

*SAN MATEO COUNTY
COMMUNITY COLLEGE
DISTRICT*

ANNUAL FINANCIAL REPORT

JUNE 30, 2005 and JUNE 30, 2004

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS

JUNE 30, 2005

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussions and Analysis	4
Statements of Net Assets	15
Statements of Revenues, Expenses, and Changes in Net Assets	16
Statements of Cash Flows	17
Notes to Financial Statements	19

SUPPLEMENTARY INFORMATION

District Organization	42
Schedule of Expenditures of Federal Awards	43
Schedule of Expenditures of State Awards	44
Schedule of Workload Measures for State Apportionment Annualized Attendance and Annual Apprenticeship Hours of Instruction	45
Reconciliation of Annual Financial and Budget Report with Fund Financial Statements	46
Note to Supplementary Information	47

ADDITIONAL SUPPLEMENTARY INFORMATION

Balance Sheet – All Funds	49
Balance Sheet Reconciliation	51
Statements of Revenues, Expenditures, and Changes in Fund Balance – All Governmental Funds	52
Statements of Revenues, Expenses, and Changes in Net Assets Reconciliation	54
Balance Sheet – Proprietary Funds	56
Statements of Revenues, Expenses and Changes in Retained Earnings – Proprietary Funds	57
Statements of Cash Flows – Proprietary Funds	58
Balance Sheet – Fiduciary Funds	59
Statement of Revenues, Expenditures, and Changes in Fund Balance – Fiduciary Funds	60

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	62
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	64
Report on State Compliance	66

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	69
Financial Statement Findings and Recommendations	70
Federal Awards Findings and Questioned Costs	70
State Awards Findings and Questioned Costs	71
Summary Schedule of Prior Audit Findings	75

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, as of and for the years ended June 30, 2005 and 2004. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Mateo County Community College District as of June 30, 2005 and 2004, 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 on pages 4 through 14 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 September 30, 2005, 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 the 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 considering in conjunction with this report the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information and the additional 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.

Vavinek, Trine, Day, & Co LLP

Pleasanton, California
September 30, 2005

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

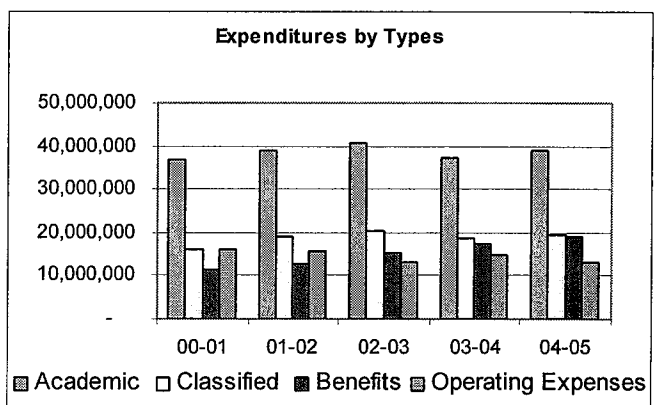
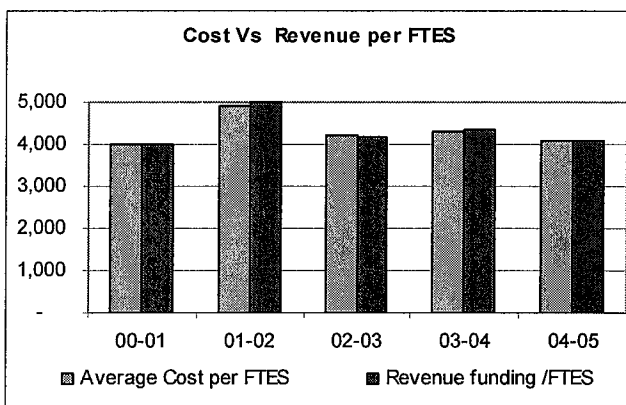
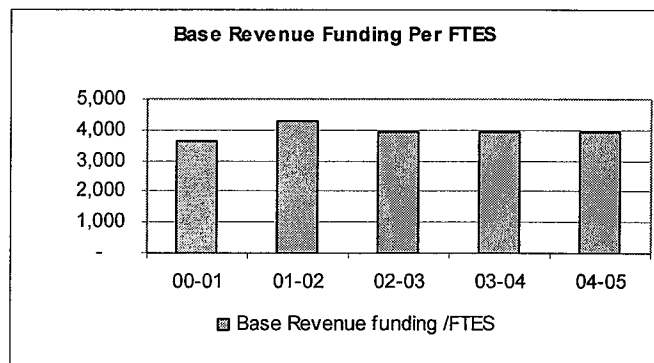
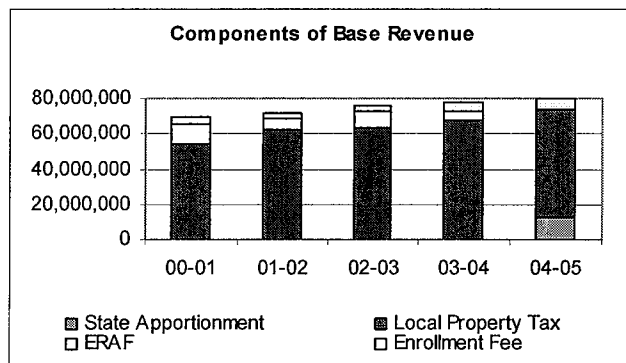
Introduction

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, 2005 and June 30, 2004. 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 2004-05



Financial Overview

- Assets exceeded liabilities for the fiscal year ended June 30, 2005 by \$146 million, and net assets decreased \$4 million over last year.
- Net noncurrent capital assets increased \$37 million.
- Operating revenues increased by \$4 million over June 30, 2004.
- Operating expenses increased by \$40 million over the same period in fiscal year 2004.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

Reporting for the District as a Whole

- *Economic position of the District with the State*

Fiscal year 2004-05 brought a major change to funding for the District. A state deficit bond was passed in spring of 2004, bringing with it a draw upon local sales taxes to fund it. In order for the cities and counties to be held harmless from the loss of those sales taxes, school ERAF funds and property taxes were shifted from schools to cities and counties. The state was then to make up the lost funding in state apportionment to schools. For the District, this meant that after not receiving any state general apportionment for 5 years, the District received almost \$13 million in general apportionment in 2004-05. In addition, the Partnership for Excellence program was folded into the District's general apportionment. This means that the District is unlikely to reach "Basic Aid" status in the near future. Nonetheless, the District received a statutory COLA of 2.41% and additional Equalization funds for 2004-05. Enrollment will have the biggest effect on the District's future revenue.

