YUBA COMMUNITY COLLEGE DISTRICT

Marysville, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2010

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INDEPENDENT AUDITORS’ REPORT

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Yuba Community College District
Marysville, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Yuba Community College District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, 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 grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT
Continued

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying financial 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 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*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from, and related directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Matson and Isom

November 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

ACCOUNTING STANDARDS

The format of these financial statements follows Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statement-and Management's Discussion and Analysis-for Public Colleges and Universities*. The California Community Colleges Chancellor's Office has recommended that all State community college districts follow the business type activity (BTA) model. Yuba Community College District (the District) applied the BTA reporting model to comply with the recommendation and to report in a manner consistent and comparable with other community college districts.

The following management's discussion and analysis (MDA) provides an overview of the District's financial activities.

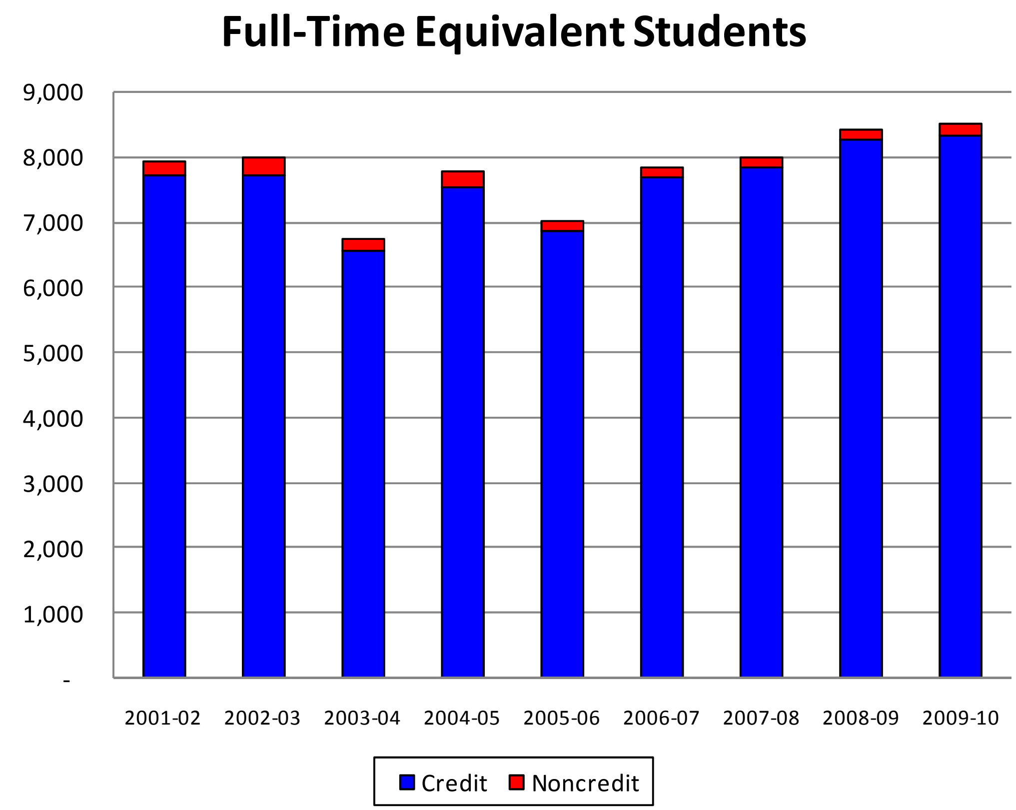
MAJOR ADJUSTMENTS NOTED

As required by accounting principles, the annual report consists of three basic financial statements that provide information on the District as a whole: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The information provided on the statements in the MDA includes all funds, including the Student Association of Yuba College, but excludes the Yuba College Foundation (the Foundation). Each statement will be discussed separately. Separately issued financial statements for the Foundation can be obtained from the District.

Under the BTA model of financial reporting, a single entity-wide statement is required to report financial activity for all funds of the District. Since this is quite a variance from previous presentation, the following information is provided to help with the understanding of the financial statements.

FINANCIAL AND ATTENDANCE HIGHLIGHTS

The District achieved full-time equivalent students (FTES) of 8,505 in 2009-10.



STATEMENT OF NET ASSETS

The statement of net assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector organizations.

	2010	2009	Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 4,648,475	$ 3,178,961	46%
Receivables	9,663,820	9,498,029	2%
Total Current Assets	14,312,295	12,676,990	13%
NONCURRENT ASSETS			
Restricted cash and cash equivalents	73,688,994	93,646,676	-21%
Deferred charges	1,473,421	1,551,311	-5%
Capital assets - net	78,674,852	58,286,027	35%
Total Noncurrent Assets	153,837,267	153,484,014	0%
Total Assets	$ 168,149,562	$ 166,161,004	1%
LIABILITIES			
CURRENT LIABILITIES			
Accounts payables and accrued liabilities	$ 8,008,155	$ 5,690,383	41%
Deferred revenue	3,292,881	2,865,447	15%
Other current liabilities (including TRANs)	8,562,000	9,927,843	-14%
Total Current Liabilities	19,863,036	18,483,673	7%
NONCURRENT LIABILITIES			
Long-term liabilities-noncurrent portion	98,641,041	98,588,373	0%
Total Liabilities	118,504,077	117,072,046	1%
NET ASSETS			
Invested in capital assets - net	46,786,715	43,860,284	7%
Restricted	15,984,479	40,883,118	-61%
Unrestricted:			
Designated for capital and other projects	1,981,428	1,895,855	5%
General contingency reserve	(15,107,137)	(37,550,299)	-60%
Total Unrestricted	(13,125,709)	(35,654,444)	-63%
Total Net Assets	49,645,485	49,088,958	1%
Total Liabilities and Net Assets	$ 168,149,562	$ 166,161,004	1%

Current cash and cash equivalents consist primarily of cash in the county treasury of $4.25 million which is an increase of $1.47 million mostly due to staffing reductions made effective February 1, 2010.

Receivables include balances from state and federal grants as well as general apportionment earned but not received by year end. Accounts receivable increased $165 thousand due primarily to an increase in student receivables, net of an increase in allowance for doubtful accounts.

Restricted cash and cash equivalents consist of $72.91 million from bond proceeds and TRANs. Of this amount, $62.53 million is in California Asset Management Program (CAMP), $11.12 million in the county pool, and $41,500 with a fiscal agent. The decrease of $19.96 million primarily occurred due to: 1) an increase in bond expenditures of $18.51 million; 2) a decrease of $1.40 million in issuance of TRANs; and 3) a bond property tax assessment increase of $318 thousand.

Capital assets increased by $20.39 million due primarily to: 1) an increase in Measure J construction in progress of $13.89 million; 2) an increase in site purchase of $4.69 million; and 3) an increase in buildings of $3.35 million; 4) an increase in equipment of $193 thousand and an increase in accumulated depreciation on buildings, equipment, and vehicles of $1.73 million.

The Measure J bond construction is expected to increase during 2010-11. The District has outstanding construction commitments in the amount of $17.18 million as of June 30, 2010.

Total current liabilities increased $1.38 million due to: 1) an increase of $3.36 million in accounts payable and inter-fund transfers; 2) a decrease of $1.40 million in TRANs; 3) a decrease of $1.02 million in accrued salaries and benefits; 4) an increase of $427 thousand in deferred revenue; 5) an increase of $34 thousand for liability related to current portion of long-term liabilities; and 6) a decrease of $32 thousand in due to/from and accrued interest.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45 which requires governmental agencies, including community colleges, to recognize other postemployment benefits (OPEB). The District implemented GASB Statement No. 45 to accrue the other postemployment benefits (OPEB) liability beginning in 2008-09. The District has accrued a liability of $2.53 million since 2008-09. An actuarial study completed on October 21, 2009, stated the District's unfunded retiree health benefits liability at $34.72 million. The District's annual required contribution (ARC) is $2.75 million. The District is currently paying the pay-as-you-go portion which was $1.51 million. As of June 30, 2010, the District set aside $1.98 million in the Retiree Health Benefit Fund to meet this obligation.

The footnotes to the financial statements describe accounting classifications of the net assets. Net assets invested in capital assets increased $2.93 million due primarily to increased construction in progress with capital assets of $20.31 million associated with Measure J construction, net of an increase in spent capital related debt of $17.38 million.

Unrestricted net assets include an amount designated for retiree health benefits.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statements of revenues, expenses, and changes in net assets presents the operating finances of the District, as well as the nonoperating revenues and expenses. State general apportionment funds, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

	2010	2009	Change
OPERATING REVENUES			
Net tuition and fees	$ 1,890,984	$ 1,870,319	1%
Grants, contracts, and other designated revenues - noncapital	11,532,587	12,702,605	-9%
Other operating income	13,153	11,059	19%
Total Operating Revenues	13,436,724	14,583,983	-8%
Total Operating Expenses	58,221,361	63,521,595	-8%
Operating Loss	(44,784,637)	(48,937,612)	-8%
NONOPERATING REVENUES (EXPENSES)			
State apportionments - noncapital	22,151,414	22,346,625	-1%
Local property taxes	20,433,805	21,113,845	-3%
Lottery and other revenue	410,567	382,283	7%
Investment income (expense)	253,912	49,429	414%
Other nonoperating revenues (expenses) - net	(49,285)	322,598	-115%
Total Nonoperating Revenues (Expenses)	43,200,413	44,214,780	-2%
Loss Before Other Revenues, Expenses, Gains, or Losses	(1,584,224)	(4,722,832)	-66%
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES			
Apportionment and property taxes - capital	567,837	535,130	6%
Local property taxes and revenues - capital	4,635,942	4,357,585	6%
Investment income - capital	201,511	1,353,253	-85%
Interest expense - capital	(3,266,365)	(3,302,428)	-1%
Other nonoperating capital revenues (expenses) - net	1,826	6,487	-72%
Total Other Revenue, Expenses, Gains, or Losses	2,140,751	2,950,027	
Increase (Decrease) in Net Assets	556,527	(1,772,805)	-131%
Net Assets - Beginning of Year	49,088,958	50,861,763	-3%
Net Assets - End of Year	$ 49,645,485	$ 49,088,958	1%

