

**SAN MATEO COUNTY
COMMUNITY COLLEGE DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2007**

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2007

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the San Mateo County Community College District (the District) as of and for the years ended June 30, 2007 and 2006, and its discretely presented component unit the Educational Housing Corporation as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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. 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the San Mateo County Community College District and its discretely presented component unit as of June 30, 2007 and 2006, 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.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2007 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 or testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was 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*, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Governmental Funds, Proprietary Funds and Fiduciary Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavinek, Trine, Day & Co LLP

Pleasanton, California
December 3, 2007

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

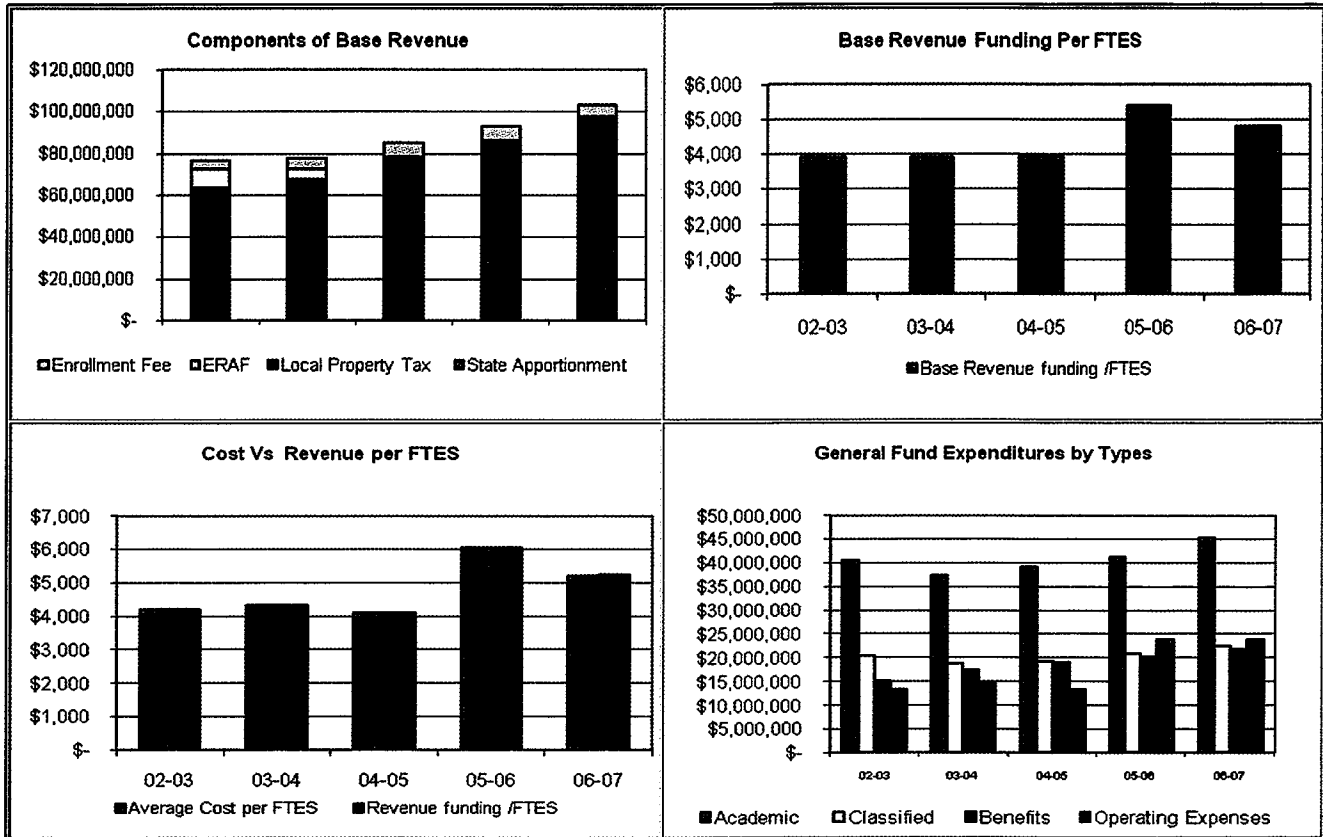
Introduction

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, 2007, June 30, 2006 and June 30, 2005. 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 2006-07



Financial Overview

- Assets exceeded liabilities for the fiscal year ended June 30, 2007 by \$187 million, and net assets increased \$19 million over last year.
- Net noncurrent capital assets and restricted cash increased \$75 million.
- Net operating loss was \$117 million.
- Net non-operating gain was \$121 million.
- Other revenues exceeded expenses by \$15 million.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Reporting for the District as a Whole

- Economic position of the District with the State

Because districts across the state were not growing, which resulted in available resources, the state requested districts to take advantage of a provision to report Summer 2007 FTES as part of the 2006-07 fiscal year. SMCCCD responded by reporting all of Summer 2007 (1,980 FTES) in 2006-07. Since the District could not report those FTES in 2007-08, this will result in the District's apparent declining enrollment this fiscal year. However, the District's revenue base will be held harmless, that is, the District will receive the same amount of FTES funding in 2007-08 as was received in 2006-07. In addition to a 4.23% state revenue COLA, these revenues kept the District in a stable financial situation.

- Salaries and Benefits

In 2006-07, the San Mateo County Community College District completed multi-year collective bargaining agreements with AFT and settled agreements with CSEA and AFSCME at the end of 2005-06 for all employees including a 2005-06 of 4.23% compensation improvement (3.23% salary and 1% medical cap) for all groups. The contracts will expire in June, 2009. Health care premiums increased by an average of 18% in January, 2004, 18% in January, 2005, 9.4% in January, 2006, and 11% in January, 2007. These increases have substantially increased District expenditures. The collective bargaining agreements approved for 2005-06 include increases in the employee medical caps on a tiered basis. The employer contribution rate for STRS has not changed in several years. The PERS employer contribution rate increased slightly from 9.124% in 2006-07 to 9.306% in 2007-08. Dental insurance premiums increased by 14% in October, 2006 and are expected to increase slightly in 2007-08. In addition, unemployment insurance decreased from 0.45% in 2005-06 to 0.05% in 2006-07 and is currently back to 0.45% in 2007-08. Workers' Compensation remains at 2.257% in 2007-08.

Collective bargaining agreements in subsequent years for employees include for 2006-07 a 5.92% compensation improvement (4.92% on salary and 1% on medical cap) and for 2007-08 and 2008-09, AFT (faculty) and CSEA (classified professional) agreed to a compensation improvement percentage that matched the state revenue COLA. For 2007-08, the total package was 4.53% (3.53% on salary and 1% on medical cap), plus AFT added a paid office hour program for adjunct faculty. AFSCME (skilled trades) and the unrepresented employees, including administration, received a 4.50% compensation increase (3.50% on salary and 1% on medical cap). For 2008-09, AFT and CSEA will receive a compensation increase percentage equal to the state revenue COLA while AFSCME and the unrepresented employees will receive the same but with a ceiling of 4.50% and a floor of 4.00%.

- Bond construction

As of June 30, 2007 a total of \$198 million of the \$207 million November 2001 general obligation bond and \$51 million of the \$468 million November 2005 general obligation bond have been spent or encumbered by contract. The 2001 bond authorization projects are scheduled to be completed in 2008. A program definition identifying projects, sequence of construction, and cost estimates has been developed for the 2005 general obligation authorization. This will be adjusted regularly to keep pace with the academic and construction environment.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

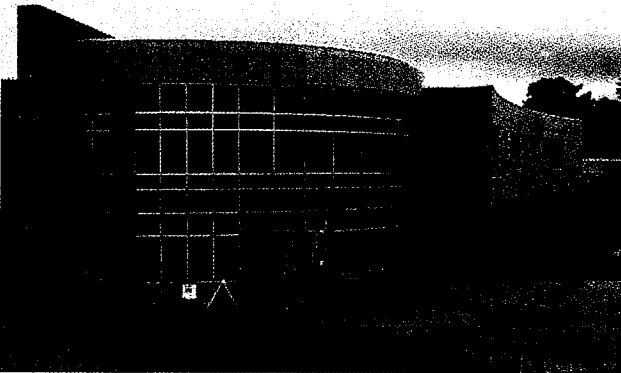
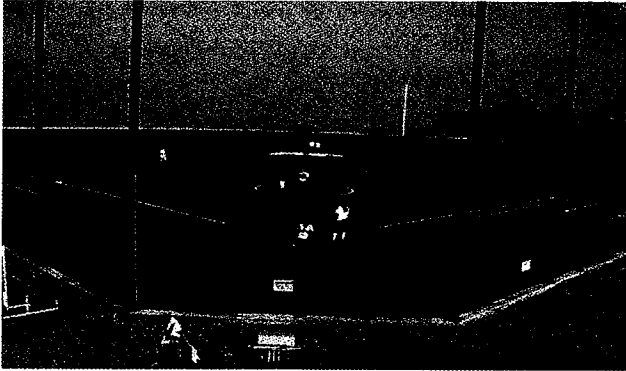
The funds of the 2005 general obligation will be used to refurbish most of the three colleges' classroom spaces and to construct additional instructional and student services facilities as well as faculty offices. The 2005 general obligation bond construction projects are scheduled to be completed in 2012.

- Cañada College's new Library and Student Resource Center (Building 9) had its ribbon cutting ceremony on August 20, 2007. This is the final flagship project completed for phase 1 of the Capital Improvement Program. This building includes Disabled Students Programs and Services (DSPS), Student Counseling, Registration, Financial Aid, Learning Center and Library. It also includes a renovated exterior quad area with an amphitheater, water feature and a Butterfield horse sculpture. One of the larger bond funded projects in the next phase of the Capital Improvement Program at Cañada College – Gateways, Circulation, Parking and Infrastructure project – is currently in the design phase and is scheduled for construction early 2008.
- At the College of San Mateo, the East Campus Gateway and athletic facilities upgrades is scheduled for completion in late Fall 2007. Another large bond funded project for the next phase of the Capital Improvement Program is the Design-Build Project at College of San Mateo, the Request for Proposal for this project has been released and the District is awaiting the outcome of this process to begin the design phase in early 2008.
- Skyline College opened the doors of their signature projects, the Student and Community Center and the Science Annex in Spring 2007. The opening ceremony was held on February 14, 2007. The Student and Community Center (Building 6) houses the dining hall and Sky Café, Security, Bookstore, Student Activities Office, the Associated Students of Skyline College, and a conference center. The Science Annex (Building 7A) houses state-of-the-art science laboratories. This building is adjacent to the Science Building (Building 7), which is currently in the design phase of a seismic upgrade and modernization project. Adjacent and contiguous to Building 7 is Building 8, a recently renovated classroom building, which also held its grand opening on February 14th. This office and classroom building includes the Automotive Technology program, which held its grand opening in August 2006, just prior to the start of the Fall 2006 Semester. Another large bond funded project for the next phase of the Capital Improvement Program is the Design-Build Project at Skyline College, the Request for Proposal for this project has been released and the District is awaiting the outcome of this process to begin the design phase in early 2008.
- Cañada College's Library & Student Resources Center (Building 9) is scheduled for occupancy in Summer 2007.
- The entire Measure C 2001 Bond program is scheduled for completion in 2008.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007



College of San Mateo, Softball Field (Top Left)

Skyline College, Science Annex (Top Right)

Skyline College, Student Support & Community Services Center (Middle Left)

Canada College, Learning Resource Center (Middle Right)

Canada College, Quad Water Feature (Bottom Left)

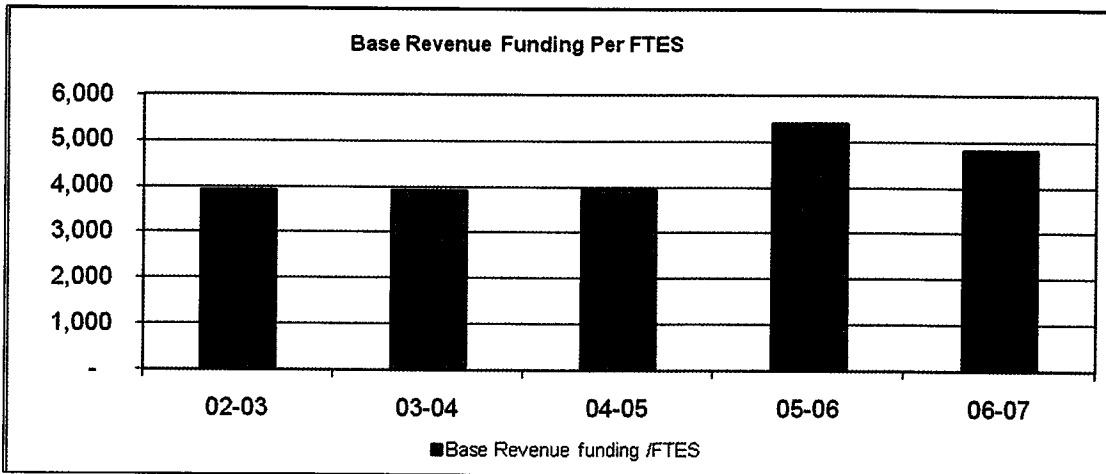
Skyline College, Student Support & Community Services Center (Bottom Right)

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

- Enrollments

In 2006-07, SMCCCD grew only slightly and took advantage of by shifting all of Summer 2007 (1,980 FTES) into 2006-07. Since the District could not report those FTES in 2007-08, this will result in the District's declining enrollment status during 2007-08. However, the District's revenue base was held harmless, that is, the District will receive the same amount of FTES funding in 2007-08 as was received in 2006-07. In addition to a 4.23% state revenue COLA, these revenues kept the District in a stable financial situation. The following chart shows comparative funded FTES data for the past five fiscal years.