- *Salaries and Benefits*

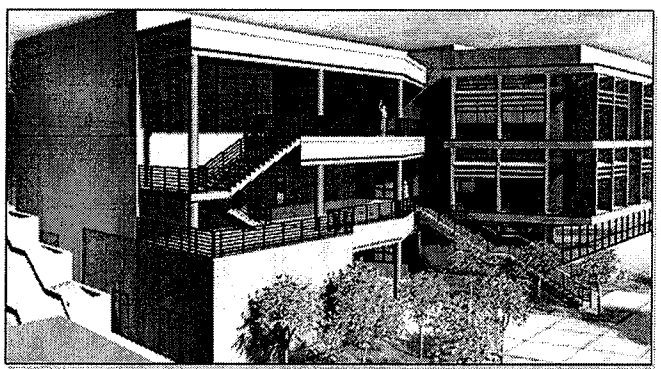
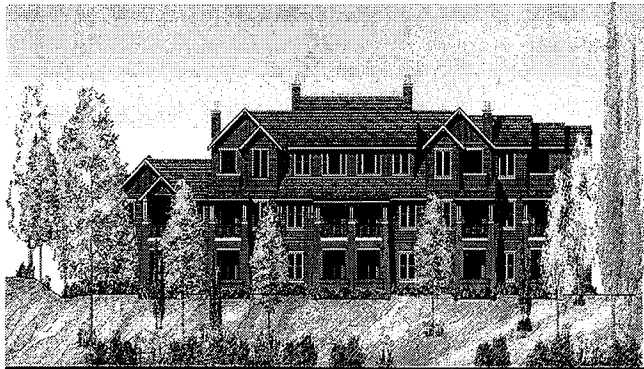
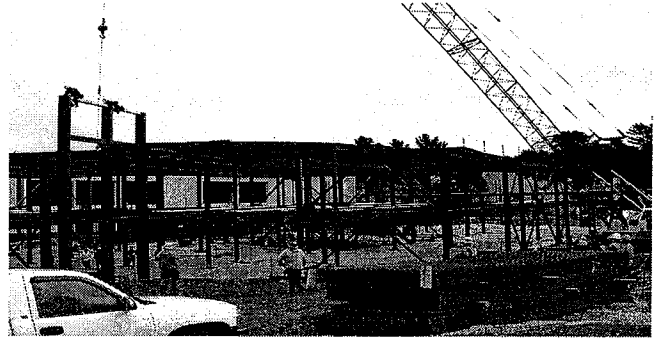
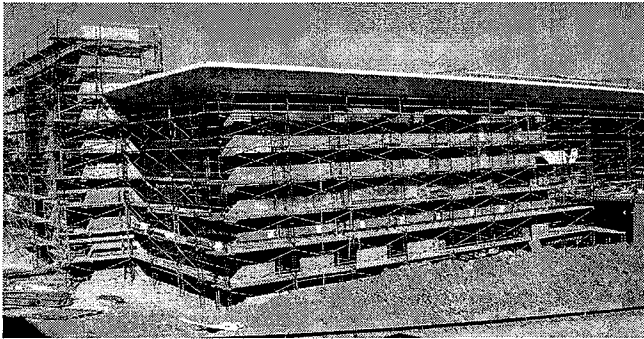
In 2004-05, the San Mateo County Community College District approved one-year collective bargaining agreements for employees including a 2.5% compensation improvement for all groups except adjunct faculty who received 2.75%. The contracts will expire in June, 2005. Health care premiums increased by an average of 22% in January, 2003, 18% in January, 2004, 18% in January, 2005, and will again increase by an average of 9.5% in January, 2006. These increases have substantially increased District expenditures, as well as employee out-of-pocket expenses above the District's medical cap. The collective bargaining agreements approved for 2004-05 included 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 declined from 9.952% in 2004-05 to 9.116% in 2005-06. Dental insurance premiums will increase by 2% in January, 2006. In addition, unemployment insurance decreased from 0.65% in 2004-05 to 0.45% in 2005-06, and Workers' Compensation decreased slightly from 2.34% in 2004-05 to 2.257% in 2005-06.

- *Bond construction*

As of June 30, 2005 a total of \$104 million of the total \$207 million was spent. As of that date, another \$50 million was committed via contracts and/or materials purchase orders. All of the major projects scheduled are now in construction. Three Design Build (DB) contracts have been awarded – the first ever in the California Community College system. Work is well underway on these projects. Under the DB delivery method, new synthetic turf fields have been installed at all three campuses and the entire Athletics Facility Upgrades Project will be complete by Spring 2006. DB contracts were awarded for the new CSM Building 36 Science Building and Skyline's Student Support & Community Center/Science Annex Buildings 6/7A. Work is well under way on both projects. The primary structure of the CSM Science Building is scheduled for occupancy over the Summer of 2006. The Planetarium structure associated with this project has been delayed at the Division of State Architect and approval is expected by year end 2005. This will allow construction to commence on the Planetarium in the first quarter of 2006. The Skyline 6/7A Buildings are scheduled for occupancy Fall 2006. Canada's new Building 9 Library & Learning Resources Center construction contract was awarded and work is well underway. Occupancy is scheduled for Spring 2007. CSM's Building 18 Seismic & Modernization project was completed one semester ahead of schedule, allowing phased occupancy over the Fall 2005 semester, and came in over \$1 million under budget. CSM's new Building 35 Regional Public Safety Center (RPSC) is scheduled for completion in Spring 2006, although at this writing the building is expected to be complete ahead of schedule. The entire Bond program is on track for scheduled completion in December 2007. In addition, College Vista, a 44 unit apartment building for faculty and staff housing has its ribbon cutting in December 9, 2005, and will be ready for occupancy soon thereafter.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004



College of San Mateo, Science Building under Construction (Top Left).