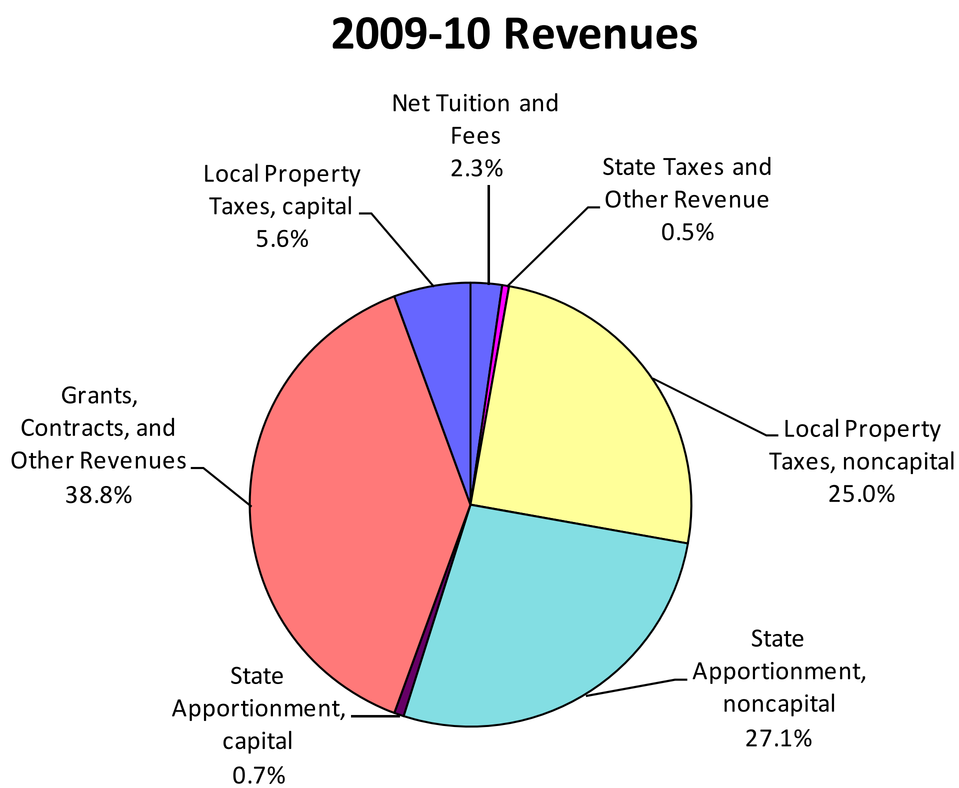
Net tuition and fees consist of enrollment fees of nonresident tuition and all other fees less the Board of Governor tuition waivers. Regular enrollment fees of $26 per unit are set by the State for all community colleges. Regular enrollment fees are included in the calculation of general apportionment.

Total operating revenues decreased $1.15 million due primarily to decreases in state and local grants and contracts, and increase in revenues from federal grants such as ARRA State Stabilization Funds and additional federal revenues for Woodland Community College.

Nonoperating revenues decreased by $195 thousand due primarily to decrease in total apportionment reduction based on workload reduction and $680 thousand due to a reduction in property taxes revenue.

Local property taxes and revenues – capital, increased $278 thousand to support bond debt service. This amount is supported by property taxes paid by District property owners to support the Proposition 39 Measure J Bond issue approved by the voters in November 2006.

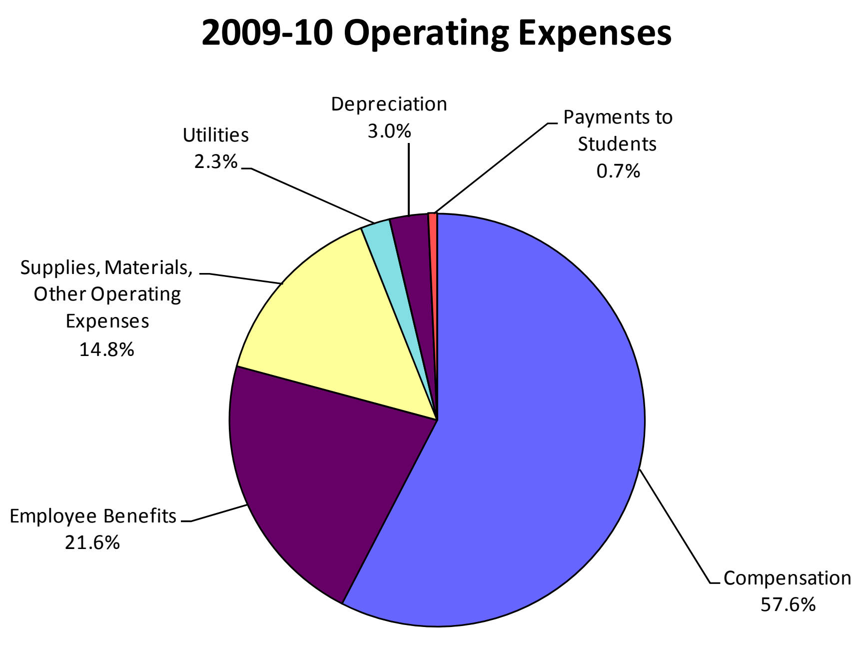
Investment income - capital, decreased $1.15 million, which illustrates a reduction in interest earned on the long-term investment of Measure J Bond proceeds. Measure J Bond proceeds were invested in a guaranteed investment contract (GIC) for part of 2008-09 at approximately 5% interest rate. Due to fluctuation in the stock market and the risk of losing principal plus interest with a GIC, the District invested these funds in 2008-09 in CAMP and the county pool for which the interest earned was significantly reduced to .21% in 2009-10.



OPERATING EXPENSES (BY NATURAL CLASSIFICATION)

	2010	2009	Change
Compensation	$ 33,540,582	$ 36,419,323	-8%
Employee benefits	12,579,421	13,131,810	-4%
Supplies, materials, other operating expense, and services	8,606,457	9,727,491	-12%
Utilities	1,313,392	1,755,353	-25%
Depreciation	1,732,201	1,731,308	0%
Payments to students	449,308	756,311	-41%
Total Operating Expenses	$ 58,221,361	$ 63,521,596	-8%

Total operating expenses decreased by $5.30 million. Of this amount: 1) there was a decrease of $2.88 million in salaries due to staffing reductions as a result of layoffs, resignations, and retirements; 2) there was a decrease in benefits expenditures of $552 thousand which directly correlates with reduction of staffing; 3) utilities decreased by $441 thousand due to a decrease in kilowatt rates, staff energy conservation efforts and Yuba College buildings off-line for renovations due to Measure J construction activity; 4) supplies, materials, and other operating expenses decreased by $1.12 million, mostly due to reduction in budget line items to unrestricted and restricted general fund in addressing budget cuts to the District and increase in construction activity from state and local funded capital projects; and 6) payments to students decreased by $307 thousand mostly due to categorical cuts to various state funded programs.



STATEMENTS OF CASH FLOWS

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

	2010	2009
Cash provided (used) by:		
Operating activities	$ (39,374,165)	$ (45,535,218)
Noncapital financing activities	41,878,835	44,665,518
Capital and related financing activities	(21,327,412)	(5,398,439)
Investment activities	334,574	81,833,327
Net Increase (Decrease) in Cash	(18,488,168)	75,565,188
Cash - Beginning of Year	96,825,637	21,260,449
Cash - End of Year	$ 78,337,469	$ 96,825,637

Cash receipts from operating activities consist primarily of federal, state, and local grants/contracts. Cash outlays were either payments to or on behalf of employees as well as suppliers and students.

The primary sources of noncapital cash flows were state apportionment of $21.54 million, property taxes of $20.71 million, state taxes and other revenues of $1.69 million, net of outflow for financial aid of $657 thousand, and decrease in proceeds from TRANs of $1.40 million.

Capital and related financing activities consist of capital purchases of $22.12 million, interest paid on capital debt of $3.41 million, payments on capital debt of $997 thousand, interest income in capital investments of $201 thousand, local property taxes and other revenues – capital of $4.64 million, and state apportionments – capital of $319 thousand.

Cash flows from investment activities include interest on cash in county treasury of $334 thousand.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The District is proceeding successfully with the multi-college concept. Woodland Community College was designated a full college effective July 1, 2008.

Student enrollment (FTES) for the 2009-10 year increased to 8,505. The District administrators have developed a FTES monitoring process to provide constant feedback on student enrollment trends.

During 2009-10 year, the Tri-County Schools Insurance Group (TCSIG) health plans were essentially unchanged, as were the rates. TCSIG increased premiums by 14% for medical, dental, and vision in 2010-11.

State Apportionment

The 2010-11 State general apportionment is projected to increase by 2.2% in growth funding. The growth will produce approximately $998 thousand additional revenues to the District. According to Community College League of California, the budget is believed to rely on overly optimistic assumptions and will likely require mid-year cuts, overseen by the new governor. In addition, there will be intra-year cash deferrals by delaying payments to the District from 2010-11 to 2011-12. This will result in loss of interest revenue and increase in borrowing additional funds in meeting cash flows needs. Increased expenses for 2010-11 include salary increases associated with collective bargaining (step/column increases, negotiated longevity step), mandated fringe increases (workers' compensation, CalPERS, CalSTRS, and reduced workload), and operating costs (utilities, leases/rents, contracts, retiree health benefits, and fuel).

State Categorical Funding

The 2009-10 State categorical funds were significantly reduced in the Budget Act. Most categorical programs were facing cuts between 32% and 62%. The categorical programs took a cut of $2.2 million in the following programs: EOPS, DSPS, Matriculation, CalWORKs, Instructional Equipment/Block SB 1108, CARE, Psych Tech/Sierra Vista, Telecommunications, Economic Development, TANF, Basic Skills, and Nursing. The categorical programs are budgeted at the revenue level expected from the State. In 2010-11, State budget originally planned on providing $35 million statewide to community colleges in backfilling categorical cuts by replacing ARRA backfill. State categorical funds for 2010-11 will be funded at the 2009-10 levels.

