SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012 AND 2011

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2012

FINANCIAL SECTION

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
San Mateo County Community College District
San Mateo, California

We have audited the accompanying basic financial statements of San Mateo County Community College District (the District) as of and for the years ended June 30, 2012 and 2011, and its discretely presented component unit, the Education Housing Corporation, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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. The financial statements of the Education Housing Corporation were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of San Mateo County Community College District and its discretely presented component unit as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress as listed in the Table of Contents 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 18, 2012

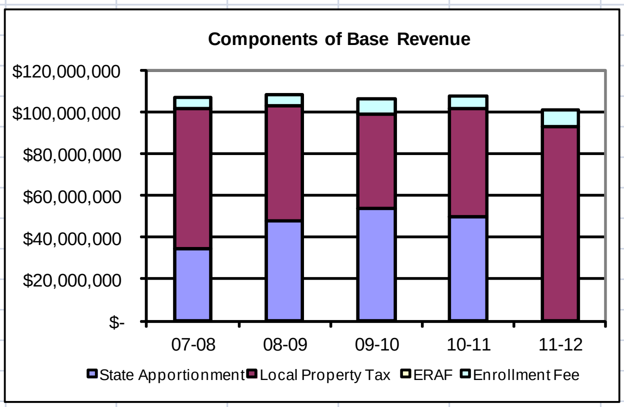
Introduction

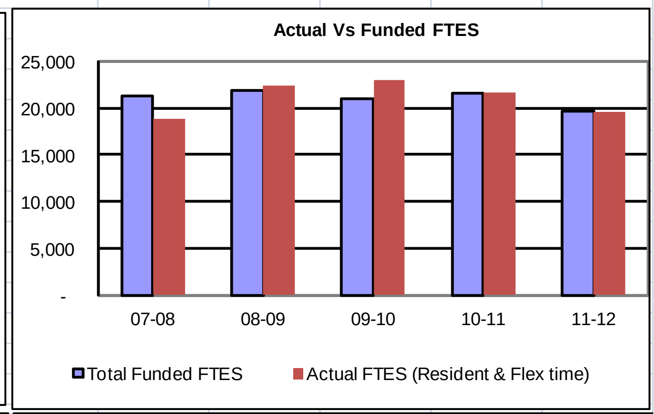
The San Mateo County Community College District's (the District) Annual Financial Report presents management's discussion and analysis of the District's financial activities during the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010. The discussion has been prepared by management and is best read in conjunction with the financial statements and the notes following this section.

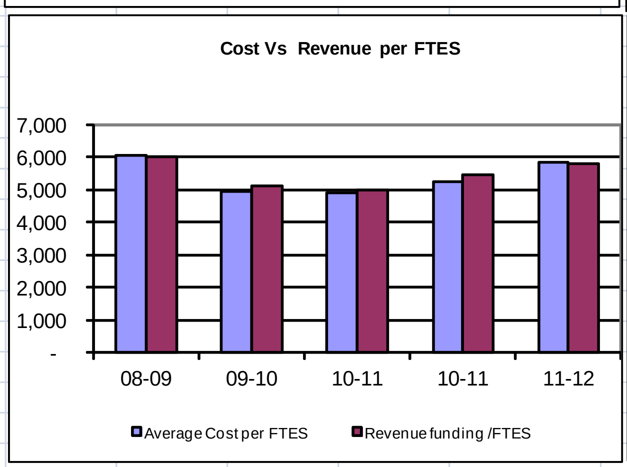
There are three basic financial statements that provide information on the District's financial activities as a whole. These statements are:

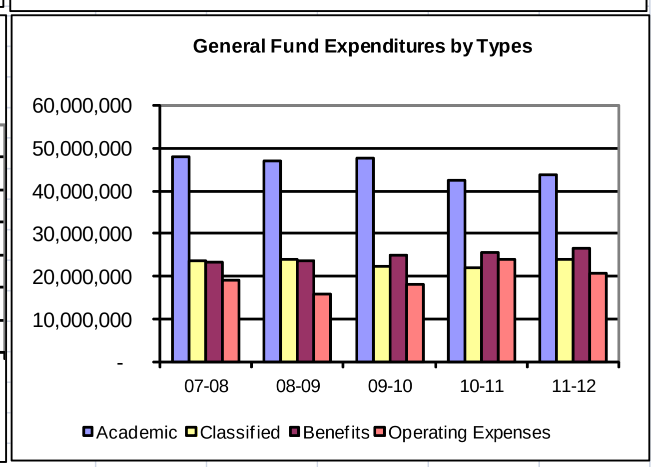
- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

Financial Highlights of 2011-12









Financial Overview Summary

Total net assets at June 30, 2012 decreased $ 40 million over the prior fiscal year. The decrease was primarily due to funds were spending down for bond construction projects.

- Assets exceeded liabilities for the fiscal year ended June 30, 2012 by $111 million, and total net assets decreased $40 million over last year.
- Net noncurrent assets decreased slightly by $460 thousand.
- Net operating loss was $178 million.
- Net non-operating revenue was $131 million.

Reporting for the District as a Whole

- Economic position of the District with the State

  The District has obtained the enviable status of being locally funded, known as Basic Aid. This means that when the State sets the District's revenue limit (determining how many students we are funded to serve), and deducts from that revenue limit the local property taxes and student fees, there is no need for State apportionment to sum to our revenue limit. This has happened due to two main reasons: the State has cut districts' revenue limits statewide due to State funding cuts, and the dissolution of the redevelopment agencies has increased SMCCCD's local property taxes. While this does not mean that the District has significantly more resources, it does mean that if the tax initiatives on the state ballot in November, 2012, fail, the District will not be cut further. Adding to this is the parcel tax (Measure G), which continues for two more years, ending in 2013/14. This funding, approximately $7 million per year, has allowed the District to cut significantly fewer sections than would have been cut and also maintain some services to students. In addition, the District ended 2011/12 with a positive ending balance that will also be used to offset a deficit in 2012/13.

- Salaries and Benefits

  The expenditure projection for salaries includes annual increases for movement on step and column placements and longevity service increments only. The District has not received COLA from the State since 2007-08. Since becoming basic aid and benefitting from redevelopment funds, fiscal year 2012-13 reflects a modest salary adjustment (2.81%) for all employee groups. The budget includes the January 1, 2013 increases (0 to 16%) in non-capped health premium rates for employees and retirees. Dental insurance increased 10% overall and vision rates remained unchanged. The PERS rate increased from 10.923% to 11.417%. The District's Unemployment Insurance Contribution Rate is 1.265%. Due to its favorable insured loss experience and current insurance market conditions, the District expects minimal changes to insurance rates for 2012-13. Workers' compensation costs decreased allowing the District to adjust the internal charge percentage from 2% to 1% of salaries. To comply with GASB 45, in 2009-10, the District begun charging itself an amount to cover the future medical benefit costs for current employees. These charges appear as part of the benefit expenses in all funds.

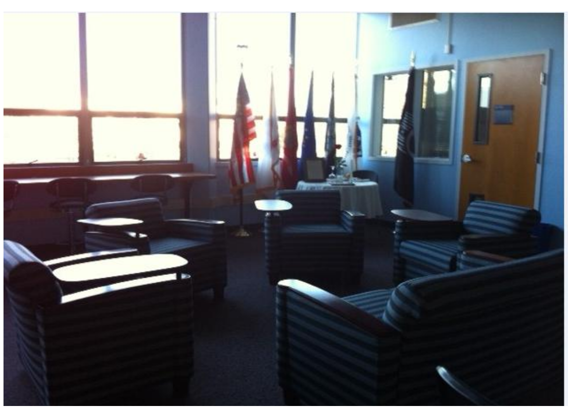
- Bond construction

  As of June 30, 2012, $449 million of the $473 million Measure A November 2005 general obligation (GO) bond (with interest) have been spent or encumbered by contract. The projects planned under the 2005 GO bond are substantially completed with students and staff occupying the new and renovated buildings at CSM, Skyline and Cañada College.

Cañada College Building 5 Dining Room (The Grove) has been modernized, with a video wall, new flooring, enhanced lighting and wood slat walls. The Grove began operating in Fall 2012. The College's electrical infrastructure, originally constructed in the 1960s, was replaced. The project corrected the safety and serviceability deficiencies of the aging system.

Various small projects were completed throughout the year including Building 16 Physical Science Lab Improvement, Building 5 Health Services Modifications, Building 9 CIETL and Break Room, Building 8 MPOE AC Replacement as well as Storm Water and Site Drainage Repair.

Various small projects were completed throughout the year including Parking Permit Shelters, Building 1 Public Safety Office Facelift, Building 1 Health Center and Psych Services Relocation, and Building 16 Veterans Center Remodel.

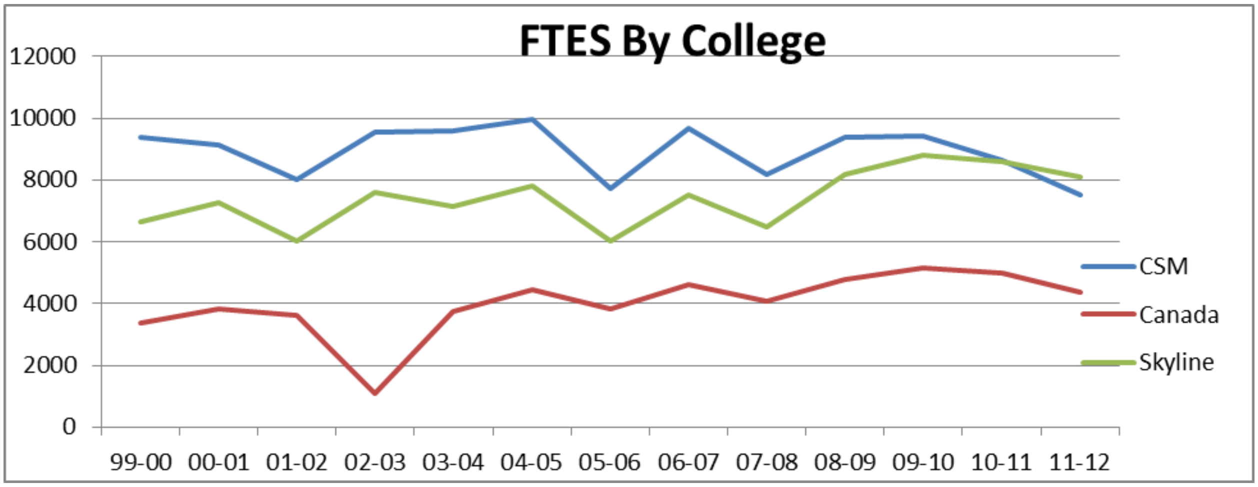


Skyline College's electrical infrastructure, originally constructed in the 1960s, was replaced. The project replaced and upgraded Load Center 2 switchgear and provided new related code-compliant underground distribution system as well as addressed critical life safety issues.