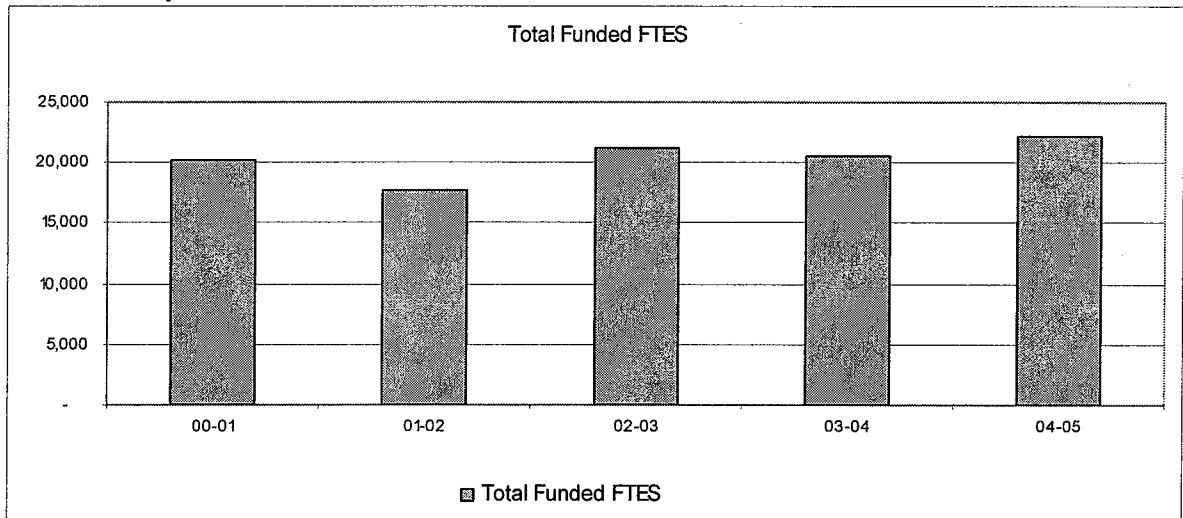
Skyline College, Student Union & Science Annex (Top Right)

Staff and Faculty Housing (Bottom Left)

Canada College, Library Learning Center (Bottom Right)

- *Enrollments*

In 2004-05, the District's enrollment declined about 2.5%. In order to maximize revenue, the District shifted 2,100 FTES from Summer 2005. This allows the District to benefit from additional growth funding available at the state level for 2004-05. The following chart shows comparative FTES data for the past five fiscal years.



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

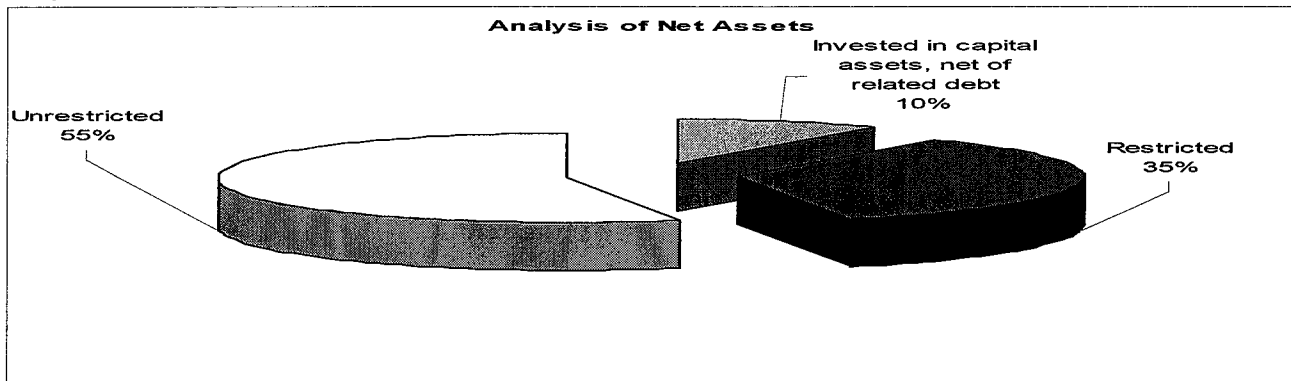
JUNE 30, 2005 AND 2004

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, a Special Deposit Bond with Wells Fargo Bank, proceeds from the District's general obligation construction bond and certificates of deposit with various banks.
- *Accounts receivable* primarily consists of revenues from local, state, and federal sources from which the District had earnings but which were not received as of the fiscal year's closing date.
- *Inventories and other assets* include prepaid expenses and bookstore inventories.
- *Capital assets, net of depreciation*, are the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation.
- Accounts payable and accrued liabilities consist of payables to the state, federal grants, benefits, salaries and local vendors which the District incurred but for which payments were not issued as of the end of the fiscal year.
- *Deferred revenues* represent cash received during the fiscal year from state, federal grants, general 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, a construction bond, and Certificate of Participation (C.O.P.).
- 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, 2005



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005 AND 2004**

**STATEMENT OF NET ASSETS
JUNE 30, 2005 and 2004**

	2005	2004	2003
	in thousands	in thousands	in thousands
ASSETS			
Current Assets:			
Cash and cash equivalents	\$215,148	\$194,199	\$152,503
Accounts receivable	12,498	12,499	10,352
Inventories and other assets	4,353	4,214	3,596
	<u>231,999</u>	<u>210,912</u>	<u>166,451</u>
Noncurrent Assets:			
Capital assets, net of depreciation	167,717	130,349	71,888
	<u>167,717</u>	<u>130,349</u>	<u>71,888</u>
	<u>399,716</u>	<u>341,261</u>	<u>238,338</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	33,725	50,771	22,814
Deferred revenue	10,075	8,788	7,440
Amount held in trust on behalf of others	8,541	1,079	0,935
Current portion of long-term liabilities	7,046	5,279	4,334
	<u>59,387</u>	<u>65,916</u>	<u>35,522</u>
Noncurrent Liabilities			
Long-term liabilities - noncurrent portion	194,449	125,070	97,045
	<u>194,449</u>	<u>125,070</u>	<u>97,045</u>
	<u>253,836</u>	<u>190,986</u>	<u>132,567</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,292	73,309	58,508
Restricted	51,674	40,418	16,900
Unrestricted	79,914	36,549	30,363
	<u>\$145,880</u>	<u>\$150,275</u>	<u>\$105,771</u>