Equalization

SB-361 (Scott) authorized the enactment of the General Funding Formula reform for all community colleges. This bill created an equitable distribution of equalization funds that fosters both expeditious and permanent equity within the State community college system. Equalization has been included in base funding.

Physical Plant and Instructional Support

The District received no allocation for instructional equipment and scheduled maintenance in 2010-11.

Lottery

Lottery funds are budgeted at $115 per FTES for unrestricted lottery revenues and $18 per FTES for Proposition 20 (restricted) revenue in 2010-11.

CalPERS

The District's CalPERS retirement rate has increased slightly from 9.709% in 2009-10 to 10.707% in 2010-11.

Mandated Cost Reimbursement

The District receives mandated cost reimbursement for a portion of collective bargaining, health fees, open meetings act, and the State's mandate process. The District received $272 thousand in mandated cost reimbursement in 2006-07 and the District has not received any mandated cost reimbursements in 2007-08, 2008-09, and 2009-10. In the 2010-11 budget act, there is an allocation of $22.3 million for mandated cost claims from prior years and an allocation of $9.5 million for the current year. The District will receive $146 thousand from prior-year cost claims. A portion of the $9.5 million will be disbursed to the District as well.

Summary

Measure J planning and construction activities were visible throughout the fiscal year. This effort will continue to expand as the District moves forward with the capital projects and facility upgrades/repairs defined in the 2006 Facility Master Plan.

FINANCIAL SECTION

June 30, 2010		Primary Institution		Foundation
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	4,648,475	$	54,765
Short-term investments		-		2,463,665
Accounts receivable - net		9,663,820		53
Total Current Assets		14,312,295		2,518,483
NONCURRENT ASSETS				
Restricted cash and cash equivalents		73,688,994		-
Long-term investments		-		3,749,592
Deferred charges		1,473,421		-
Capital assets - net		78,674,852		-
Assets held by third party		-		84,310
Total Noncurrent Assets		153,837,267		3,833,902
Total Assets	$	168,149,562	$	6,352,385
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of long-term liabilities	$	1,162,000	$	-
Accounts payable		6,181,228		3,092
Accrued salaries and related benefits		412,486		-
Accrued interest		1,414,441		-
Deferred revenue		3,292,881		-
Tax and revenue anticipation notes		7,400,000		-
Total Current Liabilities		19,863,036		3,092
AMOUNTS HELD IN TRUST FOR OTHERS		-		353,467
NONCURRENT LIABILITIES				
Other postemployment benefits (OPEB)		2,534,314		-
Other long-term liabilities		96,106,727		-
Total Noncurrent Liabilities		98,641,041		-
Total Liabilities		118,504,077		356,559
NET ASSETS				
Invested in capital assets - net of related debt		46,786,715		-
Restricted:				
Nonexpendable		56,092		5,059,550
Expendable		15,928,387		826,540
Unrestricted		(13,125,709)		109,736
Total Net Assets		49,645,485		5,995,826
Total Liabilities and Net Assets	$	168,149,562	$	6,352,385

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2010		Primary Institution		Foundation
OPERATING REVENUES				
Tuition and fees (gross)	$	4,969,557	$	-
Scholarship discounts and allowances		(3,078,573)		-
Net Tuition and Fees		1,890,984		-
Grants and contracts - noncapital:				
Federal		2,880,864		-
State		6,657,709		-
Local		1,994,014		-
Other operating payments		13,153		-
Total Operating Revenues		13,436,724		-
OPERATING EXPENSES				
Salaries		33,540,582		-
Employee benefits		12,579,421		-
Supplies, materials, and other operating expenses and services		8,606,457		58,608
Utilities		1,313,392		-
Depreciation		1,732,201		-
Payments to students		449,308		79,575
Total Operating Expenses		58,221,361		138,183
Operating Loss		(44,784,637)		(138,183)
NONOPERATING REVENUES (EXPENSES)				
State apportionments - noncapital		22,151,414		-
Local property taxes - noncapital		20,433,805		-
State taxes and other revenues		410,567		-
Investment income (expenses) - noncapital		253,912		356,232
Financial aid revenues - federal		18,021,571		-
Financial aid revenues - state		1,033,798		-
Financial aid expenses		(19,712,848)		-
Amortization expense		(77,890)		-
Other nonoperating revenues - grants/gifts - noncapital		686,084		71,517
Total Nonoperating Revenues (Expenses)		43,200,413		427,749
Loss Before Other Revenues, Expenses, Gains, or Losses		(1,584,224)		289,566
OTHER REVENUES, EXPENSES, GAINS, OR LOSSES				
State apportionments - capital		567,837		-
Local property taxes and revenues - capital		4,635,942		-
Investment income - capital		201,511		-
Interest expense - capital		(3,266,365)		-
Gain on disposal of capital assets		1,826		-
Total Other Revenues, Expenses, Gains, or Losses		2,140,751		-
Increase in Net Assets		556,527		289,566
Net Assets - Beginning of Year		49,088,958		5,706,260
Net Assets - End of Year	$	49,645,485	$	5,995,826

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

Year Ended June 30, 2010	Primary Institution	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 1,354,174	$ -
Federal grants and contracts	2,766,185	-
State grants and contracts	7,428,677	-
Local grants and contracts	2,004,941	-
Payments to suppliers	(6,575,708)	(60,951)
Payments to/on behalf of employees	(45,916,279)	-
Payments to/on behalf of students	(449,308)	(79,575)
Other receipts (payments)	13,153	58,018
Net Cash Used by Operating Activities	(39,374,165)	(82,508)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments - noncapital	21,541,619	-
Local property taxes - noncapital	20,705,751	-
State taxes and other revenues	699,582	-
Financial aid revenues - federal	18,021,571	-
Financial aid revenues - state	1,033,798	-
Financial aid expenses	(19,712,848)	-
Net proceeds from tax revenue anticipation notes	(1,400,000)	-
Interest on noncapital investments	-	(225)
Other receipts (payments)	989,362	71,517
Net Cash Provided by Noncapital Financing Activities	41,878,835	71,292
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments - capital	319,408	-
Purchases of capital assets	(22,121,026)	-
Principal paid on capital debt	(997,000)	-
Interest paid on capital debt	(3,412,632)	-
Local property taxes and other revenues - capital	4,654,507	-
Interest on capital investments	229,331	-
Net Cash Used by Capital and Related Financing Activities	(21,327,412)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	334,574	-
Net Decrease in Cash and Cash Equivalents	(18,488,168)	(11,216)
Cash and Cash Equivalents - Beginning of Year	96,825,637	65,981
Cash and Cash Equivalents - End of Year	$ 78,337,469	$ 54,765

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

Year Ended June 30, 2010		**Primary Institution**		**Foundation**
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$	(44,784,637)	$	(138,183)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense		1,732,201		-
Changes in assets and liabilities:				
Accounts receivables - net		(297,028)		16,058
Accounts payable		3,344,141		(2,343)
Accrued salaries and benefits		203,724		-
Deferred revenue		427,434		-
Amounts held in trust for others		-		41,960
Net Cash Used by Operating Activities	$	(39,374,165)	$	(82,508)

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity Yuba Community College District (the District) is a political subdivision of the State of California and provides higher education. The District consists of two community colleges and one additional center (the Primary Institution).

For financial reporting purposes, the District includes all funds, agencies, and authorities that are controlled by or dependent on the District's executive and legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District.

The financial statements of the District include the financial activities of the District and the combined totals of the trust and agency funds, which represent the various scholarships and student organizations within the District.

The District and the Yuba Community College District Foundation (the Foundation) have financial and operational relationships that meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) for inclusion of the Foundation as a component unit of the District. Accordingly, the financial activities of the Foundation as a component unit have been included in the financial statements of the District. The separately audited financial statements of the Foundation may be obtained from the District.

The following are those aspects of the relationship between the District and the Foundation that satisfies GASB:

Accountability The Foundation operates under a master agreement with the District in accordance with the *California Education Code* requirements. The District is able to impose its will upon the Foundation. The Foundation provides specific financial benefits or imposes specific financial burdens on the District.

Scope of Public Service The Foundation is a nonprofit, public benefit corporation incorporated under the laws of the State of California. The Foundation was formed to promote and assist the educational services of the District.

Discrete Presentation For financial presentation purposes, the Foundation's financial activities have been discretely presented with the financial activities of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant interfund transactions have been eliminated.

The District has 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 *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community Colleges.

Cash and Cash Equivalents The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments purchased with an original maturity of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California Education Code*, Section 41001, the District maintains substantially all of its cash in the Yuba County Treasury as part of the common investment pool. The County is restricted by *California Government Code*, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the county pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The pool has deposits and investments with a weighted-average maturity of less than one year. As of June 30, 2010, the fair value of the county pool is 100.9832% of the carrying value and is deemed to not represent a material difference. Information regarding the amount of dollars invested in derivatives with the county was not available. The county investment pool is subject to regulatory oversight by the Treasury Oversight Committee as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in the fair value of cash and cash equivalents. Realized gains and losses on cash and cash equivalents that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of cash and cash equivalents reported in the prior year. The change in fair value of cash and cash equivalents was insignificant during the year ended June 30, 2010, and there was no significant unrealized gain or loss on cash and cash equivalents held June 30, 2010.

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 California. Accounts receivable also include amounts due from the federal, 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 utilizes the allowance method with respect to its accounts receivable. The allowance was $812,191 at June 30, 2010.

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 noncurrent assets is classified as a noncurrent asset in the statement of net assets.

In accordance with *California Education Code*, Section 81965, the District maintains the bond capital project funds in the California Asset Management Program (CAMP), a California common law trust. The District's participation in CAMP is described further in note 12. The value of the District's investment in CAMP is the fair value of the pool shares. As of June 30, 2010, the fair value of CAMP is 100.02% of the carrying value and is deemed to not represent a material difference. There are no CAMP funds invested in derivatives as of June 30, 2010. Oversight of CAMP is provided by the Board of Trustees, which consists of seven trustees. The trustees are appointed to the Board of Trustees from members of the governing body, officers, or full-time employees of a public agency that is a participant in the trust and approved annually by the participants. The District is considered to be a voluntary participant in the CAMP investment pool.