Various small projects were completed throughout the year including Building 2 Center for Advanced Learning and Technology and Computer Network Program Relocation, Building 1 Career Center Remodel, Building 1 Job Placement Center Remodel, Building 4 Northeast Stair and Lighting as well as Building 1 Distance Education.

- <u>Enrollment</u>

  The State reduced the 2011/12 enrollment caps by 7.5% from the 2010/12 levels. The District was slightly under its funded enrollment target, partially because it used some of the Summer 2011 enrollment to maximize the 2010/11 funding. In 2011/12, the District would have received stability funding from the state if it had not reached Basic Aid status. For 2012/13, the statewide enrollment caps will be determined after the November election, possibly reducing another 6.2%. For SMCCCD, the enrollment no longer drives the funding, since property taxes and fees determine the funding. However, the Board has directed that we keep our enrollment targets at or near the state-funded levels. The chart below shows the history of FTES in the District.



Net Assets

The Statement of Net Assets below includes all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting basis used by private companies. Net Assets, the difference between total assets and total liabilities, is one way to measure the financial condition of the District. Following are explanatory remarks for the statement:

- Cash and cash equivalents consist of cash in the Treasury, Local Agency Investment Fund (LAIF) of the State Treasurer's Office, San Mateo County Pool Investment, Special Deposit Bond and with Wells Fargo Bank, proceeds from the District's general obligation construction bond and certificates of deposit with various banks.

- Accounts receivable primarily consists of revenues from local, state, and federal sources from which the District had earnings but which were not received as of the fiscal year's closing date.

- Inventories and other assets include prepaid expenses and bookstore inventories.

- Capital assets, net of depreciation, are the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation.

- Accounts payable and accrued liabilities consist of payables to the state, federal grants, benefits, salaries and local vendors which the District incurred but for which payments were not issued as of the end of the fiscal year.

- Deferred revenues represent cash received during the fiscal year from state, federal grants, general state apportionment and student fees; however, the funds were not earned as the end of the fiscal year.

- Long-term liabilities include obligations to be paid over a period longer than 1 year. The current portion represents payments due within the next 12 months. The District has compensated absences payable, and construction bond.

- According to GASB Statements, equity is reported as "Net Assets" rather than "Fund Balance." 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 and net of outstanding debt obligations related to those capital assets.
- Restricted net assets consist of expendable and nonexpendable portions. Restricted expendable net assets include resources which the District is contractually obligated to expend in accordance with restrictions imposed by external third parties.
- Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the District.

Analysis of Net Assets – June 30, 2012

Table 1 Statement of Net Assets

	2012	2011	2010
ASSETS			
Current Assets			
Cash and investments	$ 205,551	$ 226,483	$ 284,129
Restricted cash and investments	23,588	23,588	20,168
Accounts receivable, net	11,375	21,561	38,175
Prepaid expenses	121	612	3,592
Deferred charges	341	267	267
Stores inventories	2,423	1,944	1,842
Total Current Assets	243,399	274,455	348,173
Noncurrent Assets			
Deferred charges	5,149	4,882	5,661
Nondepreciable capital assets	93,069	85,620	197,058
Depreciable capital assets, net of depreciation	548,492	556,668	408,116
Total Noncurrent Assets	646,710	647,170	610,835
TOTAL ASSETS	890,109	921,625	959,008
LIABILITIES			
Current Liabilities			
Accounts payable	14,098	22,540	28,686
Interest payable, restricted	13,221	13,992	14,990
Deferred revenue	11,493	11,443	12,002
Bonds and notes payable - current portion	14,910	12,985	11,200
Bond premium - current portion	2,000	878	878
Total Current Liabilities	55,722	61,838	67,756
Noncurrent Liabilities			
Compensated absences payable - noncurrent portion	3,766	3,375	3,490
Bonds and notes payable - noncurrent portion	687,265	688,811	683,767
Other long-term liabilities - noncurrent portion	32,444	16,673	17,551
Total Noncurrent Liabilities	723,475	708,859	704,808
TOTAL LIABILITIES	779,197	770,697	772,564
NET ASSETS			
Invested in capital assets, net of related debt	(59,125)	6,632	62,387
Restricted for:			
Debt service	23,633	22,040	20,213
Capital projects	73,503	82,393	69,832
Educational programs	13,421	6,802	4,947
Other activities	25,406	189	189
Unrestricted	34,075	32,872	28,876
TOTAL NET ASSETS	$ 110,913	$ 150,928	$ 186,444

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets shown below consists of operating and non-operating results of the District. Operating revenues represent all revenues from exchange transactions, in which each party gives and receives essentially equal value. Non-operating revenues include State apportionments, property tax revenues, investment earnings, certain Federal and State grants, entitlements, and donations.

Table 2 – Statement of Operating Revenues

	2012	2011	2010
OPERATING REVENUES			
Student Tuition and Fees, net	$ 13,429	$ 12,510	$ 12,301
Auxiliary Enterprise Sales and Charges	6,139	5,054	3,040
Internal Service Sales and Charges	1,764	1,680	-
TOTAL OPERATING REVENUES	21,332	19,244	15,341
OPERATING EXPENSES			
Salaries	90,672	87,493	85,071
Employee benefits	32,932	32,468	25,921
Supplies, materials, and other operating expenses and services	29,565	38,691	21,979
Equipment, maintenance, and repairs	1,365	17,642	-
Student financial aid	22,969	20,891	15,270
Depreciation	21,408	18,566	13,885
TOTAL OPERATING EXPENSES	198,911	215,751	162,126
OPERATING LOSS	(177,579)	(196,507)	(146,785)
NONOPERATING REVENUES (EXPENSES)			
State apportionments, noncapital	849	43,684	55,359
Local property taxes, levied for general purposes	93,120	58,018	40,916
Local property taxes, levied for special purposes	28,859	27,915	26,507
Parcel tax	7,132	7,055	-
Federal grants	26,407	25,330	19,886
State grants	10,510	9,972	7,568
Local grants	2,519	2,923	2,892
State taxes and other revenues	3,696	3,464	2,817
Investment income (loss), net	3,832	2,404	5,355
Interest expense on capital related debt	(31,722)	(31,317)	(30,256)
Interest income on capital asset-related debt, net	202	94	114
Other nonoperating revenues (expenses)	(14,211)	372	14,513
TOTAL NONOPERATING REVENUES (EXPENSES)	131,193	149,914	145,671
LOSS BEFORE OTHER REVENUES AND EXPENSES	(46,386)	(46,593)	(1,114)
State revenues, capital	4,277	4,909	1,593
Local revenues, capital	2,094	6,167	14,473
TOTAL OTHER REVENUES AND EXPENSES	6,371	11,076	16,066
CHANGE IN NET ASSETS	(40,015)	(35,517)	14,952
NET ASSETS, BEGINNING OF YEAR	150,928	186,444	171,493
NET ASSETS, END OF YEAR	$ 110,913	$ 150,927	$ 186,445

Explanatory information for the statement is as follows:

- Tuition and Fees include enrollment, health, non-resident tuition, other student fees and less scholarship discount and allowance as defined by GASB statement No. 35.

- Auxiliary Enterprise Sales and Charges consist of bookstore, cafeteria sales and fitness center less discount allowances.

- State apportionments, non-capital includes state apportionment, apprenticeship, and child care development apportionment.

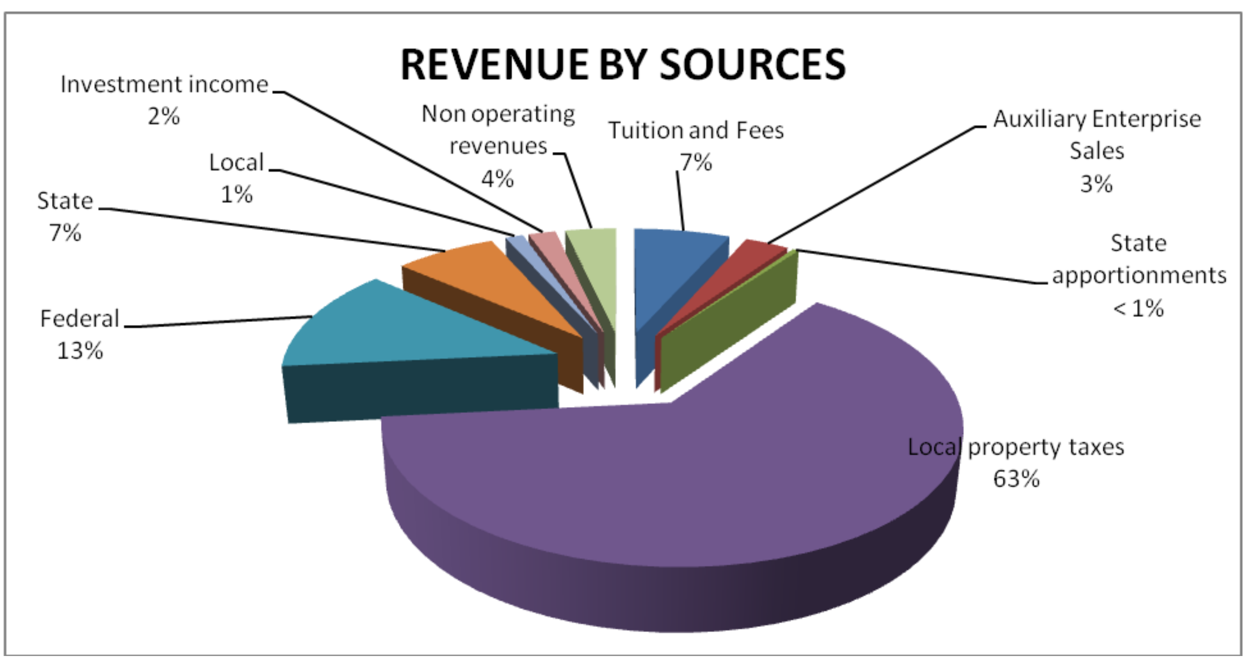
- Local property taxes and other non-operating revenues consist primarily of secured and unsecured taxes which are payable to the District in December and March of each year. The County of San Mateo collects the taxes on behalf of the District. Other non-operating revenues are State Lottery revenue and miscellaneous local income.

- Federal, and state grants and contract services are "exchange" transactions for which the District files applications, complies with individual spending restrictions, files expenditure reports, and/or signs contracts.

- Net investment income includes interest from the San Mateo County Investment Pool managed by the County Treasurer, certificates of deposit, bond proceeds, and Local Agency Investment Fund (LAIF), less interest expense on capital related debt.