Total net assets at June 30, 2005, decreased \$4 million over the prior fiscal year. The decrease was primarily due to the following:

- The increase of net capital assets from Bond and C.O.P. construction in the District.
- Long-term debt increased due to proceeds from Construction bonds.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

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.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

	2005	2004	2003
	in thousands	in thousands	in thousands
OPERATING REVENUES			
Tuition and Fees	\$10,580	\$9,165	\$7,749
Grants and Contracts, noncapital	27,229	25,305	24,396
Auxiliary Enterprise Sales and Charges	8,279	7,484	8,044
TOTAL OPERATING REVENUES	<u>46,087</u>	<u>41,954</u>	<u>40,189</u>
OPERATING EXPENSES	149,410	107,931	122,945
OPERATING LOSS	(103,323)	(65,977)	(82,757)
NON-OPERATING REVENUES (EXPENSES)			
State apportionments, noncapital	16,970	5,110	5,402
Local property taxes	66,570	76,963	78,357
State taxes	001	001	000
Investment income/(expense), net	2,095	2,605	2,157
Interest income/(expense) on capital related debt, net	(6,482)	(5,551)	(3,829)
Other non-operating revenues	13,764	23,208	7,251
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>92,918</u>	<u>102,337</u>	<u>89,338</u>
INCOME BEFORE OTHER REVENUES AND EXPENSES	<u>(10,405)</u>	<u>36,360</u>	<u>6,582</u>
OTHER REVENUES AND EXPENSES	<u>6,010</u>	<u>8,145</u>	<u>9,393</u>
NET CHANGE IN NET ASSETS	(4,395)	44,505	15,975
NET ASSETS, BEGINNING OF YEAR	<u>150,275</u>	<u>105,771</u>	<u>89,796</u>
NET ASSETS, END OF YEAR	<u><u>\$145,880</u></u>	<u><u>\$150,275</u></u>	<u><u>\$105,771</u></u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

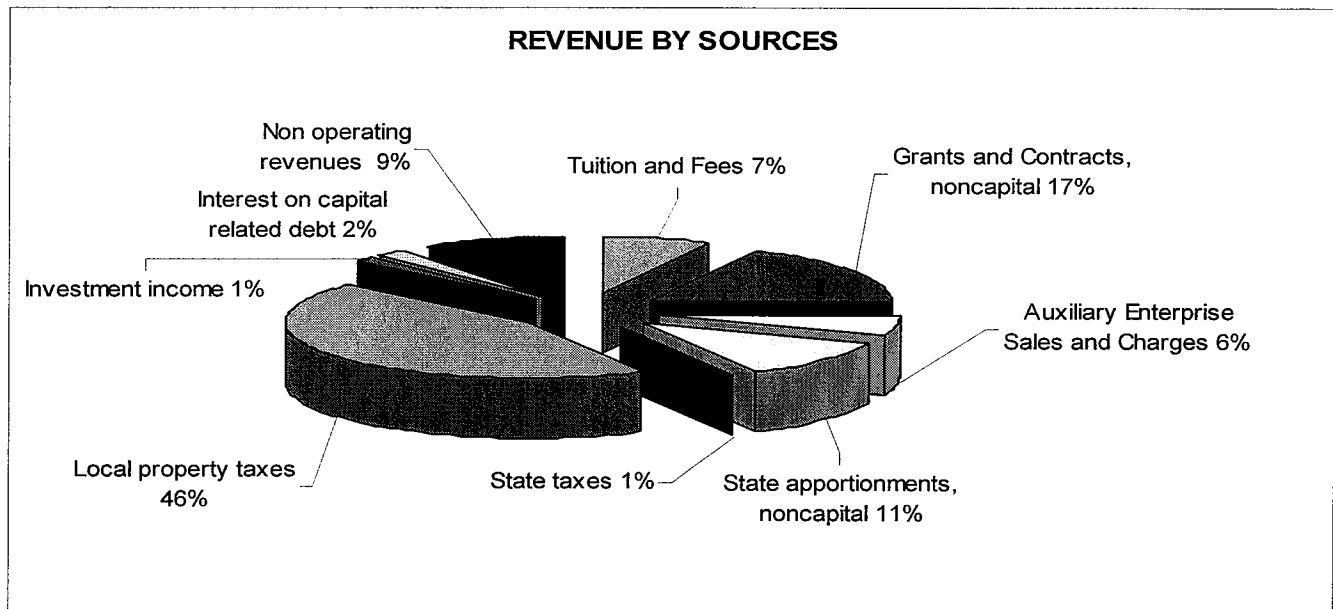
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005 AND 2004

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:



Revenues and expenses changed mainly due to the following:

- Operating Revenues increased as a result of a tuition increase per unit from \$18 to \$26 and an increase in grants and contracts.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

- Non-Operating Revenues decreased mainly due to the State budget reduction in categorical programs, and scheduled maintenance.
- Operating Expenses increased primarily due to salaries, health care premiums, depreciation for capital assets and other operating expenses and services.

Operating Expenses

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
	in thousands	in thousands	in thousands
Statement of Operation Expenses by Account			
Salaries	\$71,407	\$66,743	\$71,907
Employee benefits	23,873	20,980	19,779
Supplies, materials, and other operating expenses	51,865	18,307	29,108
Depreciation expense	2,265	1,901	2,151
TOTAL OPERATING EXPENSES	<u>\$149,410</u>	<u>\$107,931</u>	<u>\$122,945</u>