Investments Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Fair value is determined from quoted market prices. The District is restricted by state law and the Board's investment policy in the types of investments that can be made. Permissible investments include the county treasury, the state local agency investment fund (LAIF), federally insured deposits, and individual securities. The weighted average maturity of all investments shall be three years or less. The District's investment policy established safety of principal as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity.

Deferred Charges Deferred charges are bond issuance costs and are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method.

Capital Assets Capital assets are recorded at cost on the date of acquisition or fair value at the date of donation. For equipment, the District's capitalization policy 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 and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method using the monthly convention over the estimated useful life of the assets; generally 50 years for buildings, 20 years for land improvements, 8 years for equipment, and 3 years for technology equipment. Land and construction in progress are considered nondepreciable capital assets; therefore, no depreciation is computed.

Assets Held by Third Party The Foundation transfers funds to the Foundation for California Community Colleges (FCCC) in accordance with a partnership agreement dated March 2009, with the California Community Colleges Scholarship Endowment (the Endowment).

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

Amounts Held in Trust for Others The Foundation administers funds for certain college related organizations. The liability represents the amount of funds held for these organizations.

Compensated Absences Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District. The District has a load-banking program for eligible faculty employees whereby the employee may accrue overload service toward a paid leave.

Bond Premium Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are recorded as long-term liabilities.

Net Assets The District's net assets are classified as follows:

> *Invested in capital assets - net of related debt* represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred for capital assets but not yet expended, such amounts are not included as a component of invested in capital assets, net of related debt.
>
> *Restricted net assets - nonexpendable* 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 be expended or added to principal depending on donor stipulations.
>
> *Restricted net assets - expendable,* include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Classification of Revenues The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

> *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; and (3) most federal, state, and local grants and contracts, and federal appropriations.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues, such as state appropriations and investment income, according to GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting;* and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Scholarship Discounts and Allowances and Financial Aid Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of activities. The District offers Board of Governors' waivers (BOG) to qualified students, and these tuition waivers are reported as scholarship discounts and allowances.

Risk Management The District's property and liability coverage is insured through the Northern California Community Colleges Self Insurance Authority (NCCC SIA). The District retains the risk up to $1,000 per occurrence. The NCCC SIA retains the risk up to $25,000 on property and $25,000 on liability. Insurance above these levels is ceded to another joint power authority, Statewide Association of Community Colleges (SWACC), and to a level of $5 million on liability and $250 million on property. Schools Excess Liability (SELF) provides insurance coverage from $5 million to $45 million.

The District is also a member of the NCCC SIA for its workers' compensation coverage. Within NCCC SIA, the workers' compensation insurance program is insured with first dollar coverage through a joint powers authority, Protected Insurance Program for Schools (PIPS).

Estimates Used in Financial Reporting In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements as well as revenues and expenses during the reporting period. Actual results could differ from those estimates. The District's largest source of revenues are property taxes, enrollment fees, and state revenues. Each of these revenue types is subject to some estimation at the date of the financial statements.

Budgets and Budgetary Accounting By state law, the District's governing board must approve a tentative budget no later than July 1, and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption. The District's governing board satisfied these requirements.

The budget is revised during the year to incorporate categorical funds that are awarded during the year and miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

General Apportionment and Property Tax The District's general apportionment is received from a combination of local property taxes, state apportionments, and other local sources.

The counties are responsible for assessing, collecting, and apportioning property taxes. Taxes are levied each fiscal year on taxable real and personal property in the counties. Secured property taxes attach as an enforceable lien on property as of March 1. Property taxes on the secured roll are due on November 1 and February 1 and become delinquent after December 10 and April 10, respectfully. Unsecured property taxes are payable in one installment on or before August 31. The following counties bill and collect the taxes for the District: Butte, Colusa, Glenn, Lake, Placer, Sutter, Yolo, and Yuba.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The counties apportion secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

Property taxes are recorded as local revenue sources by the District. The California Community Colleges Chancellor's Office reduces the District's entitlement by the District's local property tax revenue and student fees. The balance is paid from the state's General Fund and is referred to as the state apportionment. The District's base revenue is the amount of general purpose tax revenue, per full-time equivalent student (FTES), that the District is entitled to by law.

3. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2010:

	District	Foundation
PETTY CASH	$ 10,000	$ -
DEPOSITS (1)	434,640	64,131
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool	15,362,080	-
Money market mutual fund	-	323,681
California Asset Management Program	62,530,749	-
Subtotal	77,892,829	323,681
INVESTMENT SECURITIES		
U.S. Treasuries	-	1,806,915
U.S. Government Agency Securities:		
Federal Farm Credit Bank	-	230,818
Federal Home Loan Bank	-	226,321
Corporate bonds	-	312,888
Bond mututal funds	-	2,171,309
Equity securities	-	1,131,959
Subtotal	-	5,880,210
Total Cash and Investments	$ 78,337,469	$ 6,268,022

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposits, and money market accounts at financial institutions, if any.

(2) ***Investments That Are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book-entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District and Foundation do not have a deposit policy for custodial credit risk. As of June 30, 2010, $297,860 of the District's bank balance of $665,509 was uninsured and uncollateralized. As of June 30, 2010, none of the Foundation's bank balances were exposed to custodial credit risk.

District – Investment Credit Risk

California Government Code, Section 53601, limits investments in commercial paper to "prime" quality of the highest ranking, or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO), and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A by Moody's indices. The District does not have an investment policy that would further limit investment choices.

		S & P's Rating as of Year End	
Investment Type	**Fair Value**	**AAA**	**Unrated**
County treasurer's investment pool	$ 15,362,080	$ -	$ 15,362,080
California Asset Management Program	62,530,749	62,530,749	-
Totals	$ 77,892,829	$ 62,530,749	$ 15,362,080

Foundation – Investment Credit Risk

The Foundation does not have an investment policy that limits its investment choices.

		S & P's Rating as of Year End			
Investment Type	**Fair Value**	**AAA**	**AA**	**A+**	**Not Rated**
Federal Farm Credit Bank	$ 230,818	$ 230,818	$ -	$ -	$ -
Federal Home Loan Bank	226,321	226,321	-	-	-
Money market mutual funds	323,681	-	-	-	323,681
Corporate bonds	312,888	-	168,601	144,287	-
Bond mutual funds	-	-	-	-	2,171,309
Totals	$ 3,265,017	$ 457,139	$ 168,601	$ 144,287	$ 2,494,990

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. There were no concentrations of credit risk for the District or the Foundation at June 30, 2010.

District – Investment Interest Rate Risk

California Government Code, Section 53601, limits the District's investments to maturities of five years. The District does not have an investment policy regarding interest rate risk. Both the county treasurer's investment pool and California Asset Management Program mature in less than one year.

Foundation – Investment Interest Rate Risk

The Foundation's investment policy requires that at least 40% of investments be in fixed income securities and 50% to 60% in equities. Investment decisions are executed with the intent that they will be held to maturity. The schedule of maturities for the Foundation at June 30, 2010, is as follows:

		Maturity			
Investment Type	**Fair Value**	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More Than 10 Years**
U.S. treasuries	$ 1,806,915	$ 1,228,033	$ -	$ 372,782	$ 206,100
Federal Farm Credit Bank	230,818	-	230,818	-	-
Federal Home Loan Bank	226,321	-	226,321	-	-
Corporate bonds	312,888	-	312,888	-	-
Bond mutual funds	2,171,309	926,606	550,559	-	694,144
Totals	$ 4,748,251	$ 2,154,639	$ 1,320,586	$ 372,782	$ 900,244

The U.S. government agency securities (Federal Farm Credit Bank and Federal Home Loan Bank) are mortgage-backed securities which entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal payments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2010:

Federal grants and contracts	$ 495,250
State grants and contracts	1,021,026
Local grants and contracts	476,895
State taxes and other revenues	152,681
State apportionment, capital	780,691
State apportionment, noncapital	4,474,019
Local property taxes, noncapital	668,118
Local property taxes, capital	151,022
Tuition and fees	1,189,256
Interest on investments, noncapital	109,518
Interest on investments, capital	20,237
Other	125,107
Total	$ 9,663,820

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, is as follows:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
NONDEPRECIATED CAPITAL ASSETS				
Land	$ 975,316	$ 4,687,154	$ -	$ 5,662,470
Construction in progress	13,256,537	16,865,482	2,977,580	27,144,439
DEPRECIATED CAPITAL ASSETS				
Buildings and improvements	56,249,591	3,353,137	-	59,602,728
Equipment	6,364,060	192,833	-	6,556,893
Vehicles	633,515	-	-	633,515
Total Capital Assets	77,479,019	25,098,606	2,977,580	99,600,045
Less: Accumulated depreciation	19,192,992	1,732,201	-	20,925,193
Total Capital Assets - Net	$ 58,286,027	$ 23,366,405	$ 2,977,580	$ 78,674,852

6. TAX AND REVENUE ANTICIPATION NOTES (TRANs)

On October 15, 2009, the District issued $7,400,000 of TRANs at an interest rate of 3.00% due October 15, 2010. These TRANs were issued under the authority of the *California Government Code*. Proceeds from the issuance of TRANs were used to meet the fiscal 2009-10 expenditures, including operating expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the District. TRANs are general obligations of the District but are payable only from taxes, revenues, cash receipts, and other monies received by the District. On October 15, 2010, the TRANs were repaid in accordance with the above terms.

On July 13, 2010, the District issued $4,300,000 of TRANs at an interest rate of 2.00% due July 13, 2011.