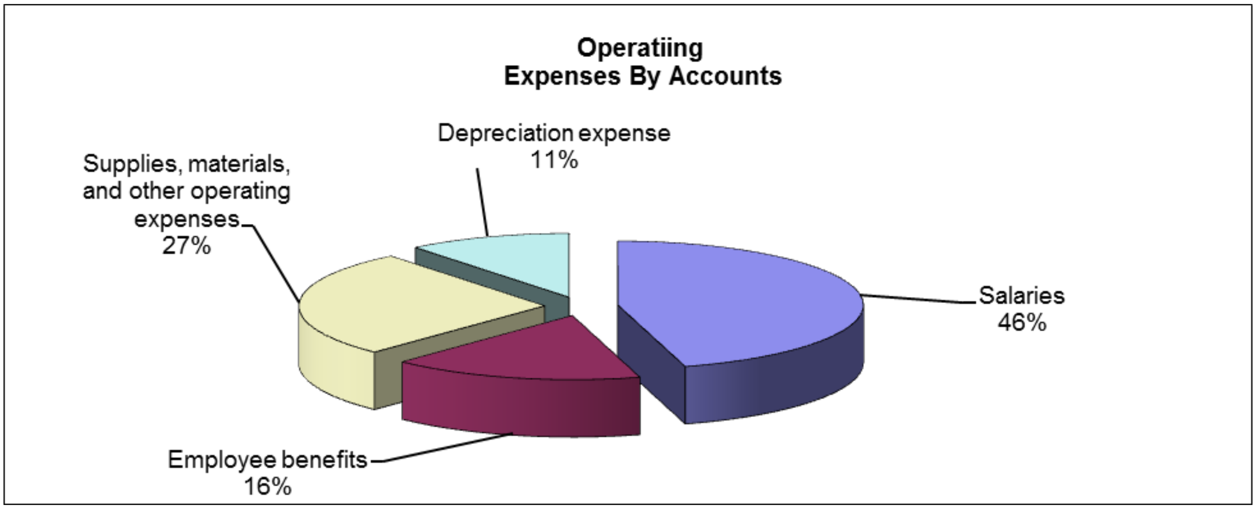
- State and Local Revenues, capital includes State scheduled maintenances funding and issuance of the General Bond. These revenues relate mainly to construction activities.

Below is an illustration of District revenues by source:



Revenues and expenses changed mainly due to the following:

- Net Income from Operating sources illustrated an increase in tuition and fees.
- SMCCD has become a Basic Aid District and no longer receiving State Tax Appointment. Therefore, Net Non-Operating sources decreased.



The District's operating expenses are shown below (with explanatory remarks) by account and by activity. Following are explanatory comments for the Statement of Operating Expenses by Account:

- Salaries and benefits expenses, which represent the largest percentage of the District operating expense.
- Supplies, materials, other operating expenses, services and utilities are the normal cost of operating expenses for "exchange" transactions.
- Depreciation of capital assets is computed and recorded by the straight-line method. The District maintains a capitalization threshold of $5,000 for equipment and $100,000 for building improvements. Useful lives of the assets are estimated as follows:
  - 5 to 10 years for equipment
  - 25 to 50 years for improvements
  - 25 to 50 years for buildings

Cash Flows

The Statement of Cash Flows shown below provides information about cash receipts and cash payments during the fiscal year. The statement also assists readers in understanding the District's ability to generate net cash flows, and its ability to meet obligations as they come due, or the District's need for assistance via external financing. The District has adopted the direct method, and under this method, data for cash flow present operating activities by major categories of gross receipts and gross payments as well as the resulting net amount. Additional explanatory information for the statement is as follows:

- The main cash receipts from operating activities consist of tuition, student fees, and auxiliary enterprise sales. Cash outlays include payment of salaries, benefits, supplies and operating expenses.
- State apportionments and property taxes are the primary source of non-capital financing.
- For capital financing activities, the main sources are from special State Apportionments and General Obligation Bond and C.O.P. proceeds.
- Cash from investing activities consists of Interest from County Investment Pool, Certifications of Deposits, Bond and Local Agency Investment Fund (LAIF).

Table 3 – Statement of Cash Flows

	2012	2011	2010
CASH FLOWS PROVIDED BY (USED IN):	in thousands	in thousands	in thousands
Operating Activities	$ (152,794)	($167,566)	($135,159)
Noncapital financing activities	164,787	183,752	167,199
Capital financing activities	(36,906)	(73,166)	(173,502)
Investing activities	3,981	2,754	6,899
NET DECREASE IN CASH AND CASH EQUIVALENTS	(20,932)	(54,226)	(134,564)
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	250,071	304,297	438,861
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 229,139	$250,071	$304,297

Economic Factors and the 2012-13 Budget

The State has built its budget including trigger cuts for education for the second year in a row. However, unlike in 2011/12, SMCCCD does not have to worry about the 2012/13 mid-year cuts that will be enacted should Proposition 30 fail. While the 2012/13 budget depends upon reserves to balance the budget – but a smaller reserve usage than in 2011/12 – the District does not need to worry about a loss of State apportionment midyear. Being self-supporting, or Basic Aid, the District's property tax revenues and student fees are relatively predictable. Fees increased from $36 per unit to $46 per unit effective with Summer, 2012. The County Assessor's Office has stated that property taxes will go up 3.3% county-wide in 2012/13. In addition, the District received over $2 million in reallocated redevelopment funds due to the demise of redevelopment agencies in 2011/12. These funds will continue to grow as property taxes grow, and also as the former redevelopment agencies pay off their debt. This puts the District on very solid financial footing. The District continues to build three year financial plans and to judiciously use its reserves to balance its budget. The District plans for balanced budgets in 2014/15.

C.I.P. Planning 2012-13 and Beyond

Staff continues to revise and update the master schedule and the master budget of the Capital Improvement Program to coincide with the funding and programming requirements. However, the District has experienced a decline in State Capital Outlay funds for projects on all three campuses due to the fact that the State failed to approve an educational facilities bond in 2006, 2008, 2010, and 2012.

Compilations of site-specific activities, which are currently in design or construction phase, are listed below:

Cañada College:

- Light Pole Banner and Signage
  - Anticipated Completion date: Fall 2012
- Exterior Wayfinding Signage
  - Anticipated Completion date: Winter 2012
- Tennis Court and Parking Lot Renovation
  - Anticipated Completion date: Winter 2012

College of San Mateo:

- North Gateway Project, Phase 2: Demolition of Buildings 21-29, Landscape and Hardscape
  - Scheduled to Commence: Fall 2012
- Edison Parking Lot
  - Scheduled to Commence: Pending Legal Appeal
- Building 5 Restrooms Renovation and ADA Upgrade
  - Scheduled to Commence: Fall 2012
- Hillsdale Erosion Controls
  - Scheduled to Commence: Fall 2012
- Building 12 and Colonnades Roofing
  - Scheduled to Commence: Spring 2013

Skyline College:

- Disabled Student Programs and Services (DSPS) Relocation
  - Anticipated Completion date: Fall 2012
- Building 4 Roof Plaza
  - Anticipated Completion date: Fall 2012
- Building 2, 3rd Floor Student Services Facelift
  - Anticipated Completion date: Spring 2013

District Wide

- District Office Parking Lot Soil Investigation and Improvements
  - Anticipated Completion date: Fall 2012
- District Office Boiler/Chiller Upgrades
  - Scheduled to Commence: Fall 2012

San Mateo County Community College District is fortunate in having legislative authority to use a variety of construction delivery methods to best suit each project's character and bring best value to the Colleges and our taxpayers, including design-build, multiple-prime contracting, as well as the traditional design-bid-build delivery method.

Staff and Faculty Housing

In response to the very high cost of housing in San Mateo County, the College District built two apartment projects for faculty and staff, namely College Vista and Canada Vista. The College District has a total of 104 units—60 at Cañada Vista and 44 at College Vista. Rents for these units are significantly below market, which allows residents to save for a down payment on a home. To date, 15 residents have moved out of the faculty and staff housing and purchased their own home.

Cañada Vista opened in August, 2010 and College Vista has been open for more than 6 ½ years. Interior amenities at both projects include 9 foot ceilings, wood entryways, individual patios or decks; individual garages, large windows and sliding glass doors. The College District believes that provision of this housing has helped the District increase its retention of employees.

College Vista:

Canada Vista:

<u>Contacting the District's Financial Management Office</u>

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for funding received. Questions or concerns about this report or requests for additional financial information should be addressed to Kathy Blackwood, Interim Executive Vice Chancellor, by phone at 650-358-6869 or by e-mail at blackwoodk@smccd.edu.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS – PRIMARY GOVERNMENT
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash and investments	$ 205,551,320	$ 226,483,117
Restricted cash and investments	23,587,629	23,587,629
Accounts receivable, net	11,375,095	21,561,049
Prepaid expenses	120,817	612,280
Deferred charges	341,503	266,780
Stores inventories	2,423,067	1,944,237
Total Current Assets	243,399,431	274,455,092
Noncurrent Assets		
Deferred charges	5,149,045	4,882,265
Nondepreciable capital assets	93,068,540	85,619,681
Depreciable capital assets, net of depreciation	548,492,322	556,667,926
Total Noncurrent Assets	646,709,907	647,169,872
TOTAL ASSETS	890,109,338	921,624,964
LIABILITIES		
Current Liabilities		
Accounts payable	14,098,313	22,539,884
Interest payable, restricted	13,220,817	13,992,354
Deferred revenue	11,492,562	11,442,749
Bonds and notes payable - current portion	14,910,000	12,985,000
Bond premium - current portion	2,000,003	877,627
Total Current Liabilities	55,721,695	61,837,614
Noncurrent Liabilities		
Compensated absences payable - noncurrent portion	3,765,476	3,375,257
Bonds and notes payable - noncurrent portion	687,265,138	688,810,672
Other long-term liabilities - noncurrent portion	32,444,339	16,673,392
Total Noncurrent Liabilities	723,474,953	708,859,321
TOTAL LIABILITIES	779,196,648	770,696,935
NET ASSETS		
Invested in capital assets, net of related debt	(59,124,968)	6,632,145
Restricted for:		
Debt service	23,632,460	22,040,501
Capital projects	73,502,940	82,393,022
Educational programs	13,495,709	6,801,876
Other activities	25,406,277	188,777
Unrestricted	34,000,272	32,871,708
TOTAL NET ASSETS	$ 110,912,690	$ 150,928,029