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 with Lehman Brothers 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.

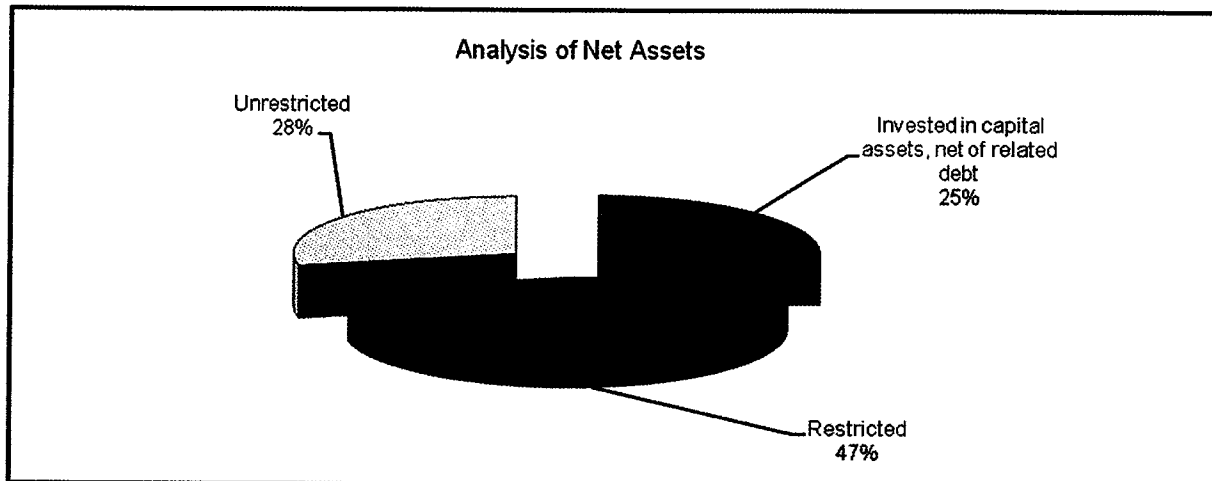
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

-
- 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 tax 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, 2007



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF NET ASSETS
JUNE 30, 2007, 2006 AND 2005**

| | 2007 | 2006 | 2005 |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 981,235 | \$ 1,286,987 | \$ 2,354,503 |
| Investments | 574,827,706 | 271,179,198 | 203,325,428 |
| Accounts receivable | 22,535,089 | 21,105,769 | 12,113,989 |
| Student loans receivable | 510,673 | 586,741 | 384,190 |
| Prepaid expenses | 1,516,058 | 93,963 | 108,072 |
| Deferred charges | 6,216,168 | 3,480,307 | 2,476,744 |
| Stores inventories | 1,692,450 | 1,678,001 | 1,395,011 |
| Other current assets | 25,750 | 25,565 | 372,725 |
| Total Currents Assets | 608,305,129 | 299,436,531 | 222,530,662 |
| Noncurrent Assets: | | | |
| Restricted cash and cash equivalents | 30,524,521 | 5,621,269 | 9,468,025 |
| Non-depreciable capital assets | 45,311,034 | 108,375,276 | 93,388,551 |
| Depreciable capital assets, net of depreciation | 251,229,009 | 138,102,083 | 74,328,686 |
| Total Noncurrent Assets | 327,064,564 | 252,098,628 | 177,185,262 |
| TOTAL ASSETS | 935,369,693 | 551,535,159 | 399,715,924 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 18,072,661 | 23,061,711 | 19,159,460 |
| Interest payable, restricted | 8,107,914 | 2,574,201 | 2,565,549 |
| Current loans | - | - | 12,000,000 |
| Deferred revenue | 10,003,127 | 8,456,809 | 10,074,575 |
| Amount held in trust on behalf of others | 1,803,748 | 1,452,285 | 8,540,831 |
| Compensated absences payable - current portion | 2,038,973 | 1,924,219 | 1,830,686 |
| Bonds and notes payable - current portion | 12,245,000 | 2,435,000 | 4,945,000 |
| Lease obligations - current portion | - | - | 156,242 |
| Other long-term liabilities - current portion | 877,627 | 195,957 | 114,078 |
| Total Current Liabilities | 53,149,050 | 40,100,182 | 59,386,421 |
| Noncurrent Liabilities | | | |
| Compensated absences payable - noncurrent portion | 2,975,755 | 828,618 | 720,342 |
| Lease obligations - noncurrent portion | - | - | 156,242 |
| Other long-term liabilities - noncurrent portion | 691,536,128 | 342,181,694 | 193,572,581 |
| Total Noncurrent Liabilities | 694,511,883 | 343,010,312 | 194,449,165 |
| TOTAL LIABILITIES | 747,660,933 | 383,110,494 | 253,835,586 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 46,420,206 | 76,864,540 | 14,291,712 |
| Restricted for: | | | |
| Debt service | 30,844,675 | 5,669,093 | 10,019,898 |
| Capital projects | 52,659,542 | 45,146,987 | 41,404,204 |
| Educational programs | 3,973,234 | 3,132,518 | - |
| Other activities | 156,256 | 272,564 | 250,125 |
| Unrestricted | 53,654,847 | 37,338,963 | 79,914,399 |
| TOTAL NET ASSETS | \$ 187,708,760 | \$ 168,424,665 | \$ 145,880,338 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Total net assets at June 30, 2007, increased \$19 million over the prior fiscal year. The increase was primarily due to the increase of net capital assets from Bond and C.O.P. construction in the District.

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 programmatic sources. Non-operating revenues include State apportionments, Local property tax revenues, investment earnings and gifts.

Operating revenues include activities characterized by exchange transactions, such as student fees, sales and services of Bookstore and Cafeteria operations, services provided and contracted to grants agencies, and interest from institutional student loans. Non-operating revenue, on the other hand, is characterized by non-exchange transactions, such as donations, gifts, State appropriations and regular investment income.

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005**

| | 2007 | 2006 | 2005 |
|--|------------------|------------------|------------------|
| | in thousands | in thousands | in thousands |
| OPERATING REVENUES | | | |
| Tuition and Fees | \$9,938 | \$10,672 | \$10,580 |
| Grants and Contracts, noncapital | 23,744 | 28,894 | 27,229 |
| Auxiliary Enterprise Sales and Charges | 7,832 | 7,307 | 8,279 |
| Internal Service Sales and Charges | 2,003 | 000 | 000 |
| TOTAL OPERATING REVENUES | 43,518 | 46,873 | 46,087 |
| OPERATING EXPENSES | 160,633 | 147,366 | 149,410 |
| OPERATING LOSS | (117,115) | (100,494) | (103,323) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| State apportionments, noncapital | 36,434 | 36,086 | 16,970 |
| Local property taxes | 62,007 | 56,824 | 66,570 |
| State taxes | 3,876 | 60 | 1 |
| Investment income/(expense), net | 33,969 | 2,099 | 2,095 |
| Interest income/(expense) on capital related debt, net | (44,964) | (10,896) | (6,482) |
| Other non-operating revenues | 30,366 | 20,127 | 13,763 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 121,688 | 104,240 | 92,917 |
| INCOME BEFORE OTHER REVENUES AND EXPENSES | 4,574 | 3,747 | (10,406) |
| OTHER REVENUES AND EXPENSES | 14,711 | 18,738 | 6,010 |
| NET INCREASE IN NET ASSETS | 19,284 | 22,485 | (4,396) |
| NET ASSETS, BEGINNING OF YEAR | 168,425 | 145,880 | 150,275 |
| NET ASSETS, END OF YEAR | \$187,709 | \$168,365 | \$145,879 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

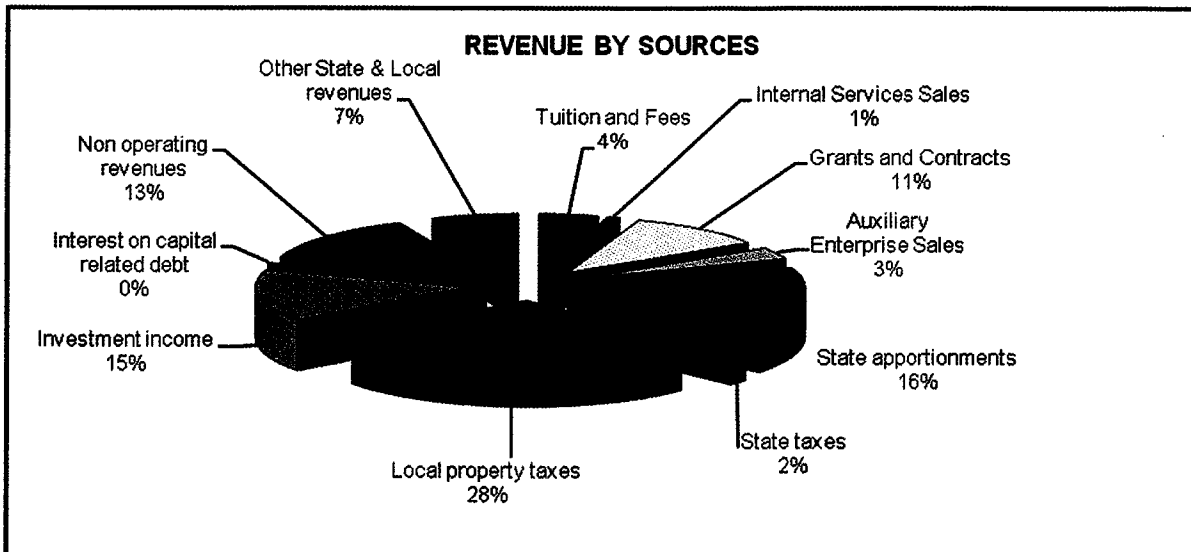
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Explanatory information for the statement is as follows:

- Tuition and Fees are net of enrollment, health, non-resident tuition, other student fees and less scholarship discount and allowance as defined by GASB statement No. 35.
- 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.
- Auxiliary Enterprise Sales and Charges consist of bookstore and cafeteria sales less discount allowances.
- State apportionments, non-capital includes state apportionment, apprenticeship, Partnership for Excellence 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.
- 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:



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Revenues and expenses changed mainly due to the following:

- Net Income from Operating sources illustrated a decrease in grants and reduced tuition, increase in salaries, benefits and capital depreciation.
- Net Non-Operating sources increased mainly due to an increase in the State apportionment revenue and Bond investment income.