7. LONG-TERM LIABILITIES

The long-term liability activity for the year ended June 30, 2010, is as follows:

	Beginning Balance	Additions	Payments and Reductions	Ending Balance	Current Portion
Capital lease	$ 24,000	$ -	$ 12,000	$ 12,000	$ 12,000
Compensated absences	1,381,521	-	5,107	1,376,414	-
General obligation bonds	94,256,325	-	940,000	93,316,325	1,150,000
Unamortized bond premium	2,694,831	-	130,843	2,563,988	-
Note payable	45,000	-	45,000	-	-
Total Long-Term Liabilities	$ 98,401,677	$ -	$ 1,132,950	$ 97,268,727	$ 1,162,000

Capital Lease

The District leases a relocatable building at a cost of $120,000 under an agreement which provides for title to pass upon expiration of the lease period. The capital lease held during the year ended June 30, 2010, did not incur interest. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2011	$ 12,000

General Obligation Bonds

The outstanding general obligation bonds payable at June 30, 2010, is as follows:

2006 Series A general obligation bonds due in annual installments of $151,418 to $4,600,000, beginning August 1, 2007, through August 1, 2031, at interest from 3.93% to 5.00%.	$ 27,824,047
2006 Series B general obligation refunding bonds due in annual installments of $367,774 to $13,209,000, beginning August 1, 2007, through August 1, 2046, at interest from 4.75% to 5.06%.	65,492,278
Total	$ 93,316,325

The amount of interest cost incurred during the year ended June 30, 2010, was $3,266,365, all of which was charged to expenses.

The annual requirements to amortize the general obligation bonds payable are as follows:

	Current Interest Bonds		Capital Appreciation Bonds		
	Principal	**Interest**	**Principal**	**Accreted Interest**	**Totals**
2011	$ 1,150,000	$ 3,394,075	$ -	$ -	$ 4,544,075
2012	-	3,348,075	-	-	3,348,075
2013	-	3,348,075	110,480	24,520	3,483,075
2014	-	3,348,075	215,422	59,578	3,623,075
2015	-	3,348,075	315,315	104,685	3,768,075
2016-2020	1,235,000	16,740,375	2,140,491	1,104,509	21,220,375
2021-2025	10,260,000	15,554,125	-	-	25,814,125
2026-2030	6,430,000	12,750,875	4,338,596	7,881,404	31,400,875
2031-2035	5,165,000	12,259,125	6,142,768	14,642,232	38,209,125
2036-2040	21,105,000	8,088,388	1,891,795	7,398,205	38,483,388
2041-2045	-	6,020,000	8,736,458	41,793,541	56,549,999
2046-2047	24,080,000	1,833,000	-	-	25,913,000
Totals	$ 69,425,000	$ 90,032,263	$ 23,891,325	$ 73,008,674	$ 256,357,262

8. OPERATING LEASES

The District entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation upon written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. The amount of rental expenditures during the year ended June 30, 2010, was $174,757. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2011	$ 161,903
2012	114,645
2013	54,547
2014	1,313
Total	$ 332,408

The District will receive no sublease rental revenues nor pay any contingent rentals for these buildings.

9. EMPLOYEE RETIREMENT SYSTEMS

California State Teachers' Retirement System

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing, multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS office, 100 Waterfront Place, Sacramento, California 95605.

Funding Policy

Active plan members are required to contribute 8.00% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Board. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll for full time faculty and 8.82% for reduced workload faculty. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2010, 2009, and 2008, were $1,614,529, $1,757,810, and $1,740,967, respectively, and equaled 100% of the required contributions for each year.

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminated employees at June 30, 2010.

California Public Employees Retirement System

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing, multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.00% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.709% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2010, 2009, and 2008, were $1,030,808, $1,027,361, and $951,143, respectively, and equaled 100% of the required contributions for each year.

Accumulation Program for Part-Time and Limited-Service Employees

The District has also adopted the Accumulation Program for Part-time and Limited-service Employees (APPLE). APPLE is covered under *Internal Revenue Code*, Section 401A. APPLE participants include all individuals who have worked for the District on or after January 1, 1992, provided that they are not covered by any other retirement program (e.g., CalPERS or CalSTRS) through the District's employment. Each participant makes tax deferred contributions to APPLE equal to 7.5% of total compensation. Accounts are established in the name of each participant. Employee contributions are allocated directly to employee accounts. The minimum allocation participants will receive is 7.5% of compensation. Participant account balances are fully vested and nonforfeitable. Participant account balances will be paid in a single distribution or by direct rollover to another eligible retirement plan designated by the participant upon retirement or other termination. The District is not required to make contributions to APPLE.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

Plan Description

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age and length of service while working for the District. The District covers these benefits for retirees and all eligible dependents to age 65 or for the retirees' lifetime depending on the type of retiree (faculty, classified, academic management, or classified management/confidential). At June 30, 2010, the District has 235 retirees receiving benefits and has a total of 351 active participants, of which 14 are not yet eligible to receive benefits.

The District may provide these benefits through the Community College League of California (CCLC) Retiree Health Benefit Program (RHBP), an agent multiple-employer defined benefit OPEB plan. The CCLC is a joint powers authority as discussed in note 12. The RHBP does not issue a stand-alone financial report.

Funding Policy

The District's agreement with retired employees is for monthly contributions for members who meet the eligibility criteria of their collective agreement and who retire during the term of the contract. The contribution requirements of the District and plan members are established and may be amended by the District through the collective bargaining process.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	$ 2,753,630
Interest on net OPEB obligation	65,727
Adjustment to annual required contribution	(85,513)
Annual OPEB Cost	2,733,844
Contributions	1,514,069
Change in Net OBEP Obligation	1,219,775
Net OPEB Obligation - Beginning of Year	1,314,539
Net OPEB Obligation - End of Year	$ 2,534,314

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2010 and 2009, were as follows:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Obligation
June 30, 2009	$ 2,753,630	$ 1,439,091	52.26%	$ 1,314,539
June 30, 2010	$ 2,733,844	$ 1,514,069	55.38%	$ 2,534,314

Fiscal year 2009 was the year of implementation of GASB Statement No. 45. In future years, three-year trend information will be presented.

Funded Status and Funding Progress

The funded status of the plan, based on an actuarial update using age-adjusted premiums as of June 30, 2010, was as follows:

Actuarial accrued liability (AAL)	$ 34,723,912
Actuarial value of plan assets	-
Unfunded Actuarial Accrued Liability	$ 34,723,912
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active members)	$ 24,676,432
UAAL as a Percentage of Covered Payroll	140.72%

Actuarial valuations for an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continuous revision as actual results are compared to past expectations and new estimates about the future are formulated. Although the valuation results are based on values which the District's actuarial consultant believes are reasonable assumptions, the valuation results reflect a long-term perspective and, as such, are merely an estimate of future costs. Deviations in any of several factors, such as future interest rates, medical cost inflation, Medicare coverage, and changes in marital status could result in actual costs being less or greater than estimated. The schedule of funding progress will present multi-year trends and information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits in future years.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, which is consistent with the long-term perspective of the calculations.

In the October 21, 2009, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0% investment rate of return, compounded annually, net of investment expenses, an annual health care cost trend rate of 4.0%, and an annual inflation rate of 3.0%.

The District's initial unfunded actuarial accrued liability (UAAL) as of June 30, 2009, is being amortized over a period of 30 years beginning July 1, 2009. The remaining amortization period at June 30, 2010, was 28 years.

11. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

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

Construction Project Commitments

The District entered into several construction contracts with a total estimated cost of $32,998,622. At June 30, 2010, total payments on the contracts totaled $15,815,044. Subsequent to June 30, 2010, the District entered into several additional construction contracts for a total of $24,693,251.

12. JOINT POWERS AUTHORITIES

The District participates in joint ventures under joint powers agreements with the following joint powers authorities (JPAs): Schools Excess Liability Fund (SELF), Tri-County Schools Insurance Group (TCSIG), Northern California Community Colleges Self Insurance Authority (NCCC SIA), California Asset Management Program (CAMP), and Community College League of California (CCLC). The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes.

SELF is a JPA created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of the self-funded excess liability fund for public educational agencies, which are parties thereto. TCSIG arranges for and provides health benefits coverage for its member districts. NCCC SIA arranges for and provides property, liability, and workers' compensation insurance programs. CAMP is a JPA created to provide investment management services for surplus funds and comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of tax-exempt financings. CCLC has established the Retiree Health Benefit Program (RHBP) to use funds invested by the District to pay postemployment health care and welfare benefits for eligible employees and retirees. As of June 30, 2010, no funds have been contributed to RHBP.

Each JPA is governed by a board consisting of representatives selected by members of the JPAs. The boards control the operations of the JPAs, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district (except CAMP and CCLC) pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The District's share of year-end assets, liabilities, or net assets is not calculated by the JPAs (except CAMP and CCLC). Separately issued financial statements can be requested from each JPA.

Condensed audited financial information for the JPAs is as follows:

				June 30, 2009	December 31, 2009
	SELF	**TCSIG**	**NCCCSIA**	**CCLC**	**CAMP**
Total assets	$ 209,217,000	$ 30,299,333	$ 11,108,086	$ 7,505,398	$ 3,070,925,000
Total liabilities	161,555,000	9,462,303	5,022,171	4,768,210	66,935,000
Net Assets	$ 47,662,000	$ 20,837,030	$ 6,085,915	$ 2,737,188	$ 3,003,990,000
Total revenues	$ 18,330,000	$ 52,082,952	$ 7,348,859	$ 5,177,460	$ 19,774,000
Total expenses	27,701,000	51,651,853	7,132,708	4,795,956	3,715,000
Other Income (Expense)	8,315,000	868,160	317,050	(101,369)	81,000
Total Change in Net Assets	$ (1,056,000)	$ 1,299,259	$ 533,201	$ 280,135	$ 16,140,000

13. SUBSEQUENT EVENT

On July 9, 2010, the District entered into escrow for the purchase of three acres of land for the construction of additional facilities at the Clear Lake Campus. Escrow is expected to close in early 2011 for a purchase price of $475,000.

SUPPLEMENTARY INFORMATION SECTION

The District, a political subdivision of the State of California, was established on July 1, 1964, and commenced operations on July 1, 1965. Its territories encompass Yuba, Sutter, and Colusa counties and portions of Glenn, Lake, Yolo, Butte, and Placer counties. There were no changes in boundaries during the fiscal year.