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – PRIMARY GOVERNMENT FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Student Tuition and Fees	$ 21,652,634	$ 17,961,991
Less: Fee waivers and allowance	(8,223,892)	(5,451,849)
Net tuition and fees	13,428,742	12,510,142
Auxiliary Enterprise Sales and Charges		
Bookstore	3,153,480	2,776,158
Cafeteria	211,805	195,780
Fitness Center	2,774,126	2,082,443
Internal Service Sales and Charges	1,763,716	1,680,459
TOTAL OPERATING REVENUES	21,331,869	19,244,982
OPERATING EXPENSES		
Salaries	90,671,696	87,492,518
Employee benefits	32,932,470	32,468,015
Supplies, materials, and other operating expenses and services	29,564,554	38,691,384
Equipment, maintenance, and repairs	1,364,788	17,642,418
Student financial aid	22,969,111	20,890,933
Depreciation	21,408,359	18,565,671
TOTAL OPERATING EXPENSES	198,910,978	215,750,939
OPERATING LOSS	(177,579,109)	(196,505,957)
NONOPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	848,646	43,684,006
Local property taxes, levied for general purposes	93,119,831	58,018,305
Local property taxes, levied for special purposes	28,859,238	27,915,076
Parcel tax	7,132,066	7,055,081
Federal grants	26,392,186	25,330,119
State grants	10,509,913	9,971,963
Local grants	2,518,886	2,923,325
State taxes and other revenues	3,695,636	3,463,708
Investment income (loss), net	3,832,486	2,403,806
Interest expense on capital related debt	(31,722,355)	(31,317,096)
Interest income on capital asset-related debt, net	202,001	94,445
Other nonoperating revenues (expenses)	(14,195,979)	371,510
TOTAL NONOPERATING REVENUES (EXPENSES)	131,192,555	149,914,248
LOSS BEFORE OTHER REVENUES AND EXPENSES	(46,386,554)	(46,591,709)
State revenues, capital	4,277,204	4,908,777
Local revenues, capital	2,094,011	6,166,943
TOTAL OTHER REVENUES AND EXPENSES	6,371,215	11,075,720
CHANGE IN NET ASSETS	(40,015,339)	(35,515,989)
NET ASSETS, BEGINNING OF YEAR	150,928,029	186,444,018
NET ASSETS, END OF YEAR	$ 110,912,690	$ 150,928,029

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS – PRIMARY GOVERNMENT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 16,143,480	$ 12,553,426
Local grants and contracts	1,243,888	11,013,632
Payments to vendors for supplies and services	(31,374,506)	(58,857,074)
Payments to or on behalf of employees	(123,373,712)	(118,364,331)
Payments to students for scholarships and grants	(23,433,630)	(20,139,559)
Auxiliary sales	8,000,619	6,227,453
Net Cash Flows Provided For Operating Activities	(152,793,861)	(167,566,453)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	5,572,729	49,749,197
Property taxes, levied for general purposes	93,119,831	58,018,305
Property taxes, levied for special purposes	28,859,238	27,915,076
Grant and contracts	39,421,223	38,156,407
State taxes and other apportionments	4,988,123	2,858,321
Other receipts and disbursements	(7,173,808)	7,055,081
Net Cash Flows From Noncapital Financing Activities	164,787,336	183,752,387
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(28,012,246)	(58,101,541)
Loss on disposal of capital assets	95,228	129,029
Bond proceeds (include accretions)	144,442,479	18,028,621
State revenue, capital projects	4,277,204	4,908,777
Local revenue, capital projects	2,094,011	6,166,943
Deferred cost on issuance	(341,503)	-
Principal paid on capital debt	(127,169,690)	(12,077,626)
Interest paid on capital debt	(32,493,892)	(32,314,986)
Interest received on capital asset-related debt	202,001	94,445
Net Cash Flows Used for Capital Financing Activities	(36,906,408)	(73,166,338)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	3,981,136	2,754,084
NET CHANGE IN CASH AND CASH EQUIVALENTS	(20,931,797)	(54,226,320)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	250,070,746	304,297,066
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 229,138,949	$ 250,070,746

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

STATEMENTS OF CASH FLOWS, PRIMARY GOVERNMENT, Continued
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	$ (177,579,109)	$ (196,505,957)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation expense	21,408,359	18,565,671
Miscellaneous nonoperating income		
Changes in Assets and Liabilities:		
Receivables, net	3,659,944	10,145,572
Inventories	(478,830)	(102,719)
Prepaid and other current assets	416,740	2,980,052
Accounts payable and accrued liabilities	(617,562)	(2,692,264)
Deferred revenue	396,597	43,192
Total Adjustments	24,785,248	28,939,504
Net Cash Flows Provided For Operating Activities	$ (152,793,861)	$ (167,566,453)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:		
Cash and investments	$ 205,551,320	$ 226,483,117
Restricted cash and investments	23,587,629	23,587,629
Total Cash and Cash Equivalents	$ 229,138,949	$ 250,070,746
NON CASH TRANSACTIONS		
On behalf payments for benefits	$ 1,821,547	$ 1,569,077

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2012 AND 2011

	2012		2011	
	Agency Fund		Agency Fund	
	Associated Students Trust	Student Representation Fee	Associated Students Trust	Student Representation Fee
ASSETS				
Cash and cash equivalents	$ 1,904,687	$ 117,707	$ 1,837,327	$ 109,935
Accounts receivable	348,875	-	1,071,184	-
Fixed assets	1,516	-	3,336	-
Total Assets	$ 2,255,078	$ 117,707	$ 2,911,847	$ 109,935
LIABILITIES				
Accounts payable	$ 1,143,551	$ -	$ 1,720,682	$ -
Due to student groups and other	1,111,527	117,707	1,191,165	109,935
Total Liabilities	$ 2,255,078	$ 117,707	$ 2,911,847	$ 109,935

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 146,321	$ 79,761
Accounts receivable	44	65
Prepaid expenses	-	61,784
Total Assets	$ 146,365	$ 141,610
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Rent security deposits	132,018	128,220
Total Liabilities	132,018	128,220
NET ASSETS		
Unrestricted	14,347	13,390
Total Liabilities and Net Assets	$ 146,365	$ 141,610

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

DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
REVENUES		
Rental income	$ 1,447,069	$ 1,249,244
Interest and dividends	1,940	426
Commission	173	167
Water reimbursement	12,518	12,892
Other local income	3,177	2,415
Total Revenues	1,464,877	1,265,144
EXPENSES		
Operating expenses	230,920	207,818
Total Expenses	230,920	207,818
OTHER SOURCES AND USES		
Transfer out to SMCCCD	(1,233,000)	(1,056,500)
Total Other Uses	(1,233,000)	(1,056,500)
CHANGE IN NET ASSETS	957	826
NET ASSETS, BEGINNING OF YEAR	13,390	12,564
NET ASSETS, END OF YEAR	$ 14,347	$ 13,390

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

DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 957	$ 826
Changes in Assets and Liabilities		
Accounts receivable	21	81
Prepaid expenses	61,784	(59,063)
Rent security deposits	3,798	60,286
Net Cash Flows Provided For Operating Activities	66,560	2,130
NET CHANGE IN CASH AND CASH EQUIVALENTS	66,560	2,130
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	79,761	77,631
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 146,321	$ 79,761

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

NOTE 1 – ORGANIZATION

Organization

The San Mateo County Community College District (the District) was established in 1922 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering post secondary educational services to residents of San Mateo County and surrounding areas. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates three college campuses located in the cities of San Mateo, San Bruno, and Redwood City, California. While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* This statement amends GASB Statement No. 14, *The Financial Reporting Entity,* to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District, and the following component units:

San Mateo County Community College District Financing Corporation
San Mateo County Community Colleges Educational Housing Corporation

The San Mateo County Community College District Financing Corporation (the Corporation) is a legally separate organization component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity has been "blended" or consolidated within the financial statements as of the District as if the activity was the District's. This activity is accounted for in the District's COP Payment Fund and COP Construction Fund. Individually-prepared financial statements are not prepared for the Corporation.

The San Mateo County Community Colleges Educational Housing Corporation (the Corporation) is a legally separate organization component unit of the District. The Corporation was formed to operate staff and faculty housing. The Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity of the Corporation is reported separately in the financial statements. Individually-prepared financial statements are not prepared for the Corporation. The Corporation is a not-for-profit organization that is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private corporation. Accordingly, no provision for income taxes has been provided in the financial statements. The Corporation annually files information returns, Forms 990, 199, and RRF-1, with the appropriate agencies.

The District has determined that the San Mateo County Community Colleges Foundation does not meet the criteria for inclusion under GASB 39.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

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

Management's Discussion and Analysis

- Basic Financial Statements for the District as a whole including:
  - Statement of Net Assets – Primary Government
  - Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government
  - Statement of Cash Flows – Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statements of Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the statement of cash flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

In accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and External Investment Pools.* Investments held at June 30, 2012 and 2011, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon a five-year average ratio over actual revenues. The allowance was estimated at $3,122,537 and $2,706,290 for the years ended June 30, 2012 and 2011, respectively.

Prepaid Expenditures

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

Inventory

Inventory consists primarily of bookstore merchandise and supplies held for resale to the students and faculty of the colleges. Inventories are stated at lower of cost or market, utilizing the first in, first out method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000 for equipment and $100,000 for land, buildings and improvements. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years.

Accrued Liabilities and Long-term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

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

Deferred Revenue

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

Non Current Liabilities

Noncurrent liabilities include bonds payable and compensated absences with maturities greater than one year.

Net Assets

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

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

Restricted – Nonexpendable: Net assets whose use by the District has been externally restricted in perpetuity such as Endowment funds where future investment earnings may be used for the donor stipulated purpose. The District has no nonexpendable net assets.

Restricted – Expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for educational and general operations of the District.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed.

State Apportionments

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

Property Taxes

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

The voters of the District passed General Obligation Bonds in 2001 and 2005 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Governors through BOGG fee waivers in the Statement of Revenues, Expenditures, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement.* During the years ended June 30, 2012 and 2011, the District distributed $1,888,799, and $1,726,628 in direct student loan through the U. S. Department of Education.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California. The California Department of Education has issued a fiscal advisory instructing districts not to record the revenue and expenditures for the on behalf payments within the funds and accounts of a district. The amount of the on behalf payments made for the District of the year ended June 30, 2012, was $1,821,547 for CalSTRS and $0 for CalPERS. These amounts are reflected in the District's audited financial statements.