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's operating expense, increased due to salary and health care benefit improvements in addition to price increases.
- 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

Statement of Operation Expenses by Account

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|-------------------|
| | in thousands | in thousands | in thousands |
| Salaries | \$ 83,216 | \$ 75,071 | \$ 71,407 |
| Employee benefits | 27,732 | 25,229 | 23,873 |
| Supplies, materials, and other operating expenses | 42,979 | 43,471 | 51,865 |
| Depreciation expense | 6,706 | 3,596 | 2,265 |
| TOTAL OPERATING EXPENSES | \$ 160,633 | \$ 147,366 | \$ 149,410 |

Statement of Operating Expenses by Activity

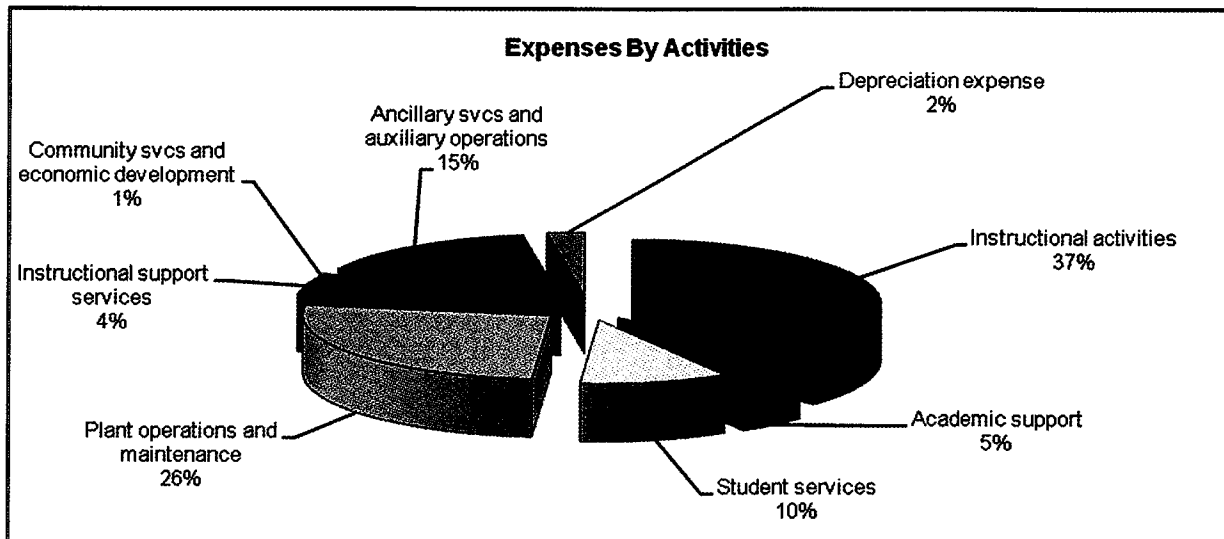
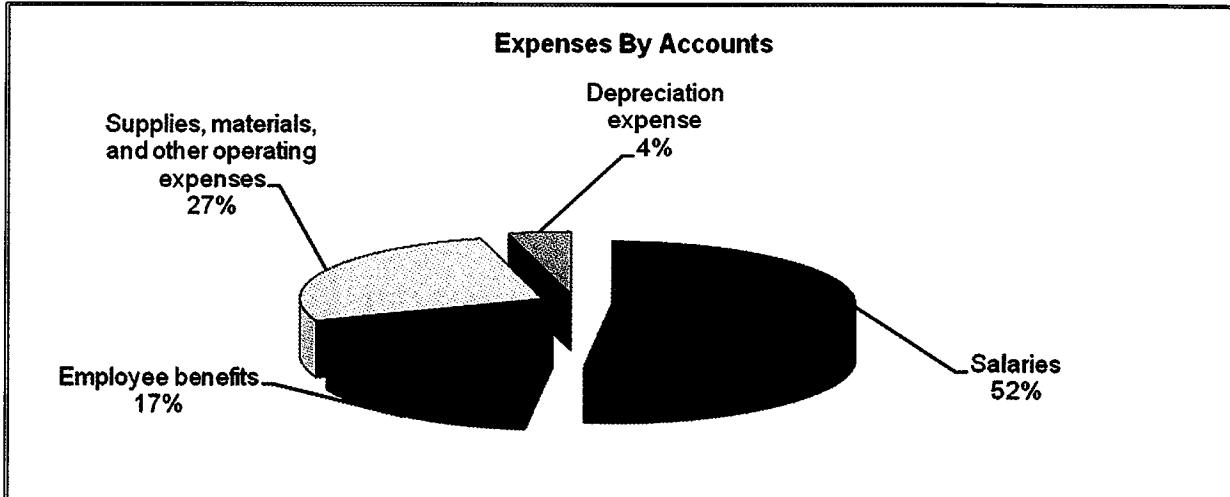
| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------------|-------------------|-------------------|
| | in thousands | in thousands | in thousands |
| Instructional activities | \$ 65,249 | \$ 54,369 | \$ 53,618 |
| Academic support | 7,021 | 6,832 | 6,130 |
| Student services | 14,541 | 14,254 | 13,334 |
| Plant operations and maintenance | 36,870 | 38,691 | 45,716 |
| Instructional support services | 6,503 | 6,203 | 16,368 |
| Community services and economic development | 1,160 | 1,036 | 959 |
| Ancillary services and auxiliary operations | 22,583 | 22,385 | 11,019 |
| Depreciation expense | 6,706 | 3,596 | 2,266 |
| TOTAL OPERATING EXPENSES | \$ 160,633 | \$ 147,366 | \$ 149,410 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Below are illustrations of District expenditures by accounts and by activities.



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, auxiliary enterprise sales, Federal and State grants and contracts. Cash outlays include payment of salaries, benefits, supplies and operating expenses.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

- 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).

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2007, 2006 AND 2005

| | 2007 | 2006 | 2005 |
|---|------------------|------------------|------------------|
| | in thousands | in thousands | in thousands |
| CASH FLOWS PROVIDED BY (USED IN): | | | |
| Operating Activities | (\$109,378) | (\$121,990) | (\$106,644) |
| Noncapital financing activities | 134,483 | 109,964 | 99,142 |
| Capital financing activities | 273,570 | 73,544 | 26,893 |
| Investing activities | 29,571 | 1,422 | 1,558 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 328,246 | 62,939 | 20,949 |
| CASH & CASH EQUIVALENTS, BEGINNING OF YEAR | 278,087 | 215,148 | 194,199 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$606,333 | \$278,087 | \$215,148 |

New State Funding Method

SB361 New State Funding Method

During the last several years, the state community college leadership has been working on a new funding formula for allocating funds to community college districts. This effort culminated in SB361, which was passed by the legislature, signed by the governor and took effect July 1, 2006. Some of the permanent regulations were implemented in July, 2007. This is the first major change to community college funding since Program-Based Funding (PBF) was implemented 18 years ago (1988). SB361 eliminates the five measures in PBF (credit FTES, non-credit FTES, new students, continuing students and square footage) and replaces them with a foundation grant, an amount per credit FTES, and a smaller amount per non-credit FTES. The amounts per FTES are the same across the state, and equalize funding at the 90th percentile of current funding for community colleges. This puts greater emphasis on growth in FTES for a district to increase funding, and it reduces the effect of adding new buildings.

Economic Factors and the 2007-08 Budget

Counting the funding contained in SB361, community colleges will be funded at 10.7% of the Proposition 98 total for K-14. This is considerably less than the statutory requirement of 11%. The 2006-07 and 2007-08 state community college base allocations were reduced by \$80 million due to the continuation of low growth and unclaimed growth funds statewide. Over half of the districts statewide received stability funds for 2006-07.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

The economic outlook for the state is uncertain due to the weakness in the housing industry and related housing sectors. The current projection for the increase in the cost of living for 2008-09 is over 4%.

The biggest challenges facing community colleges in California and for San Mateo County Community College District is the continued constraint on funding per student which falls short of the funding provided for all other sectors of public education in California. SMCCCD is currently experiencing some growth and will seek to improve and increase enrollment.

Bond & C.O.P. Construction 2007-08 and Beyond

In August 2006, the Board approved the 2006 Facilities Master Plan which is the basis of capital construction projects for the next phase of the Capital Improvement Program. An electronic copy can be downloaded from <http://www.smccd.edu/accounts/facilities/planconstruct/masterplan.html>.

Implementation plans have been developed and the following projects are in the preconstruction phases:

- Cañada College Gateways, Circulation & Parking Project
- Cañada College Building 8 Administrative Offices Renovation, Phase 2
- Cañada College Buildings 5 & 6 Instructional & Student Center Modernization
- Cañada College Building 7 New Facilities Maintenance Center
- Cañada College Buildings 16 & 18 Science & Engineering Classrooms Modernization
- Cañada College Upper Quad Concession Stand
- College of San Mateo CIP2 Design Build Project, comprised of demolition of existing buildings, construction of new buildings along with extensive site improvements
- College of San Mateo Buildings 2, 4 & 4A Fine Arts Complex Renovation
- College of San Mateo Building 14 Instructional Classroom Building Renovation
- College of San Mateo Building 16 Instructional Classroom Building Renovation
- College of San Mateo Demolition of Seismic Hazardous Buildings 21 through 29
- Skyline College CIP2 Design Build Project, comprised of construction of new buildings, extensive site improvements, as well as demolition of existing buildings
- Skyline College Building 1 Fine Arts Complex Renovation, Phases 2 & 3
- Skyline College Building 7 Allied Health Center Modernization
- Skyline College Replacement Facilities Maintenance Center

These projects will be under construction in the coming months. 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

The College District is planning to build a second housing project for faculty and staff on Parking Lot 3 at Cañada College. A planning application has been submitted to the City of Redwood City and it is expected that the project will be reviewed by the City's Architectural Review Committee, Planning Commission and City Council this Fall. If the project is approved by the City before December 31, 2007, we expect that we will be under construction in late Spring or early Summer, 2008.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

The District is planning to build 60 units: 37% one bedroom or one bedroom with dens; 53% two bedrooms; and 10% three-bedroom units. All units will have private, individual garages and a washer/dryer. Interior amenities include 9 foot ceilings, wood entryways, individual patios or decks; large windows and sliding glass doors. As is the case with College Vista, rents are expected to be significantly below market.

Contacting the District's Financial Management Office

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 James W. Keller, Executive Vice Chancellor, by phone at 650-574-6500 or by e-mail at kellerj@smccd.edu.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 981,235 | \$ 1,286,987 |
| Investments | 574,827,706 | 271,179,198 |
| Accounts receivable, net | 22,535,089 | 21,105,769 |
| Student loans receivable | 510,673 | 586,741 |
| Prepaid expenses | 1,516,058 | 93,963 |
| Deferred charges | 6,216,168 | 3,480,307 |
| Stores inventories | 1,692,450 | 1,678,001 |
| Other current assets | 25,750 | 25,565 |
| Total Current Assets | <u>608,305,129</u> | <u>299,436,531</u> |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 30,524,521 | 5,621,269 |
| Nondepreciable capital assets | 45,311,034 | 108,375,276 |
| Depreciable capital assets, net of depreciation | 251,229,009 | 138,102,083 |
| Total Noncurrent Assets | <u>327,064,564</u> | <u>252,098,628</u> |
| TOTAL ASSETS | <u>935,369,693</u> | <u>551,535,159</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 18,072,661 | 23,061,711 |
| Interest payable, restricted | 8,107,914 | 2,574,201 |
| Deferred revenue | 10,003,127 | 8,456,809 |
| Amounts held in trust on behalf of others | 1,803,748 | 1,452,285 |
| Compensated absences payable - current portion | 2,038,973 | 1,924,219 |
| Bonds and notes payable - current portion | 12,245,000 | 2,435,000 |
| Other long-term liabilities - current portion | 877,627 | 195,957 |
| Total Current Liabilities | <u>53,149,050</u> | <u>40,100,182</u> |
| Noncurrent Liabilities | | |
| Compensated absences payable - noncurrent portion | 2,975,755 | 828,618 |
| Other long-term liabilities - noncurrent portion | 691,536,128 | 342,181,694 |
| Total Noncurrent Liabilities | <u>694,511,883</u> | <u>343,010,312</u> |
| TOTAL LIABILITIES | <u>747,660,933</u> | <u>383,110,494</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 46,420,206 | 76,864,540 |
| Restricted for: | | |
| Debt service | 30,844,675 | 5,669,093 |
| Capital projects | 52,659,542 | 45,146,987 |
| Educational programs | 3,973,234 | 3,132,518 |
| Other activities | 156,256 | 272,564 |
| Unrestricted | 53,654,847 | 37,338,963 |
| TOTAL NET ASSETS | <u>\$ 187,708,760</u> | <u>\$ 168,424,665</u> |