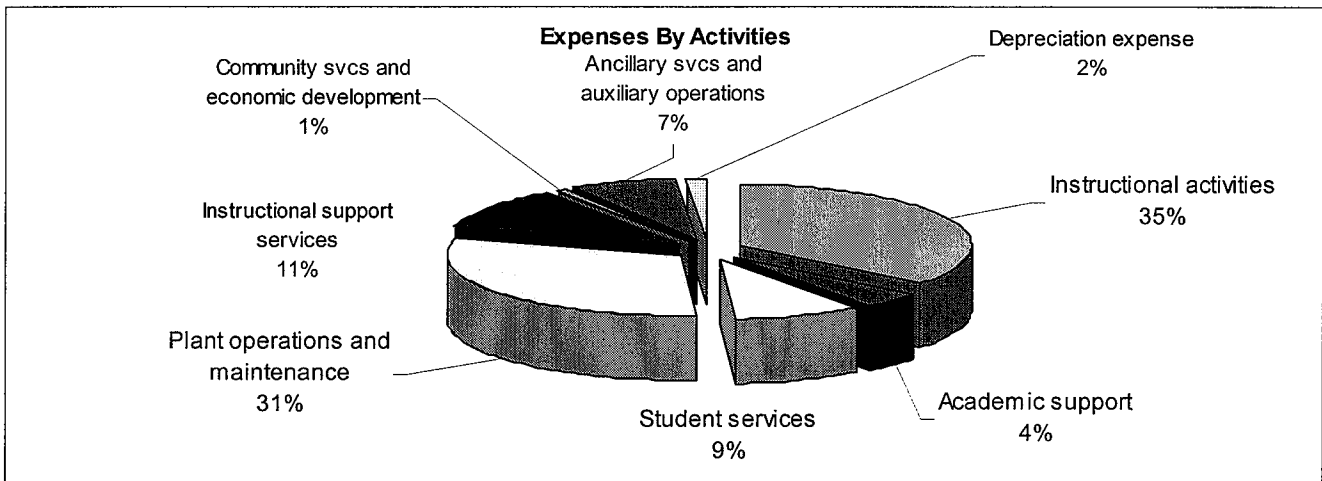
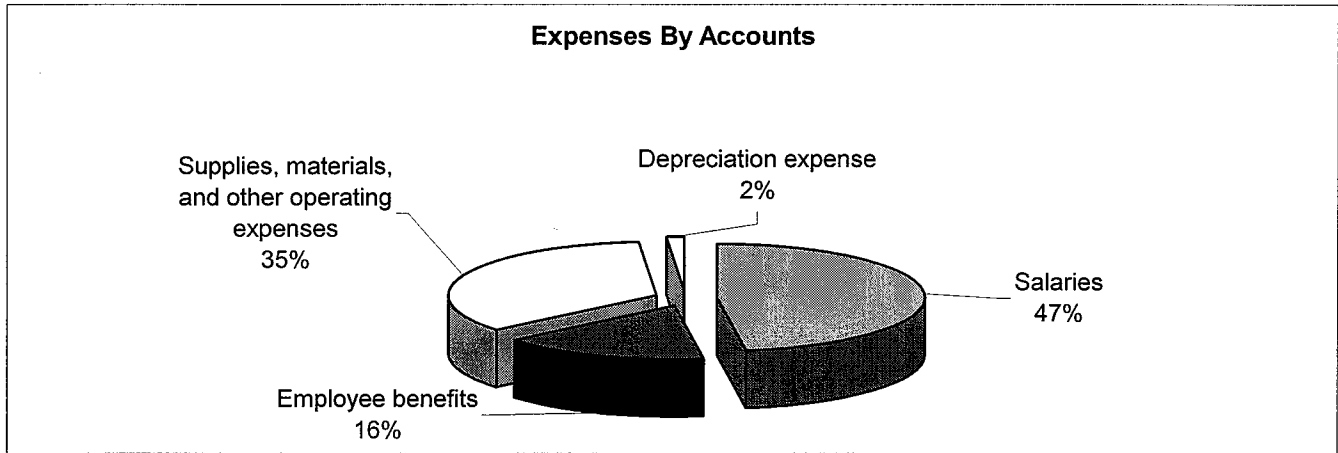
	<u>2005</u>	<u>2004</u>	<u>2003</u>
	in thousands	in thousands	in thousands
Statement of Operating Expenses by Activity			
Instructional activities	\$53,618	\$52,922	\$60,204
Academic support	6,130	5,901	3,132
Student services	13,334	17,658	18,166
Plant operations and maintenance	45,716	11,669	10,147
Instructional support services	16,368	2,933	14,981
Community services and economic development	959	1,151	1,144
Ancillary services and auxiliary operations	11,019	13,995	13,019
Depreciation expense	2,266	1,702	2,152
TOTAL OPERATING EXPENSES	<u>\$149,410</u>	<u>\$107,931</u>	<u>\$122,945</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005 AND 2004

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.
- State apportionments and property taxes are the primary source of non-capital financing.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

- 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). For 2004-2005, the County Pool Investment performance has been considerably better than that of LAIF.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>	<u>2003</u>
CASH FLOWS PROVIDED BY (USED IN):			
Operating Activities	in thousands (\$106,644)	in thousands (\$54,828)	in thousands (\$74,534)
Noncapital financing activities	99,142	98,271	90,562
Capital financing activities	26,893	(3,416)	(10,886)
Investing activities	1,558	1,669	2,157
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,949	41,696	7,299
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	194,199	152,503	145,203
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$215,148</u>	<u>\$194,199</u>	<u>\$152,503</u>

Economic Factors and the 2004-05 Budget

While the 2005-06 State budget does not fully address the Governor's promise to reimburse education for the suspension of Proposition 98 in 2004-05, it does include a 4.23% COLA on general apportionment and 3% growth statewide and the restoration of \$31.4 million in Partnership for Excellence funds that had been vetoed out of the 2004-05 budget. Because the District shifted FTES from 2005-06, the District will not achieve any funded growth available in 2005-06. Whether the District will achieve actual growth remains to be seen. All three colleges have enrollment growth plans in place and funding has been provided for this purpose.

The District negotiated a one year agreement with its unions in 2004-05, so the District must again return to the bargaining table for 2005-06 and beyond. The 2005-06 budget does not provide for compensation settlements at this time.

The economic outlook of the state is improving but remains tenuous. Statewide revenues are exceeding those anticipated and the Legislative Analyst Office has projected sufficient additional revenues such that there will be no deficit for fiscal year 2005-06. These are one time revenues, however, this does not change the fact that the state budget is still unbalanced. This may have an effect on public education funding in general and upon community colleges specifically. Currently, the California Community College Board of Governors has submitted a budget change proposal amounting to \$500 million and representing a 10% increase in community college

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005 AND 2004

funding. The proposal as submitted is within the limits of Proposition 98 guaranteed funding, but does not represent accommodations for the state's budget deficit.