GOVERNING BOARD

Name	Office	Term Expires
Jim Buchan	President/Chair, Foundation Liaison for Yuba College	2012
Xavier Tafoya	Vice President/Vice Chair	2012
Brent Hastey	Clerk	2012
Alan Flory	Foundation Liaison for Woodland Community College, Legislative Liaison	2010
Ben Pearson	Member	2012
George Nicholau	Member	2010
Leela Rai	Member	2010
Stephen Frothingham	Student Trustee	2010

DISTRICT ADMINISTRATION

Dr. Nicki Harrington,
Chancellor

Al Alt,
Vice Chancellor of Administrative Services

Dr. Beatriz Espinoza,
Vice Chancellor of Educational Planning and Services

Dr. Kay Adkins,
President, Yuba College

Dr. Angela Fairchilds,
President, Woodland Community College

The full-time equivalent resident students (FTES) eligible for 2009-2010 state apportionment reported to the State of California as of June 30, 2010, are summarized below:

	Reported Data
SUMMER INTERSESSION (Summer 2009 only)	
Noncredit	12
Credit	789
SUMMER INTERSESSION (Summer 2010 - Prior to July 1, 2010)	
Noncredit	-
Credit	20
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	5,686
Daily Census Contact Hours	613
Actual Hours of Attendance Procedure Courses	
Noncredit	151
Credit	457
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	602
Daily Census Contact Hours	175
Noncredit Independent Study/Distance Education Courses	-
Total FTES	8,505

SUPPLEMENTARY INFORMATION (Subset of above information)	
In-Service Training Courses (FTES)	10
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	152
Credit	658

See the accompanying note to the supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass Through/ Grant Number	Federal CFDA Number	Federal Expenditures
FEDERAL DIRECT AWARDS			
U.S. DEPARTMENT OF EDUCATION			
Federal Supplemental Education Opportunity Grants		84.007	$ 259,559
ARRA - Federal Work-Study Program		84.033	56,892
Federal Work-Study Program		84.033	207,683
TRIO - Student Support Services		84.042	255,998
TRIO - Upward Bound Program		84.047A	544,850
Federal Pell Grant Program		84.063	14,615,035
Federal Direct Student Loans		84.268	3,031,016
Academic Competitiveness Grants		84.375	67,724
Total Direct U.S. Department of Education			19,038,757
DEPARTMENT OF VETERAN'S AFFAIRS			
Veteran's Education		64.028	2,307
FEDERAL AWARDS PASSED THROUGH OTHER AGENCIES			
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education			
Child and Adult Care Food Program	2657-6A	10.558	95,474
Summer Food Program for Children	727701	10.559	2,773
Passed Through Yuba County Office of Education			
Forest Reserve		10.665	16,325
Passed Through County of Yolo			
Technical Assistance and Training Grants	2009-228	10.761	21,813
Total U.S. Department of Agriculture			136,385
U.S. DEPARTMENT OF EDUCATION			
Passed Through Los Rios Community College District			
Career and Technical Education - Basic Grants to States	15536	84.048	657,012
Passed Through California Student Aid Commission			
College Access Challenge Grant Program	G-09-012	84.378	271,283
Passed Through Chancellor's Office			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education Grants	S394A090005	84.394	304,691
Total U.S. Department of Education			1,232,986
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Chancellor's Office			
Temporary Assistance for Needy Families		93.558	191,934
ARRA - Child Care and Development Block Grant	0901CACCD7	93.713	14,768
Passed Through Yolo County Office of Education			
Head Start		93.600	6,673
Total U.S. Department of Health and Human Services			213,375
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed Through Foundation for California Community Colleges			
Community Service Block Grant - Discretionary Awards	08-ELSRAP-03	93.570	$ 29,386

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass Through/ Grant Number	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
Passed Through North Central Counties Consortium			
ARRA - WIA Adult Program		17.258	$ 47,500
ARRA - WIA Adult Program	K074154	17.258	9,532
ARRA - WIA Adult Program	YCC 09-02	17.258	153,093
ARRA - WIA Youth Activities	YCC 09-01	17.259	5,930
Total U.S. Department of Labor			216,055
NATIONAL SCIENCE FOUNDATION			
Passed Through Lorian Community College			
Education and Human Resources	0703018	47.076	33,461
Total Expenditures of Federal Awards			$ 20,902,712

See the accompanying note to the supplementary information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Yuba Community College District

Year Ended June 30, 2010	Program Entitlements			Program Revenues				
	Current Year	**Prior-Year Carryover**	**Total**	**Cash Received**	**Accounts Receivable**	**Deferred Revenue**	**Total**	**Program Expenditures**
CATEGORICAL APPORTIONMENTS								
Extended opportunity programs and services	$ 931,763	$ 22,042	$ 953,805	$ 953,612	$ 194	$ -	$ 953,806	$ 953,806
Cooperative agency resource education	197,775	19,292	217,067	217,067	-	-	217,067	217,067
Disabled students programs and services	743,483	62,480	805,963	804,407	-	122,538	681,869	681,869
Board financial assistance	499,815	32,323	532,138	469,638	56,841	99,688	426,791	426,791
Staff development	-	24,763	24,763	24,763	-	24,414	349	349
Faculty and staff diversity	2,541	4,469	7,010	7,010	-	-	7,010	7,010
SBDC	74,393	-	74,393	62,490	11,903	-	74,393	74,393
Telecommunications and technology	-	27,719	27,719	27,719	-	26,219	1,500	1,500
Instructional equipment	-	17,733	17,733	17,733	-	9,393	8,340	8,340
Basic skills	181,520	303,231	484,751	484,751	-	290,934	193,817	193,817
CalWORKs	465,980	-	465,980	465,980	-	-	465,980	465,980
Transfer and articulation	-	4,660	4,660	4,660	-	4,169	491	491
Matriculation	362,335	15,878	378,213	378,214	-	27,470	350,744	350,744
Community collaborative	310,000	398,044	708,044	708,044	-	404,132	303,912	303,912
Child development center facilities renovations	65,795	-	65,795	14,313	29,680	-	43,993	43,993
Associate nursing	163,896	23,930	187,826	166,935	20,891	-	187,826	187,826
Entrepreneurship career project	69,500	-	69,500	35,000	34,500	-	69,500	69,500
Subtotal	4,068,796	956,564	5,025,360	4,842,336	154,009	1,008,957	3,987,388	3,987,388
CATEGORICAL PROGRAM ALLOWANCES								
NFNRC	16,000	-	16,000	14,663	-	-	14,663	14,663
Puente	35,000	-	35,000	35,000	-	-	35,000	35,000
WCC project smart	13,250	10,584	23,834	10,584	13,250	-	23,834	23,834
State preschool	1,015,808	-	1,015,808	993,938	21,151	-	1,015,089	1,015,089
First 5	38,200	-	38,200	36,973	336	-	37,309	37,309
Foster parent	374,095	-	374,095	186,742	187,351	-	374,093	374,093
Early childhood education mentor	3,200	-	3,200	3,200	-	-	3,200	3,200
Independent living program	139,873	-	139,873	80,960	58,912	-	139,872	139,872
Foster care	14,070	-	14,070	12,679	1,001	-	13,680	13,680
MESA	70,395	-	70,395	19,828	44,021	-	63,849	63,849
Psych tech	51,150	-	51,150	-	8,237	-	8,237	8,237
One stop	23,667	-	23,667	22,636	1,032	-	23,668	23,668
SBDC	211,236	-	211,236	49,622	61,344	-	110,966	110,966
CalWORKs	71,082	16,423	87,505	50,708	1,212	31,355	20,565	20,565
Subtotal	2,077,026	27,007	2,104,033	1,517,533	397,847	31,355	1,884,025	1,884,025
Total State Programs	$ 6,145,822	$ 983,571	$ 7,129,393	$ 6,359,869	$ 551,856	$ 1,040,312	$ 5,871,413	$ 5,871,413

See the accompanying note to the supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
June 30, 2010

There were no adjustments or reclassifications necessary to reconcile the Annual Financial and Budget Report (CCFS-311) with the audited statement of net assets and statement of revenues, expenses, and changes in net assets other than those items related to GASB Statements 34 and 35.

PURPOSE OF SCHEDULES

Schedule of Workload Measures for State General Apportionments

A full-time equivalent student is a measurement of the number of hours students attend classes. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to community college districts.

Schedule of Expenditures of Federal and State Awards

These schedules were prepared on the modified accrual basis of accounting. OMB Circular A-133 requires disclosure of the financial activities of all federally funded programs. These schedules were prepared to comply with OMB Circular A-133 and state requirements.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited financial statements.

OTHER REPORTS SECTION

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

Board of Trustees
Yuba Community College District
Marysville, California

We have audited the financial statements of the business-type activities and the discretely presented component unit of Yuba Community College District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (item 10-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and questioned costs as items 10-2 to 10-5.

We noted certain matters that we reported to management of the District, in a separate letter dated November 12, 2010.

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

This report is intended solely for the information and use of the Board of Trustees, 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.

Matson and Isom

November 12, 2010

Certified Public Accountants

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

Board of Trustees
Yuba Community College District
Marysville, California

Compliance

We have audited the compliance of Yuba 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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 identified in the accompanying schedule of findings and questioned costs 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-2 to 10-4.

Internal Control Over Compliance

Management of the District 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 10-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Board of Trustees, 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.

Matson and Isom

November 12, 2010

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Yuba Community College District
Marysville, California

We have audited the financial statements of the business-type activities and the discretely presented component unit of Yuba Community College District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *California Community Colleges Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following:

SALARIES OF CLASSROOM INSTRUCTORS: 50 PERCENT LAW

APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS/CONTRACTS

STATE GENERAL APPORTIONMENT FUNDING SYSTEM

RESIDENCY DETERMINATION FOR CREDIT COURSES

STUDENTS ACTIVELY ENROLLED

CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES

USES OF MATRICULATION FUNDS

GANN LIMIT CALCULATION

ENROLLMENT FEE

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS)

SCHEDULED MAINTENANCE PROGRAM

OPEN ENROLLMENT

STUDENT FEES - INSTRUCTIONAL MATERIALS FEES AND HEALTH FEES

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE
Continued

Based on our audit, for the items tested, we found the District complied with the state laws and regulations referred to above, except as described in the schedule of findings and questioned costs. Further, based on our examination for items not tested, nothing came to our attention to indicate the District had not complied with the state laws and regulations, except as described in the accompanying schedule of findings and questioned costs as item 10-5.