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
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Student Tuition and Fees | \$ 13,319,298 | \$ 14,552,548 |
| Less: Fee waivers and allowance | (3,380,891) | (3,880,732) |
| Net tuition and fees | <u>9,938,407</u> | <u>10,671,816</u> |
| Grants and Contracts, noncapital: | | |
| Federal | 8,422,187 | 9,525,670 |
| State | 12,628,741 | 16,361,652 |
| Local | 2,693,243 | 3,006,382 |
| Auxiliary Enterprise Sales and Charges | | |
| Bookstore | 7,675,822 | 7,164,687 |
| Cafeteria | 156,063 | 142,543 |
| Internal Service Sales and Charges | 2,003,309 | - |
| TOTAL OPERATING REVENUES | <u>43,517,772</u> | <u>46,872,750</u> |
| OPERATING EXPENSES | | |
| Salaries | 83,216,422 | 75,070,580 |
| Employee benefits | 27,731,770 | 25,228,934 |
| Supplies, materials, and other operating expenses and services | 42,979,059 | 42,949,003 |
| Equipment, maintenance, and repairs | - | 521,949 |
| Depreciation | 6,705,276 | 3,595,888 |
| TOTAL OPERATING EXPENSES | <u>160,632,527</u> | <u>147,366,354</u> |
| OPERATING LOSS | <u>(117,114,755)</u> | <u>(100,493,604)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State apportionments, noncapital | 36,434,017 | 36,086,461 |
| Local property taxes | 62,006,836 | 56,824,309 |
| State taxes and other revenues | 3,875,899 | 59,813 |
| Investment income, net | 33,969,407 | 2,098,731 |
| Interest expense on capital related debt | (44,963,775) | (10,959,993) |
| Interest income on capital asset-related debt, net | 118 | 63,894 |
| Other nonoperating revenue | 30,365,811 | 20,126,973 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>121,688,313</u> | <u>104,300,188</u> |
| INCOME/(LOSS) BEFORE OTHER REVENUES AND EXPENSES | <u>4,573,558</u> | <u>3,806,584</u> |
| State revenues, capital | 12,238,275 | 16,224,616 |
| Local revenues, capital | 2,472,262 | 2,513,127 |
| TOTAL OTHER REVENUES AND EXPENSES | <u>14,710,537</u> | <u>18,737,743</u> |
| INCREASE IN NET ASSETS | 19,284,095 | 22,544,327 |
| NET ASSETS, BEGINNING OF YEAR | 168,424,665 | 145,880,338 |
| NET ASSETS, END OF YEAR | <u>\$ 187,708,760</u> | <u>\$ 168,424,665</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|--|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 8,211,939 | \$ 11,486,873 |
| Non capital grants and contracts | 24,139,354 | 27,589,027 |
| Payments to vendors for supplies and services | (44,246,672) | (59,350,541) |
| Payments to or on behalf of employees | (109,073,971) | (98,859,144) |
| Payments from/(to) students for scholarships and grants | 76,068 | (586,741) |
| Auxiliary sales | 11,164,136 | 7,395,772 |
| Amounts held for others | 351,463 | (7,088,546) |
| Other operating receipts (payments) | - | (2,576,877) |
| Net Cash Flows Used For Operating Activities | <u>(109,377,683)</u> | <u>(121,990,177)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State apportionments | 36,578,562 | 33,040,699 |
| Property taxes | 61,335,275 | 56,824,309 |
| State taxes and other apportionments | 3,875,899 | 59,813 |
| Other receipts (payments) | 32,693,451 | 20,039,227 |
| Net Cash Flows From Noncapital Financing Activities | <u>134,483,187</u> | <u>109,964,048</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Purchase of capital assets | (58,821,096) | (81,257,542) |
| Proceeds from sale of general obligation bond | 362,874,702 | 180,802,508 |
| Proceeds from sale of capital assets | - | 79,173 |
| State revenue, capital projects | 12,238,275 | 16,224,616 |
| Local revenue, capital projects | 2,472,262 | 2,513,127 |
| Deferred cost on issuance | (2,735,861) | 1,003,563 |
| Principal paid on capital debt | (3,028,598) | (34,934,000) |
| Interest paid on capital debt | (39,430,062) | (10,951,341) |
| Interest received on capital asset-related debt | 118 | 63,894 |
| Net Cash Flows From Capital Financing Activities | <u>273,569,740</u> | <u>73,543,998</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received from investments | 29,570,764 | 1,421,629 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 328,246,008 | 62,939,498 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>278,087,454</u> | <u>215,147,956</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 606,333,462</u></u> | <u><u>\$ 278,087,454</u></u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|---|-------------------------|-------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating Loss | \$ (117,114,755) | \$ (100,493,604) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation expense | 6,705,276 | 3,595,888 |
| Changes in Assets and Liabilities: | | |
| Receivables, net | 733,449 | (5,944,819) |
| Inventories | (14,449) | (282,990) |
| Prepaid items | (1,422,280) | 361,269 |
| Accounts payable and accrued liabilities | (162,705) | (10,519,608) |
| Deferred revenue | 1,546,318 | (1,617,767) |
| Funds held for others | 351,463 | (7,088,546) |
| Total Adjustments | <u>7,737,072</u> | <u>(21,496,573)</u> |
| Net Cash Flows From Operating Activities | <u>\$ (109,377,683)</u> | <u>\$ (121,990,177)</u> |
| CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING: | | |
| Cash in banks | \$ 981,235 | \$ 1,286,987 |
| Cash equivalents, restricted | 30,524,521 | 5,621,269 |
| Cash equivalents | 574,827,706 | 271,179,198 |
| Total Cash and Cash Equivalents | <u>\$ 606,333,462</u> | <u>\$ 278,087,454</u> |
| NON CASH TRANSACTIONS | | |
| On behalf payments for benefits | <u>\$ 2,004,829</u> | <u>\$ 1,765,554</u> |

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, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 85,703 | \$ 81,136 |
| Accounts receivable | 525 | 1,069 |
| Prepaid expenses | 3,158 | 5,241 |
| Total Current Assets | <u>\$ 89,386</u> | <u>\$ 87,446</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 1,966 | \$ 1,734 |
| Deferred rent | 32,036 | 32,727 |
| Rent security deposits | 49,434 | 48,825 |
| Total Current Liabilities | <u>83,436</u> | <u>83,286</u> |
| NET ASSETS | | |
| Unrestricted | <u>5,950</u> | <u>4,160</u> |
| Total Liabilities and Net Assets | <u>\$ 89,386</u> | <u>\$ 87,446</u> |

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 ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|--------------------------------------|------------------|------------------|
| REVENUES | | |
| Rental income | \$ 542,497 | \$ 261,075 |
| Interest and dividends | 503 | 1,069 |
| Commission | 194 | 3,714 |
| Donation | - | 17,000 |
| Water reimbursement | 10,544 | - |
| Total Revenues | <u>553,738</u> | <u>282,858</u> |
| EXPENSES | | |
| Operating expenses | 91,948 | 48,698 |
| Total Expenses | <u>91,948</u> | <u>48,698</u> |
| OTHER SOURCES AND USES | | |
| Transfer out to SMCCCD | (460,000) | (230,000) |
| Total Other Uses | <u>(460,000)</u> | <u>(230,000)</u> |
| CHANGE IN NET ASSETS | 1,790 | 4,160 |
| NET ASSETS, BEGINNING OF YEAR | 4,160 | - |
| NET ASSETS, END OF YEAR | <u>\$ 5,950</u> | <u>\$ 4,160</u> |

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 CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

| | <u>2007</u> | <u>2006</u> |
|---|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 1,790 | \$ 4,160 |
| Changes in Assets and Liabilities | | |
| (Increase)/decrease in accounts receivable | 544 | (1,069) |
| (Increase)/decrease in prepaid expenses | 2,083 | (5,241) |
| Increase in accounts payable | 232 | 1,734 |
| Increase/(decrease) in deferred rent | (691) | 32,727 |
| Increase in rent security deposits | 609 | 48,825 |
| Net Cash Flows From Operating Activities | <u>4,567</u> | <u>81,136</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 4,567 | 81,136 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 81,136 | - |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 85,703</u> | <u>\$ 81,136</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The San Mateo County Community College District (the District) was established in 1922 as a political subdivision of the State of California and provides 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.

Financial Reporting Entity

The District follows 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.

As defined by generally accepted accounting principals established by the GASB, the financial reporting entity consist of the primary government (the District), as well as the following component units San Mateo County Community College District.

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 the District as if the activity was the District's. The activity is included as the COP Payment Fund and COP Construction Fund in the District's governmental funds. The Certificates of participation issued by the Corporation were defeased in fiscal year 2005-2006 and the related liabilities have been removed from the District's financial statement. 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 District has determined that the San Mateo College Community Foundation does not meet the criteria for inclusion under GASB 39.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency and intra-fund transactions have been eliminated.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is 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, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations. Revenue from State apportionments is generally recognized in the fiscal year in which it is apportioned from the State. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

The accounting policies of the District conform to accounting principles generally accepted in the United State of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussions and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussions and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and 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
 - Statement of Revenues, Expenses and Changes in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The following is a summary of the more significant policies:

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on published market prices at year-end. Investments for which there are no quoted market prices are not material.

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 \$1,096,949 and \$1,090,775 for the years ended June 30, 2007 and 2006, respectively.

Prepaid Expenditures

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

Inventory

Inventory consists primarily of bookstore merchandise and cafeteria food 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 are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Depreciation of capital assets is computed and recorded by 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

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. 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. 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, 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.

The District also participates in "load banking" with eligible academic employees whereby the employees may teach extra courses in one period in exchange for time off in another period. The full liability for this benefit is reported on the entity-wide financial statements.

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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor 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.

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.

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.

Operating Revenues and Expenses

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

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of fee waivers and allowances, (2) sales and services of auxiliary enterprises, net of fee waivers and allowances, (3) most Federal, State, and local grants and contracts, and (4) interest on institutional student loans.

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

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

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

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 and are recorded in the District's financial records when received.

Estimates

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

Property Tax

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.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or fee waivers, 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. Fee waivers and allowances represent the portion of aid provided to students in the form of reduced tuition. 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*.

Component Unit

The San Mateo County Community Colleges Educational Housing Corporation's accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities of attaining certain objectives in accordance with special regulations, restriction, or limitations. The San Mateo Community Colleges Educational Housing Corporation is accounted for as a proprietary fund. Proprietary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

- 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

New Accounting Pronouncements

- **GASB Statement No. 43:** In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Other than Pension Plans*. The standards in this statement apply for trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirements systems, or other third parties that administer them. The provisions of this statement are effective for periods beginning after December 15, 2005. The San Mateo County Community College District is not a plan sponsor of an OPEB Plan.
- **GASB Statement No. 45:** In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition and display of OPEB expense, expenditures and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports of State and local governmental employers. This statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District is in the process of determining the impact the implementation of this statement will have on the government-wide statements of net assets and activities. This statement is effective for periods beginning after December 15, 2006, depending upon the size of the governmental entities' financial activity. The San Mateo County Community College District will be implementing the requirements of this standard in the 2007-2008 fiscal year. The District expects that it will record the liability for postemployment benefits at this time. Since fiscal year 1992-93, the District has been setting aside funds for this liability and has currently designated \$30 million set aside for this purpose.