Estimates

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

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended, based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4 introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

Comparative Financial Information

Comparative financial information for the prior year has been presented for additional analysis; certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

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

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	180 days	30%	10%
Negotiable Certificates of Deposit	5 years	30%	FDIC
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	$20 million

Summary of Deposits and Investments

Deposits and investments of the Primarily Government as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Cash on hand and in banks	$ 1,962,867	$ 1,105,073
Cash in revolving	77,000	131,008
Investments	227,099,082	248,834,665
Total Deposits and Investments	$ 229,138,949	$ 250,070,746

Deposits and investments of the Fiduciary Funds as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Cash on hand and in banks	$ 596,363	$ 448,752
Investments	1,426,031	1,498,510
Total Deposits and Investments	$ 2,022,394	$ 1,947,262

Deposits and investments of the Educational Housing Corporation as of June 30, 2012 and 2011, consist of the following:

	2012	2011
Cash on hand and in banks	$ 93,307	$ 79,761
Investments	53,014	-
Total Deposits and Investments	$ 146,321	$ 79,761

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool and local agency investment fund (LAIF) and/or having a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Weighted Average Maturity

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule

Investment Type	Fair Value	Weighted Average Maturity In Years
Corporate fixed income	$ 4,594,642	2.47*
Government securities	11,218,583	2.47*
County Pool	207,538,718	1.60
State Investment Pool	142,460	0.73
Certificates of deposit	5,083,724	1.00
Total	$ 228,578,127	

* = Duration

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Not Required To Be Rated	Rating as of Year End AAA*	A-*	Unrated
Corporate fixed income	$ 4,594,642	$ -	$ -	$ 4,594,642	$ -
Government securities	11,218,583	-	11,218,583	-	-
County Pool	207,538,718	207,538,718	-	-	207,538,718
State Investment Pool	142,460	142,460	-	-	142,460
Certificates of deposit	5,083,724	5,083,724	-	-	5,083,724
Total	$ 228,578,127	$ 212,764,902	$ 11,218,583	$ 4,594,642	$ 212,764,902

* Moody's

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit.) The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012 and 2011, the District's bank balances of approximately $2,513,000 and $2,296,000, respectively, were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The California government Code and the District’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. The District computes the allowance for bad debt accounts based on a five-year weighted average on uncollectibles accounts receivable to total revenue ratio. The accounts receivable are as follows:

	Primary Governmnet	
	2012	2011
Federal Government		
Categorical aid	$ 1,025,459	$ 1,151,795
State Government		
Apportionment	-	5,085,296
Categorical aid	1,214,003	856,871
Other State sources	1,214,494	2,737,776
Local Sources		
Interest	320,567	469,217
Student loans	1,158,134	693,615
Student receivables	6,439,317	8,341,211
Other local sources	3,125,658	4,931,558
Less allowance for bad debt	(3,122,537)	(2,706,290)
Total Accounts Receivable, net	$ 11,375,095	$ 21,561,049

Other Local Receivables at June 30, 2012 and 2011 include $905,912 and $913,251 for loans made to District employees to purchase houses. All full time employees who purchase a home and contribute at least 20 percent of the purchase price are eligible to receive loans of up to $75,000 per employee. Repayment terms and interest rates are: no payments due in years 1 through 5, payments of principal and interest in years 6-29, with final payment of any remaining balance in year 30. Selling the property, withdrawing cash from the equity, or leaving the District's employment accelerates the due date of the loan. Interest is charged at 4 percent per year. As of June 30, 2012, all of the funds have been loaned out. No loans will be granted to additional employees until existing loans are paid back or the Board authorizes additional amounts to be loaned out.

	Fiduciary Funds	
	2012	2011
Local Sources		
Interest	$ 3,372	$ 4,513
Other local sources	345,503	1,066,671
Total	$ 348,875	$ 1,071,184

The Educational Housing Corporation's accounts receivable at June 30, 2012 were interest receivables.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2012, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 20,628,292	$ -	$ -	$ 20,628,292
Construction in progress	64,991,389	19,577,025	12,128,166	72,440,248
Total Capital Assets Not Being Depreciated	85,619,681	19,577,025	12,128,166	93,068,540
Capital Assets Being Depreciated				
Land improvements	33,638,643	9,890,426	-	43,529,069
Buildings and improvements	603,708,475	2,237,741	-	605,946,216
Furniture, equipment, and vehicles	28,463,280	1,069,079	1,484,036	28,048,323
Total Capital Assets Being Depreciated	665,810,398	13,197,246	1,484,036	677,523,608
Less Accumulated Depreciation				
Land improvements	10,677,983	1,545,760	-	12,223,743
Buildings and improvements	82,127,703	17,481,625	-	99,609,328
Furniture, equipment, and vehicles	16,336,786	2,250,237	1,388,808	17,198,215
Total Accumulated Depreciation	109,142,472	21,277,622	1,388,808	129,031,286
Net Capital Assets Being Depreciated	556,667,926	(8,080,376)	95,228	548,492,322
Net Capital Assets	$ 642,287,607	$ 11,496,649	$ 12,223,394	$ 641,560,862

Depreciation expense for the year was $21,277,622.

Capital asset activity for the District for the fiscal year ended June 30, 2011, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 20,628,292	$ -	$ -	$ 20,628,292
Construction in progress	176,430,226	66,701,954	178,140,791	64,991,389
Total Capital Assets Not Being Depreciated	197,058,518	66,701,954	178,140,791	85,619,681
Capital Assets Being Depreciated				
Land improvements	32,292,299	1,346,344	-	33,638,643
Buildings and improvements	441,052,352	162,656,123	-	603,708,475
Furniture, equipment, and vehicles	25,510,583	3,244,454	291,757	28,463,280
Total Capital Assets Being Depreciated	498,855,234	167,246,921	291,757	665,810,398
Less Accumulated Depreciation				
Land improvements	9,413,143	1,264,840	-	10,677,983
Buildings and improvements	67,303,141	14,824,562	-	82,127,703
Furniture, equipment, and vehicles	14,023,245	2,476,269	162,728	16,336,786
Total Accumulated Depreciation	90,739,529	18,565,671	162,728	109,142,472
Net Capital Assets Being Depreciated	408,115,705	148,681,250	129,029	556,667,926
Net Capital Assets	$ 605,174,223	$ 215,383,204	$ 178,269,820	$ 642,287,607

Depreciation expense for the year was $18,565,671.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	
	2012	2011
Paroll related liabilities	$ 3,656,369	$ 3,816,134
Mandated cost	1,090,686	1,090,686
ERAF	1,781,872	1,781,872
Construction	1,132,738	8,956,747
Vendor and other	6,436,648	6,894,445
Total	$ 14,098,313	$ 22,539,884

Fiduciary Funds

The accounts payable of the Fiduciary Fund consists primarily of funds held for other student clubs.

Discretely Presented Component Unit

The accounts payable of the Educational Housing Corporation consists only the rent security deposits.

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012 and 2011 consisted of the following:

	Primary Government	
	2012	2011
Federal financial assistance	$ 9,725	$ 16,000
State categorical aid	1,199,204	1,956,378
Enrollment fees	7,010,111	6,613,514
Other local	3,273,522	2,856,857
Total	$ 11,492,562	$ 11,442,749

NOTE 8 – INTERFUND TRANSACTIONS

Interfund Receivables and Payable (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process.

Interfund Operating Transfers

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

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

	Balance Beginning of Year	Additions/ Accretions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General obligation bonds	$ 701,795,672	$ 126,484,466	$ 126,105,000	$ 702,175,138	$ 14,910,000
Other Liabilities					
Compensated absences	3,375,257	390,219	-	3,765,476	-
Total Other Liabilities	3,375,257	126,874,685	126,105,000	705,940,614	14,910,000
Premiums, net of amortization	17,551,019	17,958,013	1,064,690	34,444,342	2,000,003
Total Long-term Liabilities	$ 722,721,948	$ 144,832,698	$ 127,169,690	$ 740,384,956	$ 16,910,003

The changes in the District's long-term obligations during the 2011 fiscal year consisted of the following:

	Balance Beginning of Year	Additions/ Accretions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General obligation bonds	$ 694,967,051	$ 18,028,621	$ 11,200,000	$ 701,795,672	$ 12,985,000
Other Liabilities					
Compensated absences	3,489,506	-	114,249	3,375,257	-
Total Other Liabilities	3,489,506	18,028,621	11,314,249	705,170,929	12,985,000
Premiums, net of amortization	18,428,645	-	877,626	17,551,019	877,627
Total Long-term Liabilities	$ 716,885,202	$ 18,028,621	$ 12,191,875	$ 722,721,948	$ 13,862,627

Description of Debt

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local property revenues. The compensated absences are paid by the fund in which the related employee costs are accounted for.

General obligation bonds were approved by local elections in 2001 and 2005. The total amount approved by the voters in 2001 and 2005 were $207,000,000 and $468,000,000, respectively. All of the authorized 2001 and 2005 bonds have been issued. Interest rates on the 2001 bonds are range from 3.00 percent to 5.74 percent and the interest rates on the 2005 bonds are range from 3.50 percent to 5.00 percent. At June 30, 2012, the outstanding balances for the 2001 and 2005 bonds were $136,854,150 and $565,320,988, respectively.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Additions/ Accretions	Redeemed	Bonds Outstanding June 30, 2012
6/4/2002	9/1/2026	5.2-5.74%	$ 96,875,613	$ 89,471,407	$ 1,665,815	$ 56,270,000	$ 34,867,222
2/9/2005	9/1/2029	3.00-5.00%	69,995,132	73,996,949	1,537,742	19,970,000	55,564,691
4/11/2006	3/1/2031	3.50-5.00%	40,124,660	45,530,822	1,666,415	775,000	46,422,237
4/11/2006	9/1/2030	3.75-5.00%	135,429,395	122,081,343	4,678,085	6,955,000	119,804,428
12/12/2006	9/1/2038	3.50-5.00%	332,570,194	370,715,151	9,341,409	42,135,000	337,921,560
4/26/2012	9/1/2026	0.33-5.00%	107,595,000	-	107,595,000	-	107,595,000
				$ 701,795,672	$ 126,484,466	$ 126,105,000	$ 702,175,138

The bonds mature through 2039 as follows:

Fiscal Year		Principal	Interest to Maturity	Total
2013		$ 14,910,000	$ 11,609,719	$ 26,519,719
2014		17,290,000	12,126,971	29,416,971
2015		19,475,000	11,458,220	30,933,220
2016		19,200,967	10,795,338	29,996,305
2017		18,921,029	10,221,638	29,142,667
2018-2022		108,325,813	43,974,619	152,300,432
2023-2027		113,651,179	33,424,056	147,075,235
2028-2032		132,934,399	21,975,981	154,910,380
2033-2037		105,280,748	10,624,375	115,905,123
2038-2039		45,280,860	977,500	46,258,360
	Subtotal	595,269,995	$ 167,188,417	$ 762,458,412
	Accreted Interest To Date	106,905,144		
	Total	$ 702,175,139		

Other Postemployment Benefits (OPEB) Obligation

The District's actuarially determined annual required contribution (ARC) for the year ended June 30, 2012, was $7,702,017. The District made a contribution of $7,196,992 for premiums for current retirees. In addition, the District contributed $10,000,000 to the San Mateo County Community College District Public Entity Investment Trust during the year. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 – DEFEASED DEBT

In 2006, the District defeased the certificates of participation issued in 2004 by creating an irrevocable trust fund. As of June 30, 2012, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to $28,717,186.