The biggest challenges facing the 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.

Bond & C.O.P. Construction 2004-05 and Beyond

In addition to the above-referenced projects underway, the following work is scheduled to be awarded and initiated in the coming year. Design documents for the renovation of Buildings 16, 17 & 18 at Cañada College, which house the various science lab and vocational programs are currently under review by the Division of State Architect (DSA). Approval is expected some time in the first quarter of 2006, in which case the project will bid in Spring 2006. State funding in the amount of approximately \$12 million dollars was recently approved for the conversion of Skyline College Building 7. The project will pilot a new DSA Rapid Review Process, which is expected to expedite the review process.

Voter approval of Measure A in November 2005 brought an additional \$468 million dollars in capital improvement funding to the District. At this writing, District Staff and the Board of Trustees are exploring various strategies for planning and implementation of work with these funds.

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.net.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,354,503	\$ 2,154,051
Investments	212,793,453	192,045,062
Accounts receivable, net of allowance	12,113,989	12,119,799
Student loans receivable	384,190	378,896
Prepaid expenses	108,072	421,954
Stores inventories	1,395,011	1,697,771
Other current assets	372,725	363,842
Deferred charges	2,476,744	1,730,730
Total Current Assets	<u>231,998,687</u>	<u>210,912,105</u>
Noncurrent Assets:		
Land and construction in progress	93,388,551	75,973,502
Capital assets, depreciable	124,459,699	102,838,222
Less: Accumulated Depreciation	(50,131,013)	(48,462,605)
Total Noncurrent Assets	<u>167,717,237</u>	<u>130,349,119</u>
TOTAL ASSETS	<u>399,715,924</u>	<u>341,261,224</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	19,159,460	27,329,558
Accrued interest payable	2,565,549	3,141,005
Current loans	12,000,000	20,300,000
Deferred revenue	10,074,575	8,787,895
Amounts held in trust on behalf of others	8,540,831	1,078,645
Compensated absences payable - current portion	1,830,686	1,785,426
Lease obligations - current portion	156,242	-
Current portion of general obligation bonds	4,945,000	3,455,000
Current portion of other long-term liabilities	114,078	38,588
Total Current Liabilities	<u>59,386,421</u>	<u>65,916,117</u>
Noncurrent Liabilities:		
Compensated absences payable - noncurrent portion	720,342	595,430
Noncurrent portion of general obligation bonds	160,168,823	92,843,613
Lease obligations - noncurrent portion	156,242	-
Noncurrent portion of certificates of participation	30,885,000	30,885,000
Noncurrent portion of other long-term liabilities	2,518,758	745,575
Total Noncurrent Liabilities	<u>194,449,165</u>	<u>125,069,618</u>
TOTAL LIABILITIES	<u>253,835,586</u>	<u>190,985,735</u>
NET ASSETS		
Invested in capital assets, net of related debt	14,291,712	73,308,502
Restricted for:		
Debt service	10,019,898	8,895,200
Capital projects	41,404,204	30,829,306
Educational programs	-	599,467
Other activities	250,125	93,854
Unrestricted	79,914,399	36,549,160
TOTAL NET ASSETS	<u>\$ 145,880,338</u>	<u>\$ 150,275,489</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, 2005 AND 2004**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
OPERATING REVENUES		
Tuition and Fees	\$ 14,286,344	\$ 11,482,853
Less: fee waivers and allowances	(3,706,428)	(2,317,539)
Net tuition and fees	10,579,916	9,165,314
Grants and Contracts, noncapital:		
Federal	9,031,725	8,807,264
State	15,148,082	14,261,574
Local	3,049,068	2,235,845
Auxiliary Enterprise Sales and Charges		
Bookstore	8,125,966	7,314,666
Cafeteria	152,620	169,108
TOTAL OPERATING REVENUES	<u>46,087,377</u>	<u>41,953,771</u>
OPERATING EXPENSES		
Salaries	71,407,153	66,742,488
Employee benefits	23,872,691	20,980,061
Supplies, materials, and other operating expenses and services	51,865,121	18,306,920
Depreciation	2,265,503	1,901,321
TOTAL OPERATING EXPENSES	<u>149,410,468</u>	<u>107,930,790</u>
OPERATING LOSS	<u>(103,323,091)</u>	<u>(65,977,019)</u>
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	16,970,129	5,110,499
Local property taxes	66,570,360	76,962,511
State taxes and other revenues	1,008	1,308
Investment income, net	2,094,713	2,605,483
Interest expense on capital related debt	(9,574,949)	(5,852,431)
Interest income on capital asset-related debt, net	3,093,327	301,494
Other non-operating revenue	13,763,099	23,208,008
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>92,917,687</u>	<u>102,336,872</u>
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	<u>(10,405,404)</u>	<u>36,359,853</u>
OTHER REVENUES AND EXPENSES		
State revenues, capital	4,602,094	1,824,517
Local revenues, capital	1,408,159	6,320,215
TOTAL OTHER REVENUES AND EXPENSES	<u>6,010,253</u>	<u>8,144,732</u>
NET CHANGE IN NET ASSETS	(4,395,151)	44,504,585
NET ASSETS, BEGINNING OF YEAR	150,275,489	105,770,904
NET ASSETS, END OF YEAR	<u>\$ 145,880,338</u>	<u>\$ 150,275,489</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, 2005 AND 2004**