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 2 - CASH 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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 41001). The fair value of the District's investment in the pool is reported in the accounting 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 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007 and 2006, are classified in the accompanying financial statements as follows:

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|-----------------------|-----------------------|
| Business-type activities | \$ 606,333,462 | \$ 278,087,454 |
| Component Unit | 85,703 | 81,136 |
| Total Deposits and Investments | <u>\$ 606,419,165</u> | <u>\$ 278,168,590</u> |

Deposits and investments as of June 30, 2007 and 2006, consist of the following:

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|-----------------------|-----------------------|
| Cash on hand and in banks | \$ 999,041 | \$ 1,356,509 |
| Cash in revolving | 67,897 | 11,614 |
| Investments | <u>605,352,227</u> | <u>276,800,467</u> |
| Total Deposits and Investments | <u>\$ 606,419,165</u> | <u>\$ 278,168,590</u> |

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 primarily investing in County and State investment pools.

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:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity In Years</u> |
|----------------------------------|-----------------------|---|
| Commercial paper | \$ 2,386,306 | 0.5 years |
| Brokered certificates of deposit | 1,303,453 | 0.6 years |
| County Pool | 574,182,708 | 1.0 years |
| Money Market Mutual Funds | 253,955 | 0.5 years |
| State Investment Pool | 26,222,570 | 0.5 years |
| U. S. Government Bonds | 1,003,235 | 0.5 years |
| Total | <u>\$ 605,352,227</u> | |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2007. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| Investment Type | Fair Value | Minimum Legal Rating | Rating 6/30/2007 |
|----------------------------------|-----------------------|----------------------|------------------|
| Commercial paper | \$ 2,386,306 | AAA | AAA |
| Brokered certificates of deposit | 1,303,453 | n/a | n/a |
| County Pool | 574,182,708 | n/a | n/a |
| Money Market Mutual Funds | 253,955 | n/a | n/a |
| State Investment Pool | 26,222,570 | n/a | n/a |
| U. S. Government Bonds | 1,003,235 | AAA | AAA |
| Total | <u>\$ 605,352,227</u> | | |

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, 2007 and 2006, the District's bank balances of approximately \$790,000 and \$2,795,000, 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. The District computes the allowance for doubtful accounts based on the age of the receivables. The accounts receivable are as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-----------------------|-----------------------|
| Federal Government | | |
| Categorical aid | \$ 1,290,555 | \$ 1,144,027 |
| State Government | | |
| Apportionment | 2,384,109 | 2,621,661 |
| Categorical aid | 962,992 | 842,597 |
| Lottery | 1,155,462 | 248,333 |
| Other state sources | 2,932,773 | 6,883,840 |
| Local Government | | |
| Interest | 6,725,339 | 2,326,696 |
| Other local sources | 2,757,107 | 3,500,721 |
| Subtotal | <u>18,208,337</u> | <u>17,567,875</u> |
| Student receivables | 5,423,701 | 4,628,669 |
| Less allowance for bad debt | <u>(1,096,949)</u> | <u>(1,090,775)</u> |
| Accounts receivables, net of allowance for bad debts | <u>\$ 22,535,089</u> | <u>\$ 21,105,769</u> |
| Student loans | <u>\$ 510,673</u> | <u>\$ 586,741</u> |

Allowance for bad debt was calculated based on a five-year weighted average on uncollectible accounts receivable to total revenues ratio.

Receivables at June 30, 2007 and 2006 include \$250,000 for loans made to five District employees to purchase houses. All full time employees who purchase a home and contribute at least 15 percent of the purchase price are eligible to receive loans of up to \$50,000 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.

Discretely Presented Component Unit

The Educational Housing Corporation's accounts receivable are interest receivable.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2007, 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 | 87,746,984 | 53,056,283 | 116,120,525 | 24,682,742 |
| Total Capital Assets Not Being Depreciated | 108,375,276 | 53,056,283 | 116,120,525 | 45,311,034 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 10,973,074 | 462 | - | 10,973,536 |
| Buildings and improvements | 162,924,321 | 116,408,734 | - | 279,333,055 |
| Furniture, equipment, and vehicles | 17,649,933 | 3,446,670 | 434,153 | 20,662,450 |
| Total Capital Assets Being Depreciated | 191,547,328 | 119,855,866 | 434,153 | 310,969,041 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 7,407,627 | 724,074 | - | 8,131,701 |
| Buildings and improvements | 39,003,843 | 4,111,543 | - | 43,115,386 |
| Furniture, equipment, and vehicles | 7,033,775 | 1,869,659 | 410,489 | 8,492,945 |
| Total Accumulated Depreciation | 53,445,245 | 6,705,276 | 410,489 | 59,740,032 |
| Net Capital Assets Being Depreciated | 138,102,083 | 113,150,590 | 23,664 | 251,229,009 |
| Net Capital Assets | \$ 246,477,359 | \$ 166,206,873 | \$ 116,144,189 | \$ 296,540,043 |

Depreciation expense for the year was \$6,705,276.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Capital asset activity for the District for the fiscal year ended June 30, 2006, 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 | 72,760,259 | 74,695,023 | 59,708,298 | 87,746,984 |
| Total Capital Assets Not Being Depreciated | 93,388,551 | 74,695,023 | 59,708,298 | 108,375,276 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 9,834,246 | 1,138,828 | - | 10,973,074 |
| Buildings and improvements | 101,073,771 | 61,850,550 | - | 162,924,321 |
| Furniture, equipment, and vehicles | 13,551,682 | 4,672,266 | 574,015 | 17,649,933 |
| Total Capital Assets Being Depreciated | 124,459,699 | 67,661,644 | 574,015 | 191,547,328 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 7,287,486 | 120,141 | - | 7,407,627 |
| Buildings and improvements | 36,536,379 | 2,467,464 | - | 39,003,843 |
| Furniture, equipment, and vehicles | 6,307,148 | 1,008,283 | 281,656 | 7,033,775 |
| Total Accumulated Depreciation | 50,131,013 | 3,595,888 | 281,656 | 53,445,245 |
| Net Capital Assets Being Depreciated | 74,328,686 | 64,065,756 | 292,359 | 138,102,083 |
| Net Capital Assets | \$ 167,717,237 | \$ 138,760,779 | \$ 60,000,657 | \$ 246,477,359 |

Depreciation expense for the year was \$3,595,888.

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts owed between funds as a result of the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions recorded in the accounting system and (3) payments between funds occur. These interfund transactions have been eliminated through consolidation within the entity-wide financial statements.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Operating Transfers

Operating transfers between District governmental funds 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 unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity-wide financial statements.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|-----------------|----------------------|----------------------|
| Accrued payroll | \$ 1,738,885 | \$ 2,126,555 |
| Construction | 10,903,415 | 12,932,887 |
| Other | 5,430,361 | 8,002,269 |
| Total | <u>\$ 18,072,661</u> | <u>\$ 23,061,711</u> |

Discretely Presented Component Unit

The accounts payable of the Educational Housing Corporation consist primarily of unearned rent income and security deposits.

NOTE 7 - DEFERRED REVENUE

Deferred revenue at consisted of the following:

| | <u>2007</u> | <u>2006</u> |
|------------------------------|----------------------|---------------------|
| Federal financial assistance | \$ - | \$ 93,007 |
| State categorical aid | 1,481,685 | 1,162,570 |
| Enrollment fees | 3,302,960 | 4,240,570 |
| Other local | 5,218,482 | 2,960,662 |
| Total | <u>\$ 10,003,127</u> | <u>\$ 8,456,809</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 8 - LONG-TERM OBLIGATIONS

Long-term Obligations Summary

The changes in the District's long-term obligations during the 2007 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 | \$ 340,199,277 | \$ 345,832,949 | \$ 2,435,000 | \$ 683,597,226 | \$ 12,245,000 |
| Other Liabilities | | | | | |
| Compensated absences | 2,752,837 | 222,918 | - | 2,975,755 | - |
| Total Other Liabilities | 342,952,114 | 346,055,867 | 2,435,000 | 686,572,981 | 12,245,000 |
| Premiums, net of amortization | 4,613,374 | 17,041,753 | 593,598 | 21,061,529 | 877,627 |
| Total Long-term Liabilities | \$ 347,565,488 | \$ 363,097,620 | \$ 3,028,598 | \$ 707,634,510 | \$ 13,122,627 |

The changes in the District's long-term obligations during the 2006 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 | \$ 165,113,823 | \$ 178,990,454 | \$ 3,905,000 | \$ 340,199,277 | \$ 2,435,000 |
| Certificates of participation | 30,885,000 | - | 30,885,000 | - | - |
| Capital leases | 312,484 | - | 312,484 | - | - |
| Total Bonds and Notes Payable | 196,311,307 | 178,990,454 | 35,102,484 | 340,199,277 | 2,435,000 |
| Other Liabilities | | | | | |
| Compensated absences | 720,342 | 2,032,495 | - | 2,752,837 | - |
| Total Other Liabilities | 197,031,649 | 181,022,949 | 35,102,484 | 342,952,114 | 4,870,000 |
| Premium, net of amortization | 2,632,836 | 1,812,054 | (168,484) | 4,613,374 | 195,957 |
| Total Long-term Liabilities | \$ 199,664,485 | \$ 182,835,003 | \$ 34,934,000 | \$ 347,565,488 | \$ 2,630,957 |

Description of Debt

Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues. Payments on the Certificates of Participation (COP's) are made by the Bookstores, Redevelopment Project Funds, and the COP Reserve Funds using bond proceeds. Capital leases payments are made by the fund for which the vehicles were used. The accrued vacation will be paid by the fund for which the employee worked.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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 - 5.74 percent and the interest rates on the 2005 bonds are range from 3.50 percent - 5.00 percent. At June 30, 2007, the outstanding balances for the 2001 and 2005 bonds were \$205,490,801 and \$478,106,425, respectively.

Debt Maturity

General Obligation Bonds

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds | | | Bonds | |
|------------|---------------|---------------|----------------|--------------------------|----------------------|---------------------|--------------------|---------------------------|
| | | | | Outstanding July 1, 2006 | Issued | Interest Accretions | Redeemed | Outstanding June 30, 2007 |
| 6/4/2002 | 9/1/2026 | 5.2-5.74% | \$96,875,613 | \$ 91,839,938 | \$ - | \$ 1,276,338 | \$1,395,000 | \$ 91,721,276 |
| 2/9/2005 | 9/1/2029 | 3.00-5.00% | 69,995,132 | 71,732,182 | - | 1,211,785 | 1,040,000 | 71,903,967 |
| 4/11/2006 | 3/1/2031 | 3.50-5.00% | 40,124,660 | 40,562,473 | - | 1,303,085 | - | 41,865,558 |
| 4/11/2006 | 9/1/2030 | 3.75-5.00% | 135,429,395 | 136,064,684 | - | 4,263,261 | - | 140,327,945 |
| 12/12/2006 | 9/1/2038 | 3.50-5.00% | 332,570,194 | - | 332,570,194 | 5,208,286 | - | 337,778,480 |
| | | | | <u>\$340,199,277</u> | <u>\$332,570,194</u> | <u>\$13,262,755</u> | <u>\$2,435,000</u> | <u>\$683,597,226</u> |

The bonds mature through 2039 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|-----------------------|-----------------------|-----------------------|
| 2008 | \$ 12,245,000 | \$ 15,399,246 | \$ 27,644,246 |
| 2009 | 16,065,000 | 16,318,961 | 32,383,961 |
| 2010 | 9,575,000 | 15,685,881 | 25,260,881 |
| 2011 | 11,200,000 | 15,294,608 | 26,494,608 |
| 2012 | 12,985,000 | 14,836,700 | 27,821,700 |
| 2013-2017 | 98,505,517 | 64,243,019 | 162,748,536 |
| 2018-2022 | 117,685,011 | 46,518,155 | 164,203,166 |
| 2023-2027 | 127,118,391 | 34,482,938 | 161,601,329 |
| 2028-2032 | 124,910,399 | 23,550,475 | 148,460,874 |
| 2032-2036 | 126,664,355 | 13,219,749 | 139,884,104 |
| 2037-2039 | 26,643,553 | - | 26,643,553 |
| Total | <u>\$ 683,597,226</u> | <u>\$ 259,549,732</u> | <u>\$ 943,146,958</u> |

NOTE 9 – DEFEASED DEBT

In 2006, the District defeased \$30,885,000 certificates of participation issued in 2004 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2007, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to \$31,209,388.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides medical, dental, and vision insurance coverage, as prescribed in the various employee union contracts, to retirees meeting plan eligibility requirements. Eligible employees retiring from the District may become eligible for these benefits when the requirements are met. The eligibility requirement for employees participating in Public Employees' Retirement System (PERS) is a minimum age of 50 and a minimum five years of continuous service with the District. Additional age and service criteria may be required. The eligibility requirement for employees participating in State Teachers' Retirement System (STRS) is a minimum age of 60 with five years of service, or age 50 with 30 years of service. In addition, the District also has minimum continuous service requirements for retirement that range from three years to ten years and varies by employee class. The District recognizes expenditures for these post employment health benefits on a pay-as-you-go-basis. During the 2007 fiscal year, the District provided insurance premium benefits to 710 retired employees with total expenditures of \$5,825,180.