In April 2012, the District issued $107,595,000 general obligation refunding bonds to refund a portion of the outstanding principal amount of three outstanding series of general obligation bonds (2002 Series A, 2005 Series B, and 2006 Series B) of the District. The amount deposited in the escrow fund for the repayment of the prior year bonds were $124,938,327. The savings to the District's taxpayers are approximately $14.7 million.

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The Other Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Mateo County Community College District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 1,028 retirees and beneficiaries currently receiving benefits and 834 active plan members. Separate financial statements are prepared for the Plan and may be obtained by contacting the San Mateo County Community College District.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits. During the year, the District contributed $7,196,992 for the current retirees' medical premiums. Plan members receiving benefits contributed $67,000, or approximately .01 percent of the total premiums. Contributions made by retirees, range between $1 to $420 per month. In addition to the current year premium, the District contributed $10,000,000 to the San Mateo County Community College District Public Entity Investment Trust.

Annual OPEB Cost and Net OPEB Asset/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 GASB Statement No. 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 accrued liabilities or funding costs (UAAL) 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 to the Plan:

Annual required contribution (ARC)	$ 7,702,017
Annual OPEB cost (expense) - District paid premiums	(7,196,992)
Current year contribution to the OPEB Trust	(10,000,000)
Contributions in excess of ARC	(9,494,975)
OPEB asset, beginning of year	(9,514,655)
OPEB asset, end of year	$ (19,009,630)

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset/obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation/(Assets)
2012	$ 7,702,017	$17,196,992	223%	$ (19,009,630)
2011	7,702,017	17,100,154	222%	(9,514,655)
2010	7,383,929	11,167,718	151%	(116,518)

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2012, is as follows:

Actuarial Accrued Liability (AAL)	$ 118,923,929
Actuarial Value of Plan Assets	(15,643,762)
Unfunded Actuarial Accrued Liability (UAAL)	$ 103,280,167
Funded Ratio (Actuarial Value of Plan Assets/AAL)	13%
Covered Payroll	$ 90,671,696
UAAL as Percentage of Covered Payroll	114%

The above noted actuarial accrued liability was based on the April 12, 2011, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follow the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the April 12, 2011 actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rates assumed 4 percent per year. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2011, was 30 years. The actuarial value of assets of $15,643,762 was determined in this actuarial valuation. At July 1, 2012, the Trust held net assets in the amount of $26,570,700 in investments with Benefit Trust.

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ending June 30, 2012, the District contracted with MacCorkle Inc., an insurance broker to manage the District's insurance claims. The District is self-insured for the first $150,000. Settled claims have not exceeded this commercial coverage.

Workers' Compensation

For the fiscal year, the District contracted with Andreini and Company for placement of excess workers' compensation insurance program. The District is self-insured for the first $350,000.

Employee Medical Benefits

The District has contracted with the Cal PERS to provide employee medical and surgical benefits. CalPERS is a shared risk pool comprised of nearly 2,500 employers and covers five regions (Bay Area, Other Northern California, Southern California, Other Southern California, and Out of State). Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The CalPERS Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool. CalPERS requires the District to have a post retirement medical benefit plan for CalPERS members.

The District also contributed towards the medical plan premiums of CalPERS and CalSTRS retirees who did not meet the District eligibility requirements for retiree benefits when they retired. This contribution is required by CalPERS and is called the "Employer Share" and was established in order to provide retirees, regardless of District eligibility, with continuation of group medical insurance coverage at a reduced monthly premium. There are currently 63 retirees that fall under this categorical and the District's share for the fiscal year was $385,907.

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate costs of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Claim Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2010	$ 1,652,711	$ 150,000
Claims and changes in estimates	(4,711)	-
Claims payments	-	(150,000)
Liability Balance, June 30, 2011	1,648,000	-
Claims and changes in estimates	454,691	150,000
Claims payments	-	-
Liability Balance, June 30, 2012	$ 2,102,691	$ 150,000
Assets available to pay claims at June 30, 2012	$ 10,886,642	$ 150,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits 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 CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active members are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were $3,185,617, $3,043,000, and $3,114,710, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

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 Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7.0 percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2011-2012 was 10.923 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2012, 2011, and 2010, were $3,693,915, $3,458,509, and $3,251,939, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS. The State of California made contributions to CalSTRS on behalf of the District for fiscal year ending June 30, 2012, 2011, and 2010 amounted to $1,821,547, $1,569,077, and $1,601,068, respectively, and equaled 4.855 percent of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution reate for CalPERS. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees two 457 and seven 403 (b) tax deferred compensation plans. The plans, available to all employees, permits them to defer a portion of their pre-tax salary into investment(s) provided by the plans. The deferred compensation will become available once a qualifying event, as defined by the IRS, has been met. The District oversees the administrative functions of these plans. The District makes employer contributions for five of its employees, otherwise, these plans are strictly for employee contributions only.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

The California State Controller's Office audited the District's mandated costs claims in 2003-2004. As the result of the audit, the District has set aside a reserve for the liability. However, the District is in the process of disputing this liability with the State.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

Early Retirement

The District offered an early incentive retirement plan to all bargaining units who elect early retirement in prior year. All incentives have been paid except for $35,500 of which will be paid in fiscal year 2012-2013.

Operating leases

The District has entered into various operating leases for equipment with no lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
District funded facility improvement projects	$ 93,099	within 2 months
2005 G.O. Bond (Measure A) construction projects	2,659,733	within 1 year
	$ 2,752,832	

The projects are funded through a combination of general obligation bonds and capital project apportionments from the State Chancellor's Office.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is self-insured for the workers' compensation and property and liability up to $150,000. The District contracts with MacCorkle Inc., an insurance broker to manage the District's insurance claims. The District pays an annual premium to MacCorkle for their services. The relationships between the District and the risk management company are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2012, the District made total payment of $947,290 to MacCorkle Inc. for the insurance related services. The District also paid $44,660 and $227,005 to School Excess Liability Fund and Princeton Excess and Surplus for excess liability program.

The District is a member of South Bay Regional Public Safety Training Consortium JPA. No payments were made to South Bay Regional Public Safety Training Consortium JPA during the year.

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2011, the District issued $19,945,000 Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 1, 2011. By May 2012, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

NOTE 17 - SUBSEQUENT EVENTS

The District issued $23,960,000 of Tax and Revenue Anticipation Notes dated July 2, 2012. The notes mature on June 1, 2013, and yield 0.240 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning December 1, 2012, until 100 percent of principal and interest due is on account in April, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a] / c)
2011	$ 15,643,762	$ 118,923,929	$ 103,280,167	13%	$90,671,696	114%
2009	-	108,915,006	108,915,006	0%	85,080,018	128%
2006	-	149,530,877	149,530,877	0%	87,823,351	170%

SUPPLEMENTARY INFORMATION

DISTRICT ORGANIZATION
JUNE 30, 2012

The San Mateo County Community College District was established in 1922, and includes three college campuses located in San Mateo County. There were no changes in the boundaries of the District during the current year. The District's three colleges are each accredited by the Accrediting Commission for Community and Junior Colleges, Western, Association of Schools and Colleges.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Dave Mandelkern	President	2015
Helen Hausman	Vice President-Clerk	2013
Richard Holober	Trustee	2013
Patricia Miljanich	Trustee	2015
Karen Schwarz	Trustee	2015

ADMINISTRATION

Ron Galatolo	Chancellor - Superintendent
Kathy Blackwood	Interim Executive Vice Chancellor
Michael Claire	President – College of San Mateo
Jim Keller	Interim President – Canada College
Regina Stanback-Straoud	President – Skyline College

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Aid Cluster			
Federal Work Study Program	84.033	none	$ 411,312
Pell Grant	84.063	none	19,124,019
Supplemental Educational Opportunity Grant (SEOG)	84.007	none	503,324
Direct Student Loans	84.268	none	1,888,799
Academic Competitiveness Grant (ACG)	84.375	none	657
Postsecondary Education			
TRIO Cluster			
Student Support Services	84.042A	none	707,247
Upward Bound	84.047A	none	255,157
Passed through Santa Clarita Community College District			
Fund for the Improvement of Postsecondary Education	84.116Z	none	149,576
Institutional Service			
Minority Science and Engineering Improvement	84.120	none	234,507
College Cost Reduction and Access Act Hispanic Serving Institutions	84.031C	none	71,696
Higher Education -Institutional Aid HSISTEM	84.031C	none	532,628
Vocational Education			
Passed through California Community Colleges Chancellor's Office:			
CTEA I-C Basic Grants to States	84.048A	11-C01-052	573,223
CTEA I-C Basic Grants to States - CTE Transitions	84.048A	11-112-370	140,910
Special Education and Rehabilitation Services			
Passed through California Department of Rehabilitation:			
Vocational Rehabilitation-Workability	84.126A	27721	135,699
Passed through California Department of Developmental Services:			
Special Education-Grants for Infants and Families	84.181	S11-159	11,800
Total U.S. Department of Education			24,740,554
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Administration for Children and Families			
Passed through California Community Colleges Chancellor's Office:			
Temporary Assistance for Needy Families (TANF)	93.558	none	73,390
Passed through California Department of Education/CDTC:			
Child Care and Development Block Grant	93.575	3939, 4047	80,583
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CCTR1301, CSPP1546	68,502
Total U.S. Department of Health and Human Services			222,475

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child and Adult Care Food Program	10.558	1754-0A	43,500
Total U.S. Department of Agriculture			43,500
U.S. DEPARTMENT OF LABOR			
Passed through County of San Mateo:			
WIA - Adult - Governor's 15% Discretionary Fund	17.258	71824	33,061
Community Based Job Training Grants	17.269	71327	342,762
Passed through California Community Colleges Chancellor's Office:			
WIA - Adult - Governor's 15% Discretionary Fund	17.258	09-115-15	23,176
Passed through Peralta Community College District			
Community Based Job Training Grant	17.269	14804	75,000
Passed through California Employment Development Department:			
WIA - Adult - Governor's 15% Discretionary Fund	17.258	K079978	168,635
Community Based Job Training Grant	17.269	none	321,408
Passed through City of Santa Ana			
H-1B Job Training Grants	17.268	A-2012-017	4,206
Total U.S. Department of Labor			968,248
U.S. DEPARTMENT OF THE TREASURY			
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009	none	13,750
NATIONAL SCIENCE FOUNDATION			
Education and Human Resources	47.076	none	160,695
Engineering Grants	47.041	none	73,564
Total National Science Foundation			234,259
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Minority University Research and Education Program	43.008	none	149,618
U.S. DEPARTMENT OF ENERGY			
Passed through Stanford Transportation Group			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	none	4,961
Passed through Santa Clarita Community College District:			
Congressionally Directed Project	none	DE-EE0003160	5,775
Total Department of Energy			10,736
US DEPARTMENT OF COMMERCE			
Passed through Foundation for California Community Colleges:			
ARRA - NTIA-Broadband Technology Opportunities Program	11.557	06-43-B10541	6,275
SMALL BUSINESS ADMINISTRATION			
State Trade and Export Promotion Pilot Grant Program	59.061	F11-0073	17,438
Total Expenditures of Federal Awards			$ 26,406,853