This report is intended solely for the information and use of the Board of Trustees, management, 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.

Matson and Isom

November 12, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Type of auditors' report issued on compliance for major program	Unqualified
Audit findings disclosed relative to major federal award programs?	Yes
Identification of major programs	
CFDA Nos. 84.007, 84.033, 84.063, 84.268, 84.375	Student Financial Assistance Cluster
CFDA Nos. 84.042, 84.047	TRIO Cluster
CFDA No. 84.394	ARRA-State Fiscal Stabilization Fund
Threshold for distinguishing types A and B programs	$536,151
Determined to be a low-risk auditee?	No

STATE AWARDS

Internal control over state programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Type of auditors' report issued on compliance for state programs	Qualified

SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL (Cash Receipts)
10-1

Significant Deficiency

Condition

Two conditions were identified during the audit of cash receipts. The cashier can open the mail, prepare the deposits, and post to the accounts receivable subsidiary ledger. Additionally, three out of five receipts tested totaling $187,344, were not deposited into the cash in county treasury in a timely manner.

Criteria

For proper segregation of duties, individuals who post cash receipts to the receivables subsidiary ledger cannot open the mail, copy checks received, prepare deposits, or deposit cash receipts. Additionally, the District has a policy for depositing cash receipts twice per week. Internal controls should be in place to ensure that this policy is being followed for depositing all cash and checks received in a timely manner.

Effect

The absence of a proper segregation of duties may result in assets being subject to misappropriation. Additionally, without strengthening internal controls over cash receipts, assets may not be properly safeguarded.

Recommendation

For segregation of duties, we recommend that the District design and implement a proper segregation of duties over cash receipts. To achieve this control, we recommend that one employee open the mail, enter the receipts into the general ledger, and restrictively endorse all items received "for deposit only". The receipts should then go to another employee for further processing and deposit on a timely basis into the county treasury or bank. Someone who does not handle the receipts should compare deposit slips to the list of receipts to ensure that all receipts were deposited.

For timely deposits of cash receipts, we recommend that the District implement procedures to strengthen internal controls over cash receipts. Furthermore, an additional employee should be trained to deposit cash receipts in the absence of the employee assigned to depositing cash receipts as part of their normal job duties.

Response

The District does not currently have a policy of receiving all payments into one location. The various campuses and centers receive payments locally which are deposited from that location into local bank or forwarded to Marysville campus. The use of a computer-based receipting system in support of the deposit process has resulted in the process of receipting and recording into the subsidiary general ledger to become one combined step. We have mitigated this issue at the District level with verification processes conducted by our senior accounting technician. That position compares and verifies system receipts activity reports from all locations with clerk depositing reports from the County of Yuba Treasurer's Office or from monthly bank statements.

To further resolve this issue, the District will be hiring a cashier position in the fiscal year 2010-11. We will assign a staff member in Fiscal Services to open the mail, enter the receipts into the general ledger, and restrictively endorse all items received "deposit only." The receipts will then go to another employee for further processing and deposit on a timely basis into the county treasury or bank. Someone who does not handle the receipts will then compare deposit slips to the list of receipts to ensure that all receipts are deposited.

In the past, the District had short staffing in the Fiscal Services Division; therefore, there was no backup to support one staff responsible for receiving money, posting to general ledger, making bank deposits, and handling all accounts receivable as well as student refunds. We will be revising the district policy to making all deposits once a week. Our goal is to have deposits made twice a week; however, due to the process and time involved in receipting money, reconciling, posting to general ledger, this process is delayed. We will be resolving this issue by hiring a cashier position. During the cashier's absence, we will have the Accounting Specialist as a backup in ensuring that deposits are made timely.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

DEPARTMENT OF EDUCATION
STUDENT FINANCIAL ASSISTANCE PROGRAMS
10-2

Significant Deficiency

Condition

During the 2009-2010 fiscal year, the District changed their process of notification for awards of federal student aid programs. The District's process changed from issuing award letters to issuing postcards with a link to a secure website indicating the awarded amounts. However, for all forty students selected, there was no documentation that the notification of disbursement for federal student aid programs was completed.

Criteria

A school must notify a student of the amount of funds the student and his or her parent can expect to receive from each federal student aid program and how and when those funds will be disbursed. This notification must be sent before the disbursement is made. (34 CFR 668.165)

Effect

Without notifying the student for the awards of federal student aid programs, students may not be aware of their eligibility to receive these funds.

Recommendation

We recommend that the District establish procedures to document their process of notification for awards of federal student aid programs for each student.

Response

The Financial Aid Office at Yuba College has gradually transitioned to an electronic communication format with students, using the College's secure Web Advisor website. For the last five plus years students have been using Web Advisor to register and to review their grades, among other functions. In the year 2009-10, the Financial Aid Office implemented a postcard notification process to advise students that their financial aid awards had been posted on Web Advisor. To accomplish this, Information Systems developed a process within the Financial Aid Colleague system, identifying a field within the ALTR screen where a code and a date were assigned to document that a particular student was ran through the award notification process.

With this in place, at the beginning of the semester the financial aid technician ran the award notification process to pick up all students with an award. Then, as awards were completed, the process was completed again, picking up only those students with new awards. After running this process, the financial aid technician pulled a list of every student with the comment code assigning the list a date and electronically submitting this list to the print shop. The print shop in turn processed the list and mailed out the student award notification postcards, notifying the Financial Aid Office that the process had been completed.

During the external audit, the financial aid technician was able to demonstrate that postcards were processed through the print shop on a regular basis. Nevertheless, in many instances when checking the forty student sampled, the code and date had not populated on the financial aid ALTR screen. Running these processes should have picked up everyone.

To correct this system failure and to make sure that documentation is in place for every student who has been sent an award notification available through Web Advisor, the Financial Aid Office has implemented the following:

Steps to ensure award letter notification is disbursed to students:

1. Immediately after locking in payment to be disbursed in two weeks, run the ALTR for "Modified" records and for "Not Printed" records.

2. Notify the person collecting the data that the code has been assigned to the student file.

3. A list is generated from the "MAILING" table for all students that have been generated the code "FC10ALTR" on the date that step 1 was done. The field with this information is "MAILING.CORR.RECEIVED".

4. This list is sent to the print shop with the following postcard.

5. A reconciliation can be done by pulling all students that have received awards and all students that have the code "FC10ALTR" to ensure that all students awarded also receive the postcard below.

Congratulations on your decision to be a part of the Yuba Community College District!!!!

Important information you should know.

The Financial Aid Office will no longer be mailing Financial Aid Award letters.

To better serve you we have made your Financial Aid Award letter accessible online through Yuba College Web Advisor. Other services available on Web Advisor are:

- Your Financial Aid status information
- Your semester grades
- Access to your transcripts
- Your class schedule

To log on to WebAdvisor type in the following link into your address bar:
https://webadvisor.yccd.edu
You will need your student ID number and password to log in.
Your Web Advisor Password: If this is your first time to login your password is your date of birth in mmddyy format. If you were born on January 01, 2004, your password will be 010104.
Our goal is to better serve you, so please let us know if we can be of further assistance.

DEPARTMENT OF EDUCATION
STUDENT FINANCIAL ASSISTANCE PROGRAMS
10-3

Significant Deficiency

Condition

The student aid application information was not updated with the verified aggregate number of family members information for three out of twenty-four financial aid students who were selected for verification by the Department of Education.

Criteria

The District is required to establish written policies and procedures that incorporate the provision of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Under 34 CFR section 668.55, the information that must be updated is the aggregate number of family members in the household and the number of family members in the household who are enrolled as at least half-time students in postsecondary educational institutions if that number is greater than one.

Effect

Without updating the aggregate number of family members information, student aid applicants may not be receiving the appropriate awards or award amounts.

Recommendation

We recommend that the District establish procedures to update the verified family member information in the student aid application.

Response

Yuba College has written policies and procedures covering Sections 668.51 through 668.61 of the 34CFR provision. The verification procedure delineates a step-by step verification process as well as the required documentation. Financial aid technicians verify items such as adjusted gross income and income earned from work, income tax paid, number of family members in the household, number of family household members enrolled in postsecondary institutions at least half-time, and untaxed income and benefits, among other data.

The finding included three students who were selected for verification, who were actually verified correctly; however, due to an oversight, the financial aid technicians conducting the verification process failed to update the aggregate number of family members in the household. This is attributed to human error. Nevertheless, in order to prevent this type of errors, or any other verification error, the Financial Aid Office will schedule a training session for all financial aid technicians to review the verification policy as well as Federal regulations covering student verification process.

DEPARTMENT OF EDUCATION
TRIO CLUSTER
10-4

Significant deficiency

Condition

Our tests of compliance with the TRIO-Student Support Services (SSS) program resulted in the following:

1. One student out of twenty tested did not meet the TRIO guidelines as being low-income. The District's procedures for determining if a student was low-income eligible consisted of reviewing the federal and state financial aid awards disbursement to the students. However, the federal and state financial aid awards do not have the same income eligibility thresholds.

2. Due to the income eligibility in condition one above, we were unable to determine if the District complied with the earmarking ratios and accurate reporting provisions.

3. One student out of twenty tested received grant aid during their fourth year of postsecondary education without the needs of all eligible first and second year students being met.

Criteria

The eligibility and earmarking requirements are as follows:

1. One of the eligibility requirements for a student to be able to participate in a SSS project is that the student must be a low-income individual, a first-generation college student, or an individual with disabilities (34 CFR sections 646.3 and 646.7). Documentation of the status as a low-income individual may be provided by (a) a signed statement from the individual's parent or legal guardian; (b) verification from another governmental source; (c) a signed financial aid application; or (d) a signed United States or Puerto Rico income tax return. (20 USC 1070a-11(e)(2)). This documentation of the status as a low-income individual is required to be compared to the current-year TRIO low-income level table to determine eligibility.