NOTE 11 - RISK MANAGEMENT

Property and Liability

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 fiscal year ending June 30, 2007, the District contracted with Andreini and Company for placement of excess property and liability insurance coverage. The District is self-insured for the first \$150,000. Settled claims have not exceeded this commercial coverage.

Workers' Compensation

For fiscal year 2006-2007, the District contracted with Andreini and Company for placement of excess workers' compensation insurance program. The district is self-insured for the first \$150,000.

Employee Medical Benefits

The District has contracted with the Cal PERS to provide employee medical and surgical benefits. Cal PERS 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 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 PERS members.

Claim Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience. At June 30, 2007, the District had recorded claims liability in the amount of \$180,000 in the self-insurance fund.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 12 - 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 State Teachers' Retirement System (STRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

STRS

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRS), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRS, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRS the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute eight 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$3,385,034, \$3,010,591, and \$2,986,039, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that act as a common investment and administrative agent for participating public entities within the State of California. The San Mateo County Community College District is part of a "cost-sharing" pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

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

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven 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 2006-2007 was 9.124 percent of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2007, 2006, and 2005, were \$2,734,647, \$2,462,338, and \$2,511,809, respectively, and equaled 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS which amounted to \$2,004,829 (4.517 percent) of salaries subject to STRS. A contribution to CalPERS was not required for the year ended June 30, 2007. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Deferred Compensation

The District offers its employees a Hartford administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The District oversees the investment and administrative functions of the Hartford 457 Deferred Compensation Program. There were 40 members participating in the 457 plan at June 30, 2007.

The District also contributes to the San Mateo County Community College District 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2007.

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, 2007.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Construction Commitments

As of June 30, 2007, 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 | \$ 130,984 | within 2 years |
| State funded capital outlay projects | 89,182 | within 1 year |
| State funded hazardous substances projects | 30,768 | within 1 year |
| COP Bookstore projects | 12,679 | within 1 year |
| 2001 G.O. Bond (Measure C) construction projects | 4,261,974 | within 2 years |
| 2005 G.O. Bond (Measure A) construction projects | 5,481,768 | within 7 years |
| | <u>\$ 10,007,355</u> | |

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

NOTE 14 - 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 \$350,000. The District contracts with the Andreini and Company, a Risk Management Company, for the excess workers' compensation and property and liability insurance. The District pays an annual premium for replacement of its excess property and liability insurance and workers' compensation coverage. Payments for the property and liability insurance are paid to Andreini and Company directly. 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, 2007, the District made payment of \$691,369 through Andreini and Company for workers' compensation and property and liability excess insurance premium, \$38,829 to School Excess Liability Fund for excess liability program and approximately \$263,000 to South Bay Regional Public Safety Training Consortium JPA.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 15 - TAX AND REVENUE ANTICIPATION NOTES

On July 6, 2005, the District issued \$15,000,000 Tax and Revenue Anticipation Notes bearing interest at 4.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2006. By June 30, 2006, 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.

On July 6, 2006, the District issued \$10,000,000 Tax and Revenue Anticipation Notes bearing interest at 4.50 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2007. By May 2007, 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. As the District has in substance defeased the debt, the tax anticipation notes of \$10,000,000 and related accrued interest and cash held in trust are not included in these financial statements.

| | Outstanding Beginning of Year | Additions | Deletions | Outstanding End of Year |
|------------------|-------------------------------------|---------------|---------------|-------------------------------|
| 2006 4.50% TRANS | \$ - | \$ 10,000,000 | \$ 10,000,000 | \$ - |

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$5,000,000 of Tax and Revenue Anticipation Notes dated July 6, 2007. The notes mature on July 1, 2008, and yield 3.620 percent interest. The notes were sold to supplement cash flow. Repayment requirement is an interest and principal due deposit with the Fiscal Agent on June 28, 2008.

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SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2007

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.

BOARD OF TRUSTEES

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|--------------------|--------------------------|---------------------|
| Helen Hausman | President | 2009 |
| Richard Holober | Vice President- Clerk | 2009 |
| Dave Mandelkern | Trustee | 2007 |
| Patricia Miljanich | Trustee | 2007 |
| Karen Schwarz | Trustee | 2007 |
| Richael Young | Student Trustee | 2008 |

ADMINISTRATION

| | |
|-----------------|----------------------------------|
| Ron Galatolo | Chancellor - Superintendent |
| James Keller | Executive Vice Chancellor |
| Michael Claire | President – College of San Mateo |
| Tom Mohr | President – Canada College |
| Victoria Morrow | President – Skyline College |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|---|-------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Financial Aid Cluster | | | |
| Federal Work Study Program ¹ | 84.033 | none | \$ 411,991 |
| Pell Grant ¹ | 84.063 | none | 5,031,840 |
| Supplemental Educational Opportunity Grant (SEOG) ¹ | 84.007 | none | 453,823 |
| Academic Competitiveness Grant (ACG) ¹ | 84.375 | none | 3,000 |
| Postsecondary Education | | | |
| TRIO Cluster | | | |
| Student Support Services ¹ | 84.042A | none | 721,865 |
| Upward Bound ¹ | 84.047A | none | 232,412 |
| Higher Education - Institutional Aid | | | |
| Title VI - Undergraduate International Studies and Foreign Language | 84.016 | none | 44,209 |
| Vocational Education | | | |
| Passed through California Department of Education: | | | |
| VTEA I-B State Leadership - Bay Area Regional Consortium | 84.048A | 06-0342-004 | 336,000 |
| VTEA I-C Basic Grants to States | 84.048A | 06-C01-052 | 499,141 |
| VTEA II Tech Prep Education | 84.243 | 06-0139-062 | 201,444 |
| Special Education and Rehabilitation Services | | | |
| Passed through California Department of Rehabilitation: | | | |
| Vocational Rehabilitation-Workability | 84.126A | 24638 | 140,230 |
| Total U.S. Department of Education | | | <u>8,075,955</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Administration for Children and Families | | | |
| Passed through California Department of Education: | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | none | 40,442 |
| Child Care and Development Block Grant | 93.575 | 3939, 4047 | 28,232 |
| Total U.S. Department of Health and Human Services | | | <u>68,674</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT | | | |
| Passed through City of Daly City: | | | |
| Community Development Block Grant | 14.218 | none | 6,000 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through CDE: | | | |
| Child and Adult Care Food Program | 10.558 | 41-17540A | 30,912 |
| U.S. DEPARTMENT OF LABOR | | | |
| Passed through County of San Mateo: | | | |
| WIA Dislocated Workers | 17.260 | 73200-07 | 198,484 |
| NATIONAL SCIENCE FOUNDATION | | | |
| Education and Human Resources | 47.076 | none | 42,162 |
| Total Expenditures of Federal Awards | | | <u>\$ 8,422,187</u> |

¹ Tested as a Major Program.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

| Program | Program Revenues | | | | Total Program Expenditures |
|--|---------------------|---------------------|---------------------|----------------------|----------------------------|
| | Cash Received | Accounts Receivable | Deferred Income | Total Revenue | |
| GENERAL FUND | | | | | |
| AB 77/Disabled Students Program | \$ 1,719,595 | \$ - | \$ 57,230 | \$ 1,662,365 | \$ 1,662,365 |
| Extended Opportunity Programs | 1,704,198 | - | - | 1,704,198 | 1,704,198 |
| Care/EOP | 115,469 | - | 1 | 115,468 | 115,468 |
| Matriculation | 1,383,394 | 1 | - | 1,383,395 | 1,383,395 |
| Foster Parent Training | 52,042 | 52,043 | - | 104,085 | 104,085 |
| AB 602 FA Administrative Allowance | 782,830 | - | - | 782,830 | 782,830 |
| Block Grant | 915,724 | - | 133,123 | 782,601 | 782,601 |
| T-Com and Technology (TTIP) | 151,469 | - | 6,187 | 145,282 | 145,282 |
| CalWorks | 198,588 | - | 2,490 | 196,098 | 196,098 |
| Middle College High School | 191,475 | 82,063 | - | 273,538 | 273,538 |
| CITD Economic Development | 172,199 | 4,189 | - | 176,388 | 176,388 |
| Transfer and Articulation | 15,000 | - | - | 15,000 | 15,000 |
| Staff Diversity | 51,869 | - | 6,135 | 45,734 | 45,734 |
| Staff Development | 76,880 | - | 75,910 | 970 | 970 |
| Statewide Leadership Multimedia | 140,700 | 26,800 | - | 167,500 | 167,500 |
| MESA/CCCP Funds for Student Success | 153,291 | 49,012 | - | 202,303 | 202,303 |
| RCSD CBET Program | 33,075 | 31,436 | - | 64,511 | 64,511 |
| Lottery-Prop 20-Instructional Materials | 143,692 | 369,074 | - | 512,766 | 512,766 |
| SFSU Project | 3,789 | - | - | 3,789 | 3,789 |
| Nursing -Enrollment Growth | 118,047 | - | 41,346 | 76,701 | 76,701 |
| SUHSD CBET Program | 17,880 | 15,659 | - | 33,539 | 33,539 |
| Economic Development Quick Start Biotech | 89,999 | 167,983 | - | 257,982 | 257,982 |
| Economic Development Quick Start Multimedia | | | | | |
| Cabrillo | 36,125 | 10,101 | - | 46,226 | 46,226 |
| Basic Skills reappropriation | 513,503 | - | 300,789 | 212,714 | 212,714 |
| Career Tech Ed Equipment | 611,784 | - | - | 611,784 | 611,784 |
| Economic Development IDRC Insurance Instructor | 205,796 | 7,851 | 9,516 | 204,131 | 204,131 |
| Economic Development IDRC Judicial Careers | 257,707 | 7,576 | 68,313 | 196,970 | 196,970 |
| Economic Development IDRC International Trade | | | | | |
| Logistics | 245,543 | 4,396 | 135,635 | 114,304 | 114,304 |
| Economic Development JDIF Technician Training | 240,000 | 7,191 | 54,269 | 192,922 | 192,922 |
| Economic Development IDRC West Valley CCD | 11,518 | 29,379 | - | 40,897 | 40,897 |
| Garfield RCSD CBET Program | 7,000 | - | - | 7,000 | 7,000 |
| Basic Skills 07-08 | 565,683 | - | 565,683 | - | - |
| CCC Live Caption | 1,490 | - | - | 1,490 | 1,490 |
| State Library | 25,999 | - | - | 25,999 | 25,999 |
| MANEX - Employment Training Panel | 8,000 | - | - | 8,000 | 8,000 |
| CDE Child Development | 355,980 | 98,238 | - | 454,218 | 454,218 |
| Cal Grant | 537,897 | - | 25,058 | 512,839 | 512,839 |
| Subtotal | <u>\$11,855,230</u> | <u>\$ 962,992</u> | <u>\$ 1,481,685</u> | <u>\$ 11,336,537</u> | <u>\$11,336,537</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE
GENERAL APPORTIONMENT
FOR THE YEAR ENDED JUNE 30, 2007**

| CATEGORIES | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Audited Data</u> |
|---|--------------------------|------------------------------|-------------------------|
| A. <u>Credit Full-Time Equivalent Student (FTES)</u> | | | |
| 1. Summer | 4,160 | - | 4,160 |
| 2. Weekly census | 13,943 | - | 13,943 |
| 3. Daily census | 1,383 | - | 1,383 |
| 4. Actual hours of attendance | 997 | - | 997 |
| 5. Independent study/work experience | 726 | - | 726 |
| Subtotal | <u>21,209</u> | <u>-</u> | <u>21,209</u> |
| B. <u>Noncredit FTES</u> | | | |
| 1. Summer | 4 | - | 4 |
| 2. Actual hours of attendance | 27 | - | 27 |
| 3. Independent study/work experience | - | - | - |
| Subtotal | <u>31</u> | <u>-</u> | <u>31</u> |
| Total FTES | <u>21,240</u> | <u>-</u> | <u>21,240</u> |
| C. <u>Basic Skills Courses</u> | | | |
| 1. Credit | | | 1,875 |
| 2. Noncredit | | | 32 |
| Total Basic Skills FTES | | | <u>1,907</u> |
| D. <u>FTES Generated in Leased Space</u> | | | |
| | | | <u>-</u> |
| E. <u>Gross Square Footage</u> | | | |
| 1. Existing facilities | | | 1,258,500 |
| 2. New facilities | | | 72,068 |
| Total Gross Square Footage | | | <u>1,330,568</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF ANNUAL APPRENTICESHIP HOURS OF INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2007**

| | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Audited Data</u> |
|----------------------------|--------------------------|------------------------------|-------------------------|
| July 1 - December 31, 2006 | 27,059 | - | 27,059 |
| January 1 - April 15, 2007 | 14,734 | - | 14,734 |
| April 16 - June 30, 2007 | 41,784 | - | 41,784 |
| Total | <u>83,577</u> | <u>-</u> | <u>83,577</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311), which required reconciliation to the audited financial statements at June 30, 2007.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2007**