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program	Program Entitlements Current Year	Prior Year	Total Entitlement	Program Revenues Cash Received [1]	Accounts Receivable	Deferred Revenue	Total Revenue	Total Program Expenditures
GENERAL FUND								
Disabled Students Programs & Services	$ 1,044,043	$ -	$ 1,044,043	$ 1,044,043	$ -	$ -	$ 1,044,043	$ 1,044,043
Extended Opportunity Programs & Services	1,112,908	-	1,112,908	1,112,908	-	-	1,112,908	1,112,908
CARE/EOPS	83,371	-	83,371	83,371	-	-	83,371	83,371
Matriculation	690,976	-	690,976	690,976	-	-	690,976	690,976
Foster Parent Training	81,673	-	81,673	61,255	20,418	-	81,673	81,673
FA Administrative Allowance	817,573	23,320	840,893	840,893	-	-	840,893	840,893
Block Grant - Instructional Equipment	-	271,217	271,217	271,217	-	28,389	242,828	242,828
T-Com and Technology (TTIP)	-	92,943	92,943	92,943	-	61,324	31,619	31,619
CalWORKs	344,273	-	344,273	344,271	2	-	344,273	344,273
Middle College High School	198,908	-	198,908	79,563	119,345	-	198,908	198,908
CITD Economic Development	205,000	22,528	227,528	145,525	62,455	-	207,980	207,980
Staff Development	-	42,720	42,720	42,720	-	41,803	917	917
MESA/CCCP Funds for Student Success	101,068	16,444	117,512	85,517	487	-	86,004	86,004
RCSD CBET Program	40,000	-	40,000	5,994	30,006	-	36,000	36,000
Lottery-Prop 20-Instructional Materials	593,827	1,086,837	1,680,664	369,763	224,064	-	593,827	391,038
Nursing-Enrollment Growth	101,087	-	101,087	84,913	16,174	-	101,087	101,087
Entrepreneurship Career Pathways		54,782	54,782	54,782	-	-	54,782	54,782
SUHSD CBET Program	42,211	-	42,211	-	42,211	-	42,211	42,211
Basic Skills 10-11 appropriation	-	236,710	236,710	236,710	-	135,685	101,025	101,025
Basic Skills 09-10 appropriation	-	145,402	145,402	145,402	-	-	145,402	145,402
Basic Skills 11-12 appropriation	291,876	-	291,876	291,876	-	208,177	83,699	83,699
California EDD Green Innovation	-	1,846,992	1,846,992	1,846,992	-	-	1,846,992	1,846,992
Rancho Santiago CCD-CEO Grant	7,500	-	7,500	1,875	5,625	-	7,500	7,500
CTE Com Collaborative Project 10-12	-	97,643	97,643	97,643	-	-	97,643	97,643
CTE Com Collaborative Project 11-13	-	354,031	354,031	354,031	-	59,313	294,718	294,718
CCCCO-CTE-California Career Academy	-	1,005,591	1,005,591	402,237	603,354	-	1,005,591	1,005,591
CCCCO-CTE-CAA Grant	460,000	-	460,000	368,000	-	368,000	-	-
State Library	4,837	-	4,837	4,837	-	886	3,951	3,951
EWD RTF Incumbent Workers - Util Tech	-	92,882	92,882	92,882	-	-	92,882	92,882
CTE Pathways Initiative	348,000	-	348,000	278,400	-	213,826	64,574	64,574
Youth Entreprenuership Career Pathways	150,000	-	150,000	120,000	-	81,801	38,199	38,199
CDE Child Development	219,345	-	219,345	194,935	13,337	-	208,272	208,272
Cal Grant	645,055	-	645,055	568,530	76,525	-	645,055	645,055
Total State Programs	7,583,531	5,390,042	12,973,573	$ 10,415,004	$ 1,214,003	$ 1,199,204	$ 10,429,803	$ 10,227,014

[1]Include cash received from prior year.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT – ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

CATEGORIES	(Revised)/ Reported Data*	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2011 only)			
1. Noncredit	13	-	13
2. Credit	1,519	-	1,519
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,774	-	14,774
(b) Daily Census Contact Hours	881	-	881
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	102	-	102
(b) Credit	672	-	672
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	1,365	-	1,365
(b) Daily Census Procedure Courses	156	-	156
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	19,482	-	19,482
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	-	-	-
F. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	121	-	121
2. Credit	1,991	-	1,991
	2,112	-	2,112

* Revised, November 2012

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 19,511,183	$ -	$ 19,511,183	$ 19,511,183	$ -	$ 19,511,183
Other	1300	13,143,391	-	13,143,391	13,213,819	-	13,213,819
Total Instructional Salaries		32,654,574	-	32,654,574	32,725,002	-	32,725,002
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	8,063,491	-	8,063,491
Other	1400	-	-	-	714,137	-	714,137
Total Noninstructional Salaries		-	-	-	8,777,628	-	8,777,628
Total Academic Salaries		32,654,574	-	32,654,574	41,502,630	-	41,502,630
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	19,511,713	-	19,511,713
Other	2300	-	-	-	1,482,346	-	1,482,346
Total Noninstructional Salaries		-	-	-	20,994,059	-	20,994,059
Instructional Aides							
Regular Status	2200	1,234,804	-	1,234,804	1,101,728	-	1,101,728
Other	2400	252,623	-	252,623	256,422	-	256,422
Total Instructional Aides		1,487,427	-	1,487,427	1,358,150	-	1,358,150
Total Classified Salaries		1,487,427	-	1,487,427	22,352,209	-	22,352,209
Employee Benefits	3000	15,451,072	-	15,451,072	25,917,157	-	25,917,157
Supplies and Material	4000	-	-	-	2,130,860	-	2,130,860
Other Operating Expenses	5000	-	-	-	10,629,328	-	10,629,328
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		49,593,073	-	49,593,073	102,532,184	-	102,532,184

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ 2,243,746	$ -	$ 2,243,746	$ 6,232,628	$ -	$ 6,232,628
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	69,544	-	69,544
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	1,137,727	-	1,137,727
Objects to Exclude							
Rents and Leases	5060	-	-	-	2,285	-	2,285
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	2,395,920	-	2,395,920
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ -	$ -	$ -
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		2,243,746	-	2,243,746	9,838,104	-	9,838,104
Total for ECS 84362, 50 Percent Law		$ 47,349,327	$ -	$ 47,349,327	$ 92,694,080	$ -	$ 92,694,080
Percent of CEE (Instructional Salary Cost/Total CEE)		51.08%		51.08%	100.00%		100.00%
50% of Current Expense of Education					$ 46,347,040		$ 46,347,040

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance:		
General Funds	$ 33,097,294	
Special Revenue Funds	25,406,277	
Capital Projects Funds	117,780,029	
Debt Service Funds	23,632,460	
Enterprise Funds	7,642,048	
Internal Service Funds	8,772,642	
Fiduciary Funds	246,691	
Total Fund Balance - All District Funds		**$ 216,577,441**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 770,722,888	
Accumulated depreciation is	(129,162,026)	641,560,862
Capital assets recorded in proprietary funds.		(110,388)
District contribution to the Enterprise Funds were eliminated for consolidated reporting purpose.		1,000,000
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but should not be recognized in accrual basis.		5,490,548
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(13,220,817)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable	702,175,138	
Premiums, net of amortization	34,444,342	
Compensated absences (vacations)	3,765,476	(740,384,956)
Total Net Assets		**$ 110,912,690**

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Assets:		$ 26,392,186
Adjustments to SEOG program	84.007	14,667
Total Expenditures of Federal Awards		$ 26,406,853

Schedule of Expenditures of State Awards

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

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

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

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

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

NOTE 1 - PURPOSE OF SCHEDULES (CONTINUED)

Reconciliation of Annual Financial and Budget Report (CCFS - 311) with Fund Financial Statements

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

Reconciliation of Governmental Funds to the Statement of Net Assets

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

INDEPENDENT AUDITORS' REPORTS

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

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
San Mateo County Community College District
San Mateo, California

We have audited the basic financial statements of San Mateo County Community College District (the District) and its discretely presented component unit for the years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audits 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

Management of San Mateo County Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered San Mateo County Community College 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 San Mateo County Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Mateo County Community College 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 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.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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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 previously defined.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Mateo County Community College 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of San Mateo County Community College District in a separate letter dated December 18, 2012.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 18, 2012

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
San Mateo County Community College District
San Mateo, California

Compliance

We have audited San Mateo County Community College District's (the District) compliance 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 San Mateo County Community College District's major Federal programs for the year ended June 30, 2012. San Mateo County Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Mateo County Community College District's management. Our responsibility is to express an opinion on San Mateo County Community College District's compliance based on our audit.

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

In our opinion, San Mateo County Community College 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, 2012.

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Internal Control Over Compliance

Management of San Mateo County Community College 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 San Mateo County Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program 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 San Mateo County Community College District's internal control over compliance.

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

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as previously defined.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 18, 2012

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

REPORT ON STATE COMPLIANCE

Board of Trustees
San Mateo County Community College District
San Mateo, California

We have audited the basic financial statements of San Mateo County Community College District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012.

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 of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. 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.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of San Mateo County Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the San Mateo County Community College District's compliance with the State laws and regulations in accordance with Section 400 of the Chancellor's Office *California Community Colleges Contracted District Audit Manual (CDAM)* issued in May 2012 applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 433	California Work Opportunity and Responsibility to Kids (CalWORKS)
Section 435	Open Enrollment

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Section 437	Student Fee – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fees
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 476	Curriculum and Instruction
Section 479	To Be Arranged (TBA) Hours

Based on our audit, we found that for the items tested, the San Mateo County Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Our audit does not provide a legal determination on San Mateo County Community College District's compliance with the State laws and regulations referred to above.

San Mateo County Community College 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 San Mateo County Community College District's responses and, accordingly, we express no opinion on the responses.