2. One of the earmarking criteria is that at least two-thirds of the students served by an SSS project must be low-income individuals who are the first generation college students or individuals with disabilities. Not less than one-third of the individuals with disabilities must also be low-income individuals, first generation college students, or individuals with disabilities (34 CFR sections 646.7 and 646.11).

3. Grant aid to SSS students is restricted to students who receive Federal Pell Grants and are participating in the SSS project, undergoing their first two years of postsecondary education (20 USC 1070a-14(c)(2)(A)). Students may receive awards after their second year of postsecondary education provided that (1) the students are at high risk for dropping out; and (2) it will meet the needs of all its eligible first and second year students for services under this paragraph (20 USC 1070a-14(c)(2)(B)).

Effect

By not correctly documenting the low-income eligible criteria, the District may be incorrectly qualifying students as low-income, thereby risking noncompliance with the earmarking and reporting requirements of this program. Additionally, grant aid may be given to ineligible participants.

Recommendation

We recommend that the District obtain the appropriate documentation to support the students' eligibility status and verify that the student qualifies as a low-income individual based on the current-year TRIO low-income level table. Additionally, we recommend that procedures be implemented to insure that students who have completed their first two years of postsecondary education do not receive grant aid until the needs of all the eligible first and second year students have been met.

Response

Condition 1: In determining whether a student meets the TRIO guidelines as being low income, the Yuba College Student Support Services Program will follow a two-fold process.

In the first step, the Project Director reviews the submitted application for completion and verification of the student's income and eligibility status. The verification includes the review of the checked income box on the application, the number of students in the family, the student's date of birth, whether or not the student has any children, if the student is a veteran, and that the application has been signed to verify the checked income. If the student is considered an Independent Student, the stated income on the Yuba College SSS application and verifying signature on that application document the student's income eligibility. The income on the Yuba College SSS application follows the TRIO income guidelines, as posted on the U.S. Department of Education website.

The second step is to document Dependent Student eligibility where a signed financial aid application is necessary. This step is conducted by the counselor and involves the review of the student's total financial aid award package. The electronically signed financial aid application is on file in the Yuba College Financial Aid Office and is accessible to the Yuba College SSS staff in order to verify the student's adjusted gross income and exemptions. The adjusted gross income, minus exemptions, is verified as the student's income. The U.S. Department of Education terms "low-income individual" to mean an individual whose family's taxable income, for the preceding year, did not exceed 150 percent of the poverty level amount. If the student's income information validates the low-income guidelines, in agreement with the TRIO income guidelines posted by the U.S. Department of Education, that student is then deemed as low-income eligible.

Condition 2: Since the U.S. Department of Education has not yet posted the 2009-10 TRIO Annual Performance Reports Requirements and Deadlines, this information has not yet been submitted. Currently, the Yuba College SSS staff has reviewed every file for eligibility and each file has been determined to be eligible using the two-fold process described above.

A recap of the two-step process are as follows:

1) If student is an Independent Student, the stated income (with signature) on the SSS application is accepted.
2) If student is a Dependent Student, the electronic copy of the students FAFSA is used to verify eligibility and a copy of the FAFSA with the stated income has been placed in the student's file.

The Yuba College SSS program is in compliance in that the two-thirds requirement of the students served by a SSS project must be low-income individuals who are the first generation college students or individuals with disabilities. Not less than one-third of the individuals with disabilities must also be low-income individuals, first generation college students, or individuals with disabilities. The Yuba College SSS eligibility is as follows:

124 students are First-Generation and Low-Income Students; only 105 is required.

35 students are either low-income, first-generation, or individuals with disabilities; the maximum permitted, which is 55, was not exceeded.

Condition 3: OMB Approval No: 1840-0525, U.S. Department of Education, Student Support Services Program 2008-09, *Annual Performance Report Section III-Record Structure for Participant List* is the most recent guidelines available for an institution who receives a TRIO SSS grant and who is required to submit an annual performance report.

Section III, Fields 18 and 19 give specific instructions on how an institution is required to report the classification of a SSS participant who is in their first, second, third, fourth, or fifth years. The instructions state, "Use codes 3, 4, 5, and 6 only for students who have the required number of credits and GPA to be classified as the institution as sophomore, junior, seniors, and other undergraduate respectively." The Department of Education permits second year educational institutions (such as Yuba College) to classify their SSS participants as codes 1, 2, or 3. If codes 4, 5, or 6 are entered, the report will be rejected and it becomes necessary to correct the college grade level of that participant. In addition, the Yuba Community College District does not classify students as junior or senior.

SECTION IV FINDINGS
STATE AWARDS AUDIT

CONCURRENT ENROLLMENT
10-5

Significant Deficiency

Condition

For the Woodland campus, the District did not obtain verifications from the school district indicating that the concurrently enrolled K-12 students could benefit from advanced scholastic or vocational work for three out of thirteen students. These exceptions occurred when the student was placed on a wait list for a course and subsequently enrolled into the course. However, when the student was enrolled, the appropriate documentation was not obtained.

Criteria

Under *California Education Code,* Section 48800(a), the governing board of a school district may authorize K-12 students who would benefit from advanced scholastic or vocational work, upon recommendation of the principal of the student's school of attendance, and with parental consent, to attend a community college as special part-time or full-time students to undertake one or more courses of instruction offered at the community college level. The District must obtain this authorization from the K-12 school district prior to the student attending community college courses.

California Education Code, Section 76002(a) specifies that for purposes of receiving state apportionments, a community college district may include concurrently enrolled students who attend a community college with the District pursuant to *California Education Code,* Sections 48800 and 76001 in the District's report of full-time equivalent students (FTES).

Effect

Without strengthening internal controls over obtaining appropriate the documentation, the FTES may not be accurately reported to the Chancellor's Office. The overstatement of FTES from the above sample was .43 FTES, with a projected error of 5.06 FTES.

Recommendation

We recommend that the District establish procedures to obtain the required documentation from all concurrently enrolled students prior to being enrolled or put on a waiting list for a course.

Response

When concurrent students enrolled in classes and were put on a waitlist, the students were instructed to bring the verification from the school district to admissions and records with the signed add card once the students were able to enroll in the class. We no longer engage in that practice. Currently, the District retains the verification form when the student enrolls or is placed on a waitlist. If a student is placed on a waitlist, they are to return to admissions and records with a signed add form from the instructor once the student is able to enroll in the class. The staff is to then go to the binder that holds the verification form to complete the enrollment process.

Current changes in filing protocols and record keeping include document imaging through ImageNow, which will help prevent a future recurrence of this issue.

The District’s corrective action plan has been issued as a separate letter.

INTERNAL CONTROL (Cash Receipts)
09-1

Significant Deficiency

Condition

The cashier has the opportunity to open the mail, prepare the deposits, and post to the accounts receivable subsidiary ledger.

Criteria

For proper segregation of duties, individuals who post cash receipts to the receivables subsidiary ledger should not open the mail, copy checks received, prepare deposits, or deposit cash receipts.

Effect

The absence of a proper segregation of duties may result in assets that are subject to misappropriation.

Recommendation

We recommend that the District design and implement a proper segregation of duties over cash receipts. To achieve this control, we recommend that one employee open the mail, prepare a control list of all receipts, and restrictively endorse all items received "for deposit only." The receipts should then go to another employee for further processing and deposit on a timely basis into the county treasury or bank. An employee that does not handle the receipts should compare the deposit slips to the list of receipts to ensure that all receipts were deposited and be responsible for posting the receipts to the general ledger.

Action Taken

See current year finding at 10-1.

FEDERAL COMPLIANCE (Disbursements to Students)
09-2

Significant Deficiency

Condition

The District informs the National Student Loan Data System (NSLDS) of all students whose financial aid awards are packaged in the fall. For 72 students whose financial aid awards were packaged in the fall but did not attend until spring, the District did not re-inform the NSLDS of these students prior to the disbursement of funds.

Criteria

If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the NSLDS Student Transfer Monitoring Process. Under this process, a school informs NSLDS about its transfer students. NSLDS will monitor those students on the school's inform list and alert the school of any relevant financial aid history changes. A school must wait seven days after it informs NSLDS about a transfer student before disbursing Title IV aid to that student. However, a school is not required to wait if it receives an alert from NSLDS during the seven-day period or if it obtains the student's financial aid history by accessing the NSLDS Financial Aid Professional web site. When a school receives an alert from NSLDS, before making a disbursement of Title IV aid, it must determine if the change to the student's financial aid history affects the student's eligibility (34 CFR section 668.19).

Effect

By not informing NSLDS of these students prior to disbursement, the District is susceptible to awarding loans or other financial aid to students who have a history of not repaying their loans.

Recommendation

We recommend that the District access NSLDS for students packaged in the fall but not attending until spring at least seven days before any funds are disbursed.

Action Taken

Fully implemented.

FEDERAL COMPLIANCE (Student Loans)

09-3

Significant Deficiency

Condition

The District does not have a process in place for verifying enrollment levels prior to disbursement of federal direct student loans.

Criteria

According to 34 CFR 685.303, the District is required to return loan proceeds to the Department of Education if a student withdraws from the classes that qualified him or her for the loan.

Effect

Two students receiving direct student loans totaling $5,723 dropped below the six-unit level. The District faces the potential for material noncompliance if the problem persists.

Recommendation

We recommend that the District closely monitor student status both before and after disbursements are made to ensure that students qualify to receive loans.

Action Taken

Fully implemented.

FEDERAL COMPLIANCE (Student Loans)

09-4

Significant Deficiency

Condition

We noted that two out of eight students we tested had a change in status that was not reported to the appropriate parties within the required 30-day period.

Criteria

Unless the school expects to complete its next Student Status Confirmation Reports sent by the Department of Education within 60 days, the school must notify the lender or the guaranty agency within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (34 CFR section 685.309).

Effect

If the Department of Education is not notified about the change in student status, financial aid may continue to be provided to students who no longer qualify for it, which could result in material noncompliance.

Recommendation

We recommend that the District closely monitor changes in student status (for both students dropping classes and graduating) and ensure that the proper confirmations are sent out within the required timeframe.

Action Taken

Fully implemented.