**Amounts Reported in the Statement of Net Assets are
Different Because:**

| | |
|--|---------------------------------|
| Total Fund Balance - All District Funds | \$ 589,873,880 |
| 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 | \$ 354,942,945 |
| Accumulated depreciation is | <u>(59,195,889)</u> 295,747,056 |
| A fiduciary fund is used by the District's management to account for the activities of the student financial aid services. The assets and liabilities of the financial aid fund are included with governmental activities. | 128,421 |
| Expenditures relating to issuance of debt were recognized on the modified accrual basis, but should not be recognized in accrual basis. | 6,216,168 |
| 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. | (8,107,914) |
| An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. | 11,485,659 |
| 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 | 683,597,226 |
| Premiums, net of amortization | 21,061,529 |
| Compensated absences (vacations) | <u>2,975,755</u> (707,634,510) |
| Total Net Assets | <u>\$ 187,708,760</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

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.

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.

Schedule of Workload Measures for State General Apportionment and Schedule of Annual Apprenticeship Hours of Instruction

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 are made to community college districts. These schedules provide information regarding the attendance of students throughout the District.

Reconciliation of Annual Financial and Budget Report 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 the Governmental Fund Balance Sheets to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's fund financial statements, prepared on a modified accrual basis, to the accrual basis required under GASB Statement No. 35.

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INDEPENDENT AUDITORS' REPORTS



**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) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 the San Mateo County Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Mateo County Community College District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we noted other

matters involving the internal control over financial reporting that we have reported to the management of San Mateo County Community College District in a separate letter dated December 3, 2007.

Compliance and Other Matters

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

This report is intended solely for the information 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.

Vavurek, Tine, Day & Co LLP

Pleasanton, California
December 3, 2007



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

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

Compliance

We have audited the compliance of San Mateo County Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, San Mateo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Mateo County Community College District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information 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.

Vavinek, Tine, Day & Co LLP

Pleasanton, California
December 3, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the basic financial statements of the San Mateo County Community College District (the District) for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 3, 2007.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance 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.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted Audit Manual (CDAM)*.

General Directive

- MIS Implementation - Required Data Elements

Administration

- Open Enrollment
- Minimum Conditions - Standards of Scholarship
- Student Fee - Instructional Materials and Health Fees
- Apportionment of Instructional Service Agreements/Contracts
- Residency Determination for Credit Courses
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Enrollment Fee
- Students Actively Enrolled
- Salaries of Classroom Instructors (50% Law)
- Use of Matriculation Funds
- Gann Limit Calculation
- CalWORKS
- Schedule Maintenance & Repair

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

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

In our opinion, except as described in the Schedule of State Award Findings and Questioned Costs, the San Mateo County Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information 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.

Vavurek, Tine, Day & Co LLP

Pleasanton, California
December 3, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATION
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2007-1 STUDENTS ACTIVELY ENROLLMENT

Criteria or Specific Requirements

Under the California Code of Regulations, Title V, section 58003.1, 58004, 58005, and 58051, for attendance accounting purposes, districts are required to clear the rolls of all inactive students as of each course section's drop date. The drop date shall be no later than the end of business of the date immediately preceding the beginning of the census week in weekly census procedure courses, or the day immediately preceding census day in daily census procedure courses, and is the date used to clear the rolls of the inactive enrollment for attendance accounting purposes. For noncredit distance learning courses, the drop date to clear the rolls of inactive students shall be the day prior to each of the two census dates.

Condition

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date. District instructors are the individuals who possess the most accurate knowledge of which students are actively enrolled at any time, and therefore, serve as the most effective way to verify the enrollment information is accurate through reviewing and certifying their enrollment rosters after each census date.

Questioned Costs

Unknown.

Context

Instructors certify and submit the certified census rosters in order to assist the District in assuring that enrollment is accurately compiled and reported. The District provides instructors the tools to complete and submit the certification either on line or manually on paper.

Effect

Failure to submit certified census rosters, results in difficulties in determining if students were dropped at the appropriate point in time to ensure that FTES are properly reported and that state funding is correctly determined. This may result in the District receiving too much or too little state funding.

Cause

As noted in prior year not all instructors are turning in the census rosters following the census date.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

Recommendation

We recommend the District continues to remind instructors that certified census rosters (certified either on line or on paper) are required to be submitted shortly after each census date.

District Response

The District is in the process of implementing a procedure reminding all instructors that they are responsible for keeping course rosters accurate in the student attendance system. Instructors will be reminded of their responsibilities at the beginning of each semester and periodically throughout the semester.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

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

2006-1 STUDENTS ACTIVELY ENROLLMENT

Criteria or Specific Requirements

Under the California Code of Regulations, Title V, section 58003.1, 58004, 58005, and 58051, for attendance accounting purposes, districts are required to clear the rolls of all inactive students as of each course section's drop date. The drop date shall be no later than the end of business of the date immediately preceding the beginning of the census week in weekly census procedure courses, or the day immediately preceding census day in daily census procedure courses, and is the date used to clear the rolls of the inactive enrollment for attendance accounting purposes. For noncredit distance learning courses, the drop date to clear the rolls of inactive students shall be the day prior to each of the two census dates.

Condition

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date. District instructors are the individuals who possess the most accurate knowledge of which students are actively enrolled at any time, and therefore, serve as the most effective way to verify the enrollment information is accurate through reviewing and certifying their enrollment rosters after each census date.

Questioned Costs

Unknown.

Context

Instructors certify and submit the certified census rosters in order to assist the District in assuring that enrollment is accurately compiled and reported. The District provides instructors the tools to complete and submit the certification either on line or manually on paper.

Effect

Failure to submit certified census rosters, results in difficulties in determining if students were dropped at the appropriate point in time to ensure that FTES are properly reported and that state funding is correctly determined. This may result in the District receiving too much or too little state funding.

Cause

During our testing of Student Active Enrollment, we noted that not all instructors are turning in the census rosters following the census date.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation

We recommend the District remind instructors that certified census rosters (certified either on line or on paper) are required to be submitted shortly after each census date.

Current Status:

Not implemented, see current year finding.

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ADDITIONAL SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2007

| | General Unrestricted | General Restricted | Child Development | Bond Interest and Redemption |
|--|-------------------------|-----------------------|----------------------|------------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 381,602 | \$ - | \$ - | \$ - |
| Investments | 24,028,271 | 5,725,611 | 91,309 | 30,435,911 |
| Accounts receivable, net of allowance | 8,095,878 | 2,946,701 | 122,534 | 320,152 |
| Due from other funds | 200,000 | 2,400,000 | - | - |
| Prepaid expenses | 16,442 | 2,580 | - | - |
| Other current assets | 12,129 | - | - | - |
| Total Assets | \$ 32,734,322 | \$ 11,074,892 | \$ 213,843 | \$ 30,756,063 |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 9,175,808 | \$ 662,840 | \$ 43,864 | \$ - |
| Due to other funds | 10,034,955 | - | - | - |
| Deferred revenue | 2,951,908 | 6,438,818 | 13,723 | - |
| Total Liabilities | 22,162,671 | 7,101,658 | 57,587 | - |
| FUND EQUITY | | | | |
| Fund Balances | | | | |
| Reserved | 28,742 | 2,580 | - | - |
| Unreserved | | | | |
| Designated | 10,019,166 | 3,970,654 | - | - |
| Undesignated | 523,743 | - | 156,256 | 30,756,063 |
| Total Fund Equity | 10,571,651 | 3,973,234 | 156,256 | 30,756,063 |
| Total Liabilities and Fund Equity | \$ 32,734,322 | \$ 11,074,892 | \$ 213,843 | \$ 30,756,063 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET - (UNAUDITED) (CONTINUED)

JUNE 30, 2007

| <u>COP Payment</u> | <u>Capital Outlay Projects</u> | <u>Bond Construction</u> | <u>COP Construction</u> | <u>Retiree Benefits</u> | <u>Total Governmental Funds (Memorandum Only)</u> |
|------------------------|--|------------------------------|-----------------------------|-----------------------------|---|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 381,602 |
| 88,610 | 51,333,752 | 451,125,275 | 5,233,946 | 26,648,753 | 594,711,438 |
| 2 | 3,903,237 | 5,443,150 | - | 466,950 | 21,298,604 |
| - | 4,031,034 | 2,929,693 | - | 3,000,000 | 12,560,727 |
| - | 23,897 | 1,418,226 | - | - | 1,461,145 |
| - | - | - | - | - | 12,129 |
| <u>\$ 88,612</u> | <u>\$ 59,291,920</u> | <u>\$ 460,916,344</u> | <u>\$ 5,233,946</u> | <u>\$ 30,115,703</u> | <u>\$ 630,425,645</u> |
| \$ - | \$ 3,442,695 | \$ 4,574,292 | \$ 23,179 | \$ - | \$ 17,922,678 |
| - | 2,930,673 | - | - | - | 12,965,628 |
| - | 259,010 | - | - | - | 9,663,459 |
| - | 6,632,378 | 4,574,292 | 23,179 | - | 40,551,765 |
| - | - | - | - | - | 31,322 |
| - | - | - | - | - | 13,989,820 |
| 88,612 | 52,659,542 | 456,342,052 | 5,210,767 | 30,115,703 | 575,852,738 |
| 88,612 | 52,659,542 | 456,342,052 | 5,210,767 | 30,115,703 | 589,873,880 |
| <u>\$ 88,612</u> | <u>\$ 59,291,920</u> | <u>\$ 460,916,344</u> | <u>\$ 5,233,946</u> | <u>\$ 30,115,703</u> | <u>\$ 630,425,645</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2007