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

Vavrinek, Trine, Day & Co., LLP

Pleasanton, California
December 18, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.033, 84.063, 84.007, 84.268, 84.375	Student Financial Aid Cluster
84.031C	Higher Education-Institutional Aid HIS/STEM, College Cost Reduction and Access Act Hispanic Serving Institutions

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for State programs:	Unqualified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

2012-1 Finding – To Be Arranged Hours (TBA)

Criteria or Specific Requirements
Title 5 CCR Section 55002(a)(3) Course Outline of Record indicates that the course is described in a course outline of record that shall be maintained in the official college files and made available to each instructor. The course outline of record shall specify the unit value the expected number of contact hours for the course as a whole, the prerequisites, corequisites or advisories on recommended preparation (if any) for the course, the catalog description, objectives, and content in terms of a specific body of knowledge. The course outline shall also specify types or provide examples of required reading and writing assignments, other outside-of-class assignments, instructional, methodology, and methods of evaluation for determining whether the stated objectives have been met by students.

Legal Advisory 08-02 To Be Arranged (TBA) Hours Compliance Advice indicates that documentation is required to substantiate that each student has completed the TBA requirements as appropriate for either the Weekly or Daily census attendance accounting procedures.

Condition
We noted 28 out of 30 TBA courses reviewed did not have adequate documentation to support TBA hours reported as required.

Questioned Costs
None. The District revised and resubmitted the annual 320 report by reducing approximately 30 FTES.

Effect
The District reported FTES at P1 and P2 that were not properly documented.

Cause
Documentation was not always maintained to support TBA hours claimed.

Recommendation
We recommend the District review the TBA documentation and remove undocumented hours from the 320 report at P1, P2, and the annual report.

Management's Response and Corrective Action Plan
Deans will work closely with the faculty and will request advice from ITS as how to exclude students who did not complete TBAs by census in Banner. We will setup additional guidelines on this issue to make sure it does not happen again. We will also work closely with the Executive Vice Chancellor for instruction on this issue.

2012-2 Finding – Calculation of Contact Hours for Positive Attendance

Criteria or Specific Requirements
According to Student Attendance Accounting Manual, Chapter 3 Attendance Accounting Application for Actual Hours of Attendance Procedure, Positive attendance is based on an actual count of enrolled students present at each class meeting. In other word, the total student contact hours reported for each class reported under the Actual Hours of Attendance Procedure should be the sum of the individual attendance hour totals for each student in the class as reported by the instructor.

Condition
For the 25 Positive attendance courses reviewed, we noted 14 of them had student total contact hours noted on the roster did not agree to the total contact hours reported on the Banner report (SVRCALD).

Questioned Costs
None. (revised 320 report submitted has reduced 6.66 FTES in question)

Effect
The District was not in compliance with the Positive Attendance contact hours reporting.

Cause
Not all faculty members followed the proper procedures to maintain adequate documentation to support the contact hours reported.

Recommendation
Faculty members should be reminded with the importance of documenting and maintaining accurate attendance rosters to support the hours claimed.

Management's Response and Corrective Action Plan
Deans will work closely with faculty who has Positive Attendance courses to ensure the proper hours are claimed.

2012-3 Finding – Curriculum and Instruction

Criteria or Specific Requirements
Title 5 Section 58007 states that contact hours of enrollment in noncredit courses, except for noncredit courses using the Alternative attendance accounting procedure described in subdivision (f)(2) of Section 58003.1, shall be based upon the count of students present at each course meeting. Full-time equivalent student in noncredit courses shall be computed by dividing the sum of contact hours of enrollment by 525, except for noncredit courses using the alternative attendance accounting procedure described in Section 59003.1(f)(2).

Condition
We noted the 2 noncredit courses reviewed did not have documentation to support the hours claimed.

Questioned Costs
None (Annual 320 report was revised by reducing the 2.04 FTES in question).

Effect
The District was not in compliance with noncredit course documentation requirements.

Cause
Hours claimed for noncredit courses were not supported by documentation.

Recommendation
Faculty members should be reminded with the importance of maintaining adequate documentation to support the attendance hours claimed.

Management's Response and Corrective Action Plan
Appropriate manager or VPI will work with the faculty members to ensure that hours reported are properly supported.

2012-4 Finding – Concurrent Enrollment of K-12 Students In Community College Credit Courses

Criteria or Specific Requirements
Title 5, section 53410 sets the basic minimum qualifications for credit instructors which include either a master's degree "in the discipline of the faculty member's assignment" or a master's degree "in a discipline reasonably related" to the assignment and a bachelor's degree "in the discipline of the faculty member's assignment."

Education Code section 87359 requires the Board of Governors to adopt regulations setting forth a process to allow local districts to employ faculty members who do not meet the minimum qualifications adopted by the Board of Governors. The section provides that a person may be hired to serve as a faculty member if the district governing board determines that the individual "possesses qualifications that are at least equivalent to the minimum qualifications specified in regulations of the board of governors adopted pursuant to Section 87356." The section requires a process to ensure that "each individual faculty member employed under the authority granted by the regulations possesses minimum qualification specified in regulations adopted by the board of governors."

Per the District Policy for Minimum Qualifications, in order for faculty to teach in a particular discipline, they must either meet the state minimum qualifications or they must pass an equivalency process. A committee consisting of faculty discipline experts determines if the faculty member has sufficient education or professional achievement to warrant equivalency to the required degree, as stated in the state minimum qualifications for faculty and administrators. Each equivalency is approved by committee, by the Academic Senate, by the appropriate Vice President of the campus, and by the College President. Finally, the equivalency is Board approved before the faculty member is given an FSA (faculty service area certification).

Condition
We noted 1 out of 25 teachers reviewed did not have evidence on file to show that the teacher had met the minimum qualifications or passed the District's equivalency review process.

Questioned Costs
None.

Effect
The District was not in compliance with credit instructors' minimum qualification or pass equivalency review process.

Cause
The College failed to complete the minimum qualification equivalency review process for the instructor.

Recommendation
Individuals having hiring responsibilities should be reminded the importance of following the appropriate policy and procedures established by governing board and the requirements indicated in CCR Title 5, section 53410.

Management's Response and Corrective Action Plan
The Vice President for Instruction is working with the Deans to ensure that all teaching faculty meet minimum qualifications or pass the equivalency review process.

2012-5 **Finding – Disable Student Program and Services (DSPS)**

Criteria or Specific Requirements
Title 5 Section 56006 requires a verification of disability form be maintained in each student's file. The verification should identify and describe the student's disability and the educational limitations which inhibit the educational process. The form should be signed by the appropriate professional or representative from an agency participating in interagency agreements with the State Chancellor's Office.

Title 5 Section 56004 states that documentation for services and accommodations directly related to the student's educational limitation should be available in the student's file.

Title 5 Section 56022 states that a Student Educational Contract (SEC) should be reviewed and updated each year to determine the student's progress toward their stated instructional and educational goal(s).

Title 5 Section 56026 states that colleges should maintain records of the services provided to students with disabilities.

Condition
We noted 12 out of 40 student files reviewed did not have a current Student Education Plan (SEP) or Student Education Contract (SEC) on file. For the SEP or SEC carried forward from the prior year, there were no indication that an annual review for the student's status was performed. In addition, 1 student did not have a disability verification form on file.

Questioned Costs
None.

Effect
The District was not in compliance with the Disable Student Program and Services documentation requirement.

Cause
The Colleges did not perform the required annual student file reviews or did not maintain documentation to evidence that such review was performed. In addition, students no longer registered with Disability Resource Center were not removed from the list of students served.

Recommendation
We recommend the District annually review the students files and evidence such review by a notation to show the name of the person reviewed, date of review, and whether there are changes to the student's status. If status changed, a current SEP or SEC should be completed. Students who are no longer registered for the services should be removed from the list reported.

Management's Response and Corrective Action Plan
The Colleges Disability Resource Center (DRC) is committed to accurate accounting of its files and is currently conducting a self-audit to ensure that all currently registered DRC student files are in compliance with State and District standards. Also, an annual review will be performed for the registered DRC students' files and will show evidence of such review on file.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2012

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Federal Awards Findings

2011-1 Finding – Student Financial Aid Cluster, Direct Student Loans – CFDA # 84.268
Significant Deficiency - Compliance

- We noted that the Colleges did not notify the students or parents of their right to cancel all or a portion of the loan or loan disbursement.

- No documentation noting that the Colleges performed the monthly loan disbursement reconciliation as required.

Recommendation

The Colleges should develop and implement procedures to notify students or parents of their right to cancel all or a portion of the loan or loan disbursement. The notification should include the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement.

In addition, the Student Financial Aid staff at each college should review the *Direct Loan*s School *Guide* and the yearly training documents to familiar with the required reconciliation process. Documentation should be maintained to show that the loan disbursements are reconciled to the institution's financial records monthly.

Current Status:

Implemented.

State Awards Findings

2011-2 Finding – To Be Arranged Hours (TBA)
Significant Deficiency - Compliance

- We noted that contact hours for students where documentation of participation for at least 50 minutes of the To Be Arranged time was not available were included in the 320 report for apportionment.
- For courses using daily census procedure, we were unable to determine based on syllabus provided that the TBA contact hours were scheduled for the same number of hours as for each scheduled day of the course or a portion of the hours the course is regularly scheduled for each day it meets.
- We noted courses where instructional activities to be conducted during the TBA hours were not indicated in the official course outlines and class syllabus.
- We noted for courses with 1 hour per week by arrangement, 1.2 hour/meeting is used for contact hour calculation; for courses with 2 hours per week by arrangement, 2.5

hours/meeting is used for contact hour calculation, and for courses with 3 hours/week, 3.8 hours/meeting is used for contact hour calculation.

Recommendation

We recommend the District review student attendance records for all TBA courses and remove contact hours for those who did not participate. We also recommend the District review all TBA course outline, catalogs, and course schedule material and verify that TBA courses are appropriately described.

Current Status:
Partially implemented, see current year finding # 2012-1.

2011-3 Finding – Disable Student Program and Services (DSPS)
Significant Deficiency – Compliance

Out of 40 student files reviewed, we noted 2 students had no eligibility verification form on file, 5 students did not have the accommodation form that describe the services and/or accommodation appropriate for the student, 8 students did not an updated Student Educational Contract (SEC), and 5 students did not have the SEC at all.

Recommendation

We recommend the District review all files for disable students served to make sure all necessary documentation are included on file.

Current Status:
Not implemented, see current year finding #2012-5

2011-4 Finding – State General Apportionment Funding System
Significant Deficiency – Compliance

During our review of the courses claimed for apportionment on the 320 report, we noted two online courses were listed as daily courses that should have been classified as alternative attendance accounting. In addition, we noted 8 online courses were listed as weekly courses that should have been classified as alternative attendance.

Recommendation

We recommend the District review all online courses at each college to verify that they are appropriately classified in the data reports used to complete the 320 report. In addition, we recommend the district review the contact hour data used for the 320 report for the courses where differences were noted and ensure that future contact hour data is adjusted as necessary.

Current Status
Implemented.