	June 30, 2005	June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 12,043,697	\$ 9,082,426
Federal grants and contracts	8,665,486	8,931,025
State grants and contracts	17,718,125	14,030,553
Local grants and contracts	1,958,387	2,235,845
Payments to suppliers	(61,758,497)	(7,341,622)
Payments to/(on behalf of) employees	(93,699,114)	(89,249,534)
Auxiliary enterprise sales and charges		
Bookstore	8,226,618	7,314,666
Cafeteria	152,620	169,108
Other Operating Receipts/Payments	48,356	-
Net Cash Used by Operating Activities	(106,644,322)	(54,827,533)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	9,330,910	3,554,642
Property taxes	66,570,360	76,962,511
State taxes and other apportionments	(722,530)	3,328,292
Other non-operating	11,845,253	(1,919,156)
Proceeds from TRANS	12,000,000	20,300,000
Student organization and other agency transactions	117,976	(3,955,672)
Net Cash Provided by Noncapital Financing Activities	99,141,969	98,270,617
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from sale of general obligation bond	69,995,132	29,874,740
Purchase of capital assets	(41,668,325)	(64,789,978)
State revenue, capital projects	4,602,094	1,824,517
Local revenue, capital projects	1,408,159	28,599,881
Principal paid on capital debt	(3,455,000)	(2,596,517)
Interest paid on capital debt	(6,911,898)	3,370,196
Interest income on capital asset-related debt, net	2,923,275	301,494
Net Cash Provided (Used) by Capital Financing Activities	26,893,437	(3,415,667)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	1,557,759	1,668,940
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,948,843	41,696,357
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	194,199,113	152,502,756
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 215,147,956	\$ 194,199,113

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, 2005 AND 2004

RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (103,323,091)	\$ (65,977,019)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	2,265,502	1,901,321
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	5,810	(1,805,340)
Increase in student loans	(5,294)	(341,709)
Decrease (increase) in stores inventory	302,760	(366,213)
Decrease (increase) in prepaid expenditures	(432,132)	(687,754)
Decrease (increase) in other current assets	(8,883)	435,970
Increase (decrease) in accounts payable	(8,745,554)	9,677,897
Increase amount held in trust	117,976	143,941
Decrease in notes payable	-	(261,517)
Increase (decrease) in current portion of compensated absences	45,260	96,273
Increase in current portion of other long term debt	1,721,732	1,110,604
Increase in deferred revenue	1,286,680	1,347,766
Increase (decrease) in long term portion of compensated absences	124,912	(101,753)
NET CASH USED BY OPERATING ACTIVITIES	\$ (106,644,322)	\$ (54,827,533)
CASH AND CASH EQUIVALENTS		
Cash	\$ 2,354,503	\$ 2,154,051
Investments	212,793,453	192,045,062
Total cash and cash equivalents	\$ 215,147,956	\$ 194,199,113

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The San Mateo County Community College District (The District) is a political subdivision of the State of California and provides educational services to the residents of San Mateo County and surrounding areas. The District consists of three community colleges located in the County of San Mateo, California. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District operates under a locally elected five-member Board of Trustees form of government and provides higher education in the County of San Mateo. The District currently operates three college campuses located in the cities of San Mateo, San Bruno, and Redwood City, California.

Financial Reporting Entity

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 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. Within the supplementary information section of the report, the activity is included as the COP Payment Fund and COP Construction Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the governmental –wide financial statements. 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. There was no financial activity for the year ended June 30, 2005.

During the year ended June 30, 2004, the District implemented Governmental Accounting Standard Board (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 reported as component units based on the nature and significance of their relationship with the District. The District has determined that the San Mateo College Community Foundation does not meet the criteria for inclusion under GASB 39.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. 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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

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 90 days of fiscal year-end. Non-exchange 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 States of America as applicable to colleges and universities, as well as those prescribed by the California Community College's Chancellor's Office. The District reports are based on all applicable Governmental Accounting Standards Board (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 and 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:
 1. Statements of Net Assets
 2. Statements of Revenues, Expenses and Changes in Net Assets
 3. Statements of Cash Flows
- Notes to the Financial Statements

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

Investments held at June 30, 2005, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and /or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance is based upon management's estimates and analysis. The allowance was estimated at \$846,706 and \$605,068 for the years ended June 30, 2005 and 2004, respectively.

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, building, and equipment. The District maintains a capitalization threshold of \$5,000 for equipment and \$100,000 for land, buildings and improvements. The auxiliary funds (Cafeterias, Bookstores and Associated Student Body) maintain and capitalization threshold of \$500. 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 capitalized, but are expensed as incurred. Major outlays for capital improvements are capitalized as Work in Process as the projects are constructed.

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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Compensated Absences

The District accrues vacation and compensated time in lieu of overtime for employees. Both are paid out upon termination and, effective June 30, 2006, the compensated time in lieu of overtime will be paid out annually.

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. 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 accrued in the appropriate fund.

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.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" rather than "Fund Balance." 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005 AND 2004

- **Unrestricted net assets:** Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designed 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.

The District first applies restricted resources when an expense is incurred for purpose for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

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

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as, (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, State and local grants and contracts and Federal appropriations.

Non-operationing revenues – Non-operating 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 non-operating 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.

Non-operating expenses - Non-operating expenses include interest expense and other expenses not directly related to the services of the District such as interest expense.

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. 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

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*.

Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Newly Issued Accounting Pronouncements

- **GASB Statement No. 40:** In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and addresses additional risks to which governments are exposed. Under Statement No. 40, State and local governments are required to disclose information covering four principal areas:
 - Investment credit risk disclosures, including credit quality information issued by rating agencies;
 - Interest rate disclosures that include investment maturity information, such as weighted average maturities or specification identification of securities;
 - Interest rate sensitivity for investments that are highly sensitive to changes in interest rates (ex: inverse floaters, enhanced variable-rate investments, and certain asset-backed securities; and
 - Foreign exchange exposures that would indicate the foreign investment's denomination.

The GASB Statement No. 40 provisions are effective for financial statements for periods beginning after June 30, 2004, and are included Note 2 cash and investment.

- **GASB Statement No 42:** In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. The provisions of this statement are effective for periods beginning after December 2004 and will be implemented by the District in fiscal year 2005-2006.
- **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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

- **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 2007-08 fiscal year. The District will have a study of its postemployment benefit liability performed in 2007-08. 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 currently has almost \$22 million set aside.
- **GASB Statement No. 46:** In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB No. 34. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. Accordingly, it clarifies the determination of restricted net assets within the statement of net assets. This statement is not effective until June 30, 2006. The District does not believe this statement will have an effect on its financial statements, however, the District will monitor new legislation and respond accordingly should any legislation require restrictions of net assets.
- **GASB Statement No. 47:** In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. This statement is not effective until June 30, 2006. This statement is not expected to have a current impact on the District, however, the District will determine effects if it implements a termination benefit program in the future.