| | General Unrestricted | General Restricted | Child Development | Bond Interest and Redemption |
|--|-------------------------|-----------------------|----------------------|------------------------------------|
| REVENUES | | | | |
| Federal revenues | \$ 24 | \$ 2,896,043 | \$ 35,894 | \$ - |
| State revenues | 42,125,424 | 9,846,000 | 454,218 | 294 |
| Local revenues | 71,755,910 | 7,389,365 | 176,689 | 38,590,722 |
| Total Revenues | <u>113,881,358</u> | <u>20,131,408</u> | <u>666,801</u> | <u>38,591,016</u> |
| EXPENDITURES | | | | |
| Current Expenditures | | | | |
| Academic salaries | 45,432,494 | 4,093,707 | 169,373 | - |
| Classified salaries | 22,373,500 | 7,332,655 | 491,405 | - |
| Employee benefits | 21,893,639 | 2,722,903 | 235,097 | - |
| Books and supplies | 1,523,490 | 3,084,566 | 62,851 | - |
| Services and operating expenditures | 9,006,853 | 3,866,110 | 38,616 | 1,309,792 |
| Capital outlay | 222,481 | 538,614 | - | - |
| Debt service - principal | - | - | - | 2,435,000 |
| Debt service - interest and other | - | - | - | 9,681,820 |
| Total Expenditures | <u>100,452,457</u> | <u>21,638,555</u> | <u>997,342</u> | <u>13,426,612</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>13,428,901</u> | <u>(1,507,147)</u> | <u>(330,541)</u> | <u>25,164,404</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 45,000 | 3,308,342 | 214,233 | - |
| Operating transfers out | (12,867,303) | (154,058) | - | - |
| Other sources | 35,349 | 350,479 | - | - |
| Other uses | - | (1,156,900) | - | - |
| Total Other Financing Sources (Uses) | <u>(12,786,954)</u> | <u>2,347,863</u> | <u>214,233</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | <u>641,947</u> | <u>840,716</u> | <u>(116,308)</u> | <u>25,164,404</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>9,929,704</u> | <u>3,132,518</u> | <u>272,564</u> | <u>5,591,659</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 10,571,651</u> | <u>\$ 3,973,234</u> | <u>\$ 156,256</u> | <u>\$ 30,756,063</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - (UNAUDITED) (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2007

| COP Payment | Capital Outlay Projects | Bond Construction | COP Construction | Retiree Benefits | Total Governmental Fund (Memorandum Only) |
|------------------------|--|------------------------------|-----------------------------|-----------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,931,961 |
| - | 12,238,275 | - | - | - | 64,664,211 |
| 11,178 | 3,737,139 | 13,390,493 | 71,165 | 1,396,349 | 136,519,010 |
| 11,178 | 15,975,414 | 13,390,493 | 71,165 | 1,396,349 | 204,115,182 |
| - | - | - | - | - | 49,695,574 |
| - | 77,245 | 1,530,689 | 48,427 | - | 31,853,921 |
| - | 8,424 | 453,792 | - | - | 25,313,855 |
| - | 2,448,149 | 4,956,559 | 37,090 | - | 12,112,705 |
| - | 397,728 | 3,847,087 | 27,846 | - | 18,494,032 |
| - | 15,271,709 | 36,523,420 | 647,848 | - | 53,204,072 |
| - | - | - | - | - | 2,435,000 |
| - | - | - | - | - | 9,681,820 |
| - | 18,203,255 | 47,311,547 | 761,211 | - | 202,790,979 |
| 11,178 | (2,227,841) | (33,921,054) | (690,046) | 1,396,349 | 1,324,203 |
| - | 9,720,000 | - | 300,000 | 4,500,000 | 18,087,575 |
| - | (480,000) | (5,500,000) | - | - | (19,001,361) |
| - | 520,396 | 332,570,194 | - | - | 333,476,418 |
| - | (20,000) | - | - | - | (1,176,900) |
| - | 9,740,396 | 327,070,194 | 300,000 | 4,500,000 | 331,385,732 |
| 11,178 | 7,512,555 | 293,149,140 | (390,046) | 5,896,349 | 332,709,935 |
| 77,434 | 45,146,987 | 163,192,912 | 5,600,813 | 24,219,354 | 257,163,945 |
| \$ 88,612 | \$ 52,659,542 | \$ 456,342,052 | \$ 5,210,767 | \$ 30,115,703 | \$ 589,873,880 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2007**

| | Enterprise Funds | | | Internal Service Fund |
|--|-------------------------|-------------------|---------------------|----------------------------------|
| | Bookstore | Cafeteria | Total | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 35,597 | \$ - | \$ 35,597 | \$ 20,000 |
| Investments | 3,998,623 | 446,757 | 4,445,380 | 5,097,064 |
| Accounts receivable | 431,480 | 9,250 | 440,730 | 153,485 |
| Due from other funds | 409,955 | - | 409,955 | - |
| Prepaid expenses | 54,913 | - | 54,913 | - |
| Stores inventories | 1,692,450 | - | 1,692,450 | - |
| Furniture and equipment (net) | 472,106 | 311,621 | 783,727 | - |
| Total Assets | \$ 7,095,124 | \$ 767,628 | \$ 7,862,752 | \$ 5,270,549 |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,145,766 | \$ 138,256 | \$ 1,284,022 | \$ 240,415 |
| Due to other funds | - | - | - | 5,054 |
| Other current liabilities | 118,151 | - | 118,151 | - |
| Total Liabilities | 1,263,917 | 138,256 | 1,402,173 | 245,469 |
| FUND EQUITY | | | | |
| Retained earnings | 5,831,207 | 629,372 | 6,460,579 | 5,025,080 |
| Total Liabilities and Fund Equity | \$ 7,095,124 | \$ 767,628 | \$ 7,862,752 | \$ 5,270,549 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

| | <u>Enterprise Funds</u> | | | <u>Internal Service Fund</u> |
|---|-------------------------|-------------------|---------------------|--------------------------------------|
| | <u>Bookstore</u> | <u>Cafeteria</u> | <u>Total</u> | |
| OPERATING REVENUES | | | | |
| Sales revenues | \$ 7,675,822 | \$ 156,063 | \$ 7,831,885 | \$ - |
| Other local revenues | - | - | - | 2,003,309 |
| Total Operating Income | <u>7,675,822</u> | <u>156,063</u> | <u>7,831,885</u> | <u>2,003,309</u> |
| OPERATING EXPENSES | | | | |
| Classified salaries | 1,360,151 | 11,164 | 1,371,315 | 72,694 |
| Employee benefits | 396,493 | 2,097 | 398,590 | 14,496 |
| Books and supplies | 5,821,535 | - | 5,821,535 | - |
| Services and other operating expenditures | 638,059 | 161,382 | 799,441 | 544,965 |
| Total Operating Expenses | <u>8,216,238</u> | <u>174,643</u> | <u>8,390,881</u> | <u>632,155</u> |
| Operating Income (Loss) | <u>(540,416)</u> | <u>(18,580)</u> | <u>(558,996)</u> | <u>1,371,154</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 186,166 | 17,093 | 203,259 | - |
| Transfers in | 427,906 | - | 427,906 | 332,000 |
| Other sources | 60,140 | - | 60,140 | - |
| Total Nonoperating Revenues (Expenses) | <u>674,212</u> | <u>17,093</u> | <u>691,305</u> | <u>332,000</u> |
| NET INCOME (LOSS) | 133,796 | (1,487) | 132,309 | 1,703,154 |
| RETAINED EARNINGS, BEGINNING OF YEAR | <u>5,697,411</u> | <u>630,859</u> | <u>6,328,270</u> | <u>3,321,926</u> |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 5,831,207</u> | <u>\$ 629,372</u> | <u>\$ 6,460,579</u> | <u>\$ 5,025,080</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

| | <u>Enterprise Funds</u> | | | <u>Internal Service Fund</u> |
|---|-------------------------|-------------------|---------------------|--------------------------------------|
| | <u>Bookstore</u> | <u>Cafeteria</u> | <u>Total</u> | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from user charges | \$ 7,223,889 | \$ 150,408 | \$ 7,374,297 | \$ 1,849,824 |
| Cash payments to employees for services | (1,756,644) | (13,261) | (1,769,905) | (87,190) |
| Cash reimbursements from insurance claims | - | - | - | (245,469) |
| Cash payments to suppliers for goods and services | (6,178,165) | (31,903) | (6,210,068) | (97,638) |
| Net Cash Provided (Used) for Operating Activities | (710,920) | 105,244 | (605,676) | 1,419,527 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Capital contributions | 427,906 | - | 427,906 | 3,032,000 |
| Loss on disposal of capital assets | 5,181 | 723 | - | - |
| Acquisition of capital assets | - | (321,756) | - | - |
| Net Cash Provided (Used) for Capital and Related Financing Activities | 433,087 | (321,033) | 112,054 | 3,032,000 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on investments | 186,166 | 17,093 | 203,259 | - |
| Net increase (decrease) in cash and cash equivalents | (91,667) | (198,696) | (290,363) | 4,451,527 |
| Cash and cash equivalents - Beginning | 4,125,887 | 645,453 | 4,771,340 | 665,537 |
| Cash and cash equivalents - Ending | \$ 4,034,220 | \$ 446,757 | \$ 4,480,977 | \$ 5,117,064 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | (540,416) | (18,580) | (558,996) | 1,371,154 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 94,344 | 50,122 | 144,466 | - |
| Changes in assets and liabilities: | | | | |
| Receivables | (102,118) | (5,655) | (107,773) | (153,485) |
| Due from other fund | (409,955) | - | (409,955) | - |
| Prepaid expenses | (51,838) | - | (51,838) | - |
| Inventories | (14,449) | - | (14,449) | - |
| Accrued liabilities | 313,512 | 79,357 | 392,869 | 201,858 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | \$ (710,920) | \$ 105,244 | \$ (605,676) | \$ 1,419,527 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2007**

| | Associated Students Trust | Student Representation Fee | Student Financial Aid | BACC JPA | Total |
|--|--|---|--------------------------------------|---------------------|--------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 423,870 | \$ 120,166 | \$ - | \$ - | \$ 544,036 |
| Investments | 804,736 | - | 292,849 | 760 | 1,098,345 |
| Accounts receivable | 642,270 | - | 510,673 | - | 1,152,943 |
| Fixed assets | 9,260 | - | - | - | 9,260 |
| Other current assets | - | - | 13,621 | - | 13,621 |
| Total Assets | \$ 1,880,136 | \$ 120,166 | \$ 817,143 | \$ 760 | \$2,818,205 |
| LIABILITIES AND FUND EQUITY | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 77,148 | \$ - | \$ 469,220 | \$ - | \$ 546,368 |
| Deferred revenue | - | 120,166 | 219,502 | - | 339,668 |
| Due to student groups | 116,976 | - | - | 760 | 117,736 |
| Total Liabilities | 194,124 | 120,166 | 688,722 | 760 | 1,003,772 |
| FUND EQUITY | | | | | |
| Fund Balances | | | | | |
| Unreserved | | | | | |
| Undesignated | 1,686,012 | - | 128,421 | - | 1,814,433 |
| Total Fund Equity | 1,686,012 | - | 128,421 | - | 1,814,433 |
| Total Liabilities and Fund Equity | \$ 1,880,136 | \$ 120,166 | \$ 817,143 | \$ 760 | \$2,818,205 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2007**

| | Associated Students Trust | Student Financial Aid | Total |
|--|--|--------------------------------------|---------------------|
| REVENUES | | | |
| Federal revenues | \$ - | \$ 5,490,226 | \$ 5,490,226 |
| State revenues | - | 512,839 | 512,839 |
| Local revenues | 398,825 | - | 398,825 |
| Total Revenues | <u>398,825</u> | <u>6,003,065</u> | <u>6,401,890</u> |
| EXPENDITURES | | | |
| Current Expenditures | | | |
| Classified salaries | 7,869 | - | 7,869 |
| Books and supplies | 16,391 | - | 16,391 |
| Services and operating expenditures | 316,924 | - | 316,924 |
| Total Expenditures | <u>341,357</u> | <u>-</u> | <u>341,357</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>57,468</u> | <u>6,003,065</u> | <u>6,060,533</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | - | 154,058 | 154,058 |
| Operating transfers out | - | (178) | (178) |
| Other uses | - | (6,155,382) | (6,155,382) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(6,001,345)</u> | <u>(6,001,345)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 57,468 | 1,720 | 59,188 |
| FUND BALANCE/DUE TO STUDENT GROUPS, BEGINNING OF YEAR | <u>1,628,544</u> | <u>126,701</u> | <u>1,755,245</u> |
| FUND BALANCE/DUE TO STUDENT GROUPS, END OF YEAR | <u>\$ 1,686,012</u> | <u>\$ 128,421</u> | <u>\$ 1,814,433</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
JUNE 30, 2007**

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of San Mateo County Community College District and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the basic financial statements. The information is unaudited and is presented at the request of the District management.