vesting, variable contributions rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participating in the CB benefit plan is optional; however, if the employee selects the CB benefit plan 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 2005-2006 was 8.25% 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%.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 7 – EMPLOYEE RETIREMENT SYSTEMS, Continued

State Teachers' Retirement System (STRS), Continued

Annual Pension Cost

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
State Teachers' Retirement System contributions	\$ 368,816	\$ 328,267	\$ 296,287

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.

In their most recent actuarial valuation of the CB Plan as of June 30, 2001 the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Descriptions

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. 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 less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at 63. 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.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 7 – EMPLOYEE RETIREMENT SYSTEMS, Continued

California Public Employees' Retirement System (CalPERS), Continued

Plan Descriptions, Continued

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 2000 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), and the District is required to contribute an actuarially determined rate. The District's contribution rate to CalPERS for fiscal year 2006-2007 was 9.124%. On May 16, 2007, CalPERS approved a school employer contribution rate of 9.306% beginning with the first pay period that ends in July 2007.

Annual Pension Cost

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

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
CalPERS contributions	\$ 250,048	\$ 245,775	\$ 242,304

The contributions equaled 100 percent of the required contributions for each year. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of the investments.

Deferred Compensation

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the "Program"). The plan, available to all permanent employees, 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 the 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 for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

NOTE 8 – JOINT POWERS AGREEMENT

The District participates in two joint powers agreement (JPA) entities: Southern California Schools Employee Benefits Association (SCSEBA) and Southern California Schools Risk Management (SCRSM). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 8 – JOINT POWERS AGREEMENT, Continued

	<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.

Condensed audited financial information for both JPAs for the fiscal year ended June 30, 2007 is as follows:

<u>Southern California Schools Employee Benefits Association (SCSEBA)</u>		<u>Southern California Schools Risk Management (SCSRM)</u>	
Total assets	\$ 34,644,505	Total assets	\$ 45,693,618
Total liabilities	<u>6,162,783</u>	Total liabilities	<u>22,662,233</u>
Net assets (deficit)	<u>\$ 28,481,722</u>	Net assets	<u>\$ 23,031,385</u>
Total operating revenues	\$ 64,491,412	Total operating revenues	\$ 36,544,355
Total operating expenses	(56,137,218)	Total operating expenses	(25,819,271)
Total non-operating loss	<u>(917,029)</u>	Total non-operating income	<u>1,904,386</u>
Increase in net assets	<u>\$ 7,437,165</u>	Increase in net assets	<u>\$ 12,629,470</u>

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

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 9 – FUNCTIONAL EXPENSES

	Salaries and Benefits	Payments to Students	Supplies, Materials, and Other Expenses and Services	Total
Admissions and records	\$ 341,121	\$ 268,978	\$ 28,498	\$ 638,597
Ancillary services	714,558	-	958,109	1,672,667
Community services and economic development	425,032	-	20,473	445,505
General institutional support services	952,778	-	831,085	1,783,863
Instructional activities	4,801,558	-	459,216	5,260,774
Instructional administration	373,552	-	12,140	385,692
Instructional support services	280,047	-	96,202	376,249
Physical property and acquisitions	271,806	-	24,568	296,374
Planning, policy making, coordination, general support	403,341	-	(12,491)	390,850
Plant operations and maintenance	363,563	-	875,189	1,238,752
Student services – counseling and guidance	436,478	-	48,220	484,698
Student services – other	<u>1,233,716</u>	<u>-</u>	<u>131,991</u>	<u>1,365,707</u>
Depreciation expense	<u>\$ 10,597,550</u>	<u>\$ 268,978</u>	<u>\$ 3,473,200</u>	<u>14,339,728</u> 626,699
TOTAL				<u>\$ 14,966,427</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Vacation and Sick Leave (Compensated Absences)

Accumulated unpaid employee vacation benefits are accrued when earned by employees and recognized at 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. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. However, the employees do not gain a vested right to accumulated sick leave nor are they paid for any sick leave balance at termination of employment or any other time. It is, therefore, not appropriate to accrue the value of accumulated sick leave. See note 6 for the accrued balance of compensated absences as of June 30, 2007.

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 expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007

NOTE 10 – COMMITMENTS AND CONTINGENCIES, Continued

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, 2007, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Construction Commitment</u>
Performing Arts Center	\$ 543,885
Cosmetology modernization project	188,985
Student services modernization project	<u>129,040</u>
	<u>\$ 861,910</u>

NOTE 11 – 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.

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, 2007, and have issued our report thereon dated December 17, 2007. 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

December 17, 2007

BARSTOW COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2007

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, 2007, were as follows:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Fernando (Fred) Baca	President	2008
Phillip M. Harris	Vice-President	2010
Marcia Zableckis	Member	2008
Timothy T. Heiden	Member	2010
Ted Baca	Member	2008

DISTRICT ADMINISTRATION

Dr. Clifford Brock	District President
Mark Meadows	Vice-President: Academic Affairs
Charles C. Mitchell	Vice-President: Administrative Services
Paul R. de Dios	Dean: Student Affairs

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Fiscal Year Ended June 30, 2007

<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	\$ 2,222,991
U.S. Department of Education	---	College Work Study	84.033	70,363
U.S. Department of Education	---	Supplemental Education Opportunity Grant	84.007	40,754
U.S. Department of Education	---	Academic Competitiveness Grant	84.375	4,688
U.S. Department of Education	Calif. Dept. of Education	Vocational & Applied Technology Education Act, Title III	84.048	<u>118,353</u>
				2,457,149
U.S. Department of Health and Human Services	Calif. Dept. of Education	Temporary Assistance to Needy Families (TANF)	93.558	24,823
U.S. Department of Defense	---	Veterans Education	84.000	<u>1,568</u>
TOTAL FEDERAL FINANCIAL AWARDS				<u>\$ 2,483,540</u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Fiscal Year Ended June 30, 2007

Program Name	Program Revenues			Total Program Revenues	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
California Work Opportunity and Responsibility to Kids	\$ 103,296	\$ -	\$ -	\$ 103,296	\$ 95,125
CARE	97,132	-	-	97,132	96,480
Disabled Student Program	209,708	-	-	209,708	230,185
Extended Opportunity Program	469,261	-	-	469,261	460,046
Financial Aid Administration	160,657	-	-	160,657	188,201
Infrastructure Program (TTIP)	46,958	-	-	46,958	60,993
Instructional Equipment Grant	100,000	-	-	100,000	76,498
Lottery	39,741	-	-	39,741	39,741
Matriculation	190,849	-	-	190,849	200,809
Others	526,786	-	-	526,786	135,286
Staff Diversity	8,938	-	-	8,938	9,398
	<u>\$ 1,953,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,953,326</u>	<u>\$ 1,592,762</u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

For the Fiscal Year Ended June 30, 2007

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
Credit full-time equivalent students (FTEs)			
1. Weekly census	615	-	615
2. Daily census	192	-	192
3. Actual hours of attendance	17	-	17
4. Independent study / work experience	896	-	896
5. Summer intersession	<u>449</u>	<u>-</u>	<u>449</u>
Total	2,169	-	2,169
 Non-credit full-time equivalent students			
1. Actual hours of attendance	114	-	114
2. Summer intersession	<u>10</u>	<u>-</u>	<u>10</u>
Total	<u>124</u>	<u>-</u>	<u>124</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 Fiscal Year Ended June 30, 2007

	<u>General Fund</u>	<u>Bookstore Fund</u>	<u>Capital Outlay Fund</u>	<u>Self Insurance Fund</u>	<u>Trust Funds</u>
June 30, 2007					
Annual financial and budget report (CCFS-311) fund balance	\$ 4,873,556	\$ 355,679	\$ 1,805,339	\$ 1,908,686	\$ 186,805
Adjustments:					
Adjust ending inventory to physical count	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2007					
Audited Financial Statements Fund Balance	<u>\$ 4,873,556</u>	<u>\$ 355,679</u>	<u>\$ 1,805,339</u>	<u>\$ 1,908,686</u>	<u>\$ 186,805</u>

See the accompanying note to supplementary information

BARSTOW COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

June 30, 2007

NOTE 1 – PURPOSE OF SCHEDULES

The audit of the Barstow Community College District for the fiscal year ended June 30, 2007 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.

OTHER REPORTS

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, 2007, and have issued our report thereon dated December 17, 2007. 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

Scheduled 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, except for findings 2007-1 and 2007-2 described in the accompanying schedule of findings and questioned costs, Barstow Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

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

December 17, 2007

**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, 2007. 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, 2007.

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

December 17, 2007

**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, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2007. 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.

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

December 17, 2007

FINDINGS AND QUESTIONED COSTS SECTION

BARSTOW COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS

For the Fiscal Year Ended June 30, 2007

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? Yes
- 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? Yes

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? Yes

Identification of major programs:

- CFDA number 84.063, 84.033, 84.007
and 84.375
- Name of federal program or cluster Financial Aid Cluster

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

Type of auditors' report issued on compliance for state programs: Unqualified

BARSTOW COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2007

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.

2007-1 Residency Determination for Credit Courses

Requirements

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

Finding

The District has adopted a system to determine the residency of all students. However, of the eight students selected for testing, the District was unable to find files for two students. Only one of the students was claimed for State support.

Recommendation

Verify all student files.

District Response

The student applications we were unable to locate were completed via paper some time ago. The District has implemented an electronic application process that will ensure that applications are readily available at all times. In addition, the District is in the process of implementing a scanning process that will ensure that all files are readily accessible.

2007-2 Concurrent Enrollment

Requirements

For summer session concurrent enrollment students, the K-12 principal may not recommend more than five percent of those students completing a particular grade for such enrollment.

Finding

The District does not have a system in which the principals involved certify that they have not recommended more students than allowed by the California Education Code.

Recommendation

The District should institute such a certification process.

District Response

We have revised our special full/part time student policies to ensure compliance. Beginning with the summer 2008 session, a certification form will be sent to all local high school principals. The certification form will indicate that not more than five percent of those students completing a particular grade may register in classes for the summer.

BARSTOW COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the Fiscal Year Ended June 30, 2007

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
Concurrent Enrollment	2006-1	The District should revise its apportionment totals to eliminate the excess students claimed.	Implemented	
Concurrent Enrollment	2006-2	The District should institute such a certification process.	Not Implemented	
CalWorks	2006-3	The District must verify that the students benefiting from CalWorks are eligible.	Implemented	
Minimum Conditions – Standards of Scholarship	2006-4	The District has begun to establish the required standards, but has not yet completed the project.	Implemented	
Non-Credit Courses	2006-5	The Self Assessment should be performed as soon as possible.	Implemented	
Return of Title IV Funds	2006-6	Remit lists of dropped students to fiscal services in a timely manner.	Implemented	