NOTE 2 - DEPOSITS AND INVESTMENTS

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

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	Allowable Investments under Government Code		
	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	20 million

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, consist of the following:

Cash on hand and in banks	\$ 2,342,889
Cash in revolving	11,614
Investments	<u>212,793,453</u>
Total Deposits and Investments	<u>\$ 215,147,956</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 purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
Commercial Paper	\$ 2,775,972	180 days
County Pool	208,867,751	None
State Investment Pool	1,147,440	None
Total	\$ 212,791,163	

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 measure by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the Districts' investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End		
				AAA	Aa	Unrated
Commercial Paper	\$ 2,775,972	A3/A-long-term	\$ -	\$ 2,775,972	\$ -	\$ -
County Pool	208,867,751	None	-	-	-	208,867,751
State Investment Pool	1,147,440	None	-	-	-	1,147,440
Total	\$ 212,791,163		\$ -	\$ 2,775,972	\$ -	\$ 210,015,191

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 for deposits. 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, 2005, the \$2,748,477 of the District's bank balance of \$2,848,477 was 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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another 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, 2005 AND 2004**

NOTE 3 – ACCOUNTS RECEIVABLES

Receivables at June 30, 2005 and 2004 consisted of intergovernmental grants, entitlements, interest, and other local sources. The District computes the allowance for doubtful accounts based on the age of the receivables.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Federal Government		
Categorical aid	\$ 1,334,871	\$ 968,632
State Government		
Apportionment	442,860	-
Categorical aid	918,760	1,066,193
Lottery	1,791,843	1,306,862
Other state sources	1,152,891	914,334
Local Sources		
Interest	1,649,594	1,110,508
Student receivables	4,834,716	4,675,888
Other local sources	1,219,350	3,061,346
Total	<u>13,344,885</u>	<u>13,103,763</u>
Less: Allowance for doubtful accounts	(846,706)	(605,068)
Total Accounts Receivable, net	<u>\$ 12,498,179</u>	<u>\$ 12,498,695</u>

Receivables at June 30, 2005 and 2004 include \$350,000 for loans made to seven 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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance Beginning of Year	Additions and Adjustments	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 20,628,292	\$ -	\$ -	\$ 20,628,292
Construction in progress	55,345,210	37,688,287	20,273,238	72,760,259
Total Capital Assets Not Being Depreciated	<u>75,973,502</u>	<u>37,688,287</u>	<u>20,273,238</u>	<u>93,388,551</u>
Capital Assets Being Depreciated				
Land improvements	9,834,246	-	-	9,834,246
Buildings and improvements	80,439,071	20,634,700	-	101,073,771
Furniture, equipment and vehicles	12,564,905	1,641,198	654,421	13,551,682
Total Capital Assets Being Depreciated	<u>102,838,222</u>	<u>22,275,898</u>	<u>654,421</u>	<u>124,459,699</u>
Total Capital Assets	<u>178,811,724</u>	<u>59,964,185</u>	<u>20,927,659</u>	<u>217,848,250</u>
Less Accumulated Depreciation				
Land improvements	7,167,345	120,141	-	7,287,486
Buildings and improvements	34,852,811	1,683,568	-	36,536,379
Furniture, equipment and vehicles	6,442,449	383,788	519,089	6,307,148
Total Accumulated Depreciation	<u>48,462,605</u>	<u>2,187,497</u>	<u>519,089</u>	<u>50,131,013</u>
Net Capital Assests	<u>\$ 130,349,119</u>	<u>\$ 57,776,688</u>	<u>\$ 20,408,570</u>	<u>\$ 167,717,237</u>

Depreciation expense for the year ended June 30, 2005 was \$2,187,497.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 4,187,944	\$ 16,440,348	\$ -	\$ 20,628,292
Construction in progress	20,827,815	43,367,711	8,850,316	55,345,210
Total Capital Assets Not Being Depreciated	25,015,759	59,808,059	8,850,316	75,973,502
Capital Assets Being Depreciated				
Land improvements	8,256,136	1,578,110	-	9,834,246
Buildings and improvements	72,788,294	7,650,777	-	80,439,071
Furniture, equipment and vehicles	12,379,080	2,309,178	2,123,353	12,564,905
Total Capital Assets Being Depreciated	93,423,510	11,538,065	2,123,353	102,838,222
Total Capital Assets	118,439,269	71,346,124	10,973,669	178,811,724
Less Accumulated Depreciation				
Land improvements	7,094,110	73,235	-	7,167,345
Buildings and improvements	33,321,666	1,531,145	-	34,852,811
Furniture, equipment and vehicles	6,135,948	309,884	3,383	6,442,449
Total Accumulated Depreciation	46,551,724	1,914,264	3,383	48,462,605
Net Capital Assests	\$ 71,887,545	\$ 69,431,860	\$ 10,970,286	\$ 130,349,119

Depreciation expense for the year ended June 30, 2004 was \$1,914,264.

Land Purchase and Sale

In February 2001, the District approved a sales agreement with SummerHill Homes to sell 22 acres of vacant land at Skyline College for \$28 million dollars. At the same time, the District entered into a purchase agreement with the Laguna Salada Union School District (now the Pacifica School District) to purchase the Pacific Heights Middle School, which is on an approximate 14.75 acre parcel adjacent to Skyline College. The purchase price was \$16,440,338.

Because of the need to seek entitlements for the housing development it was planning, SummerHill made down payments on the property throughout 2001 and 2002 totaling \$1.5 million, which were shared with the Pacifica School District. In addition, SummerHill paid the District a total of \$11,516,521 in July 2003 and \$9,106,086 in April 2004, which was proportionally split with the Pacifica School District. The remainder of the funds owed was paid in September 2004.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

NOTE 5 - INTERFUND TRANSACTIONS

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 at June 30, 2005 and 2004, consisted of the following:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Accrued payroll and benefits	\$ 3,047,369	\$ 3,422,238
Apportionment/ERAF	-	7,196,359
Construction	9,590,980	6,244,699
Other	6,521,039	10,466,262
Total	<u>\$ 19,159,388</u>	<u>\$ 27,329,558</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2005 and 2004, consisted of the following:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Federal financial assistance	\$ -	\$ 53,254
State categorical aid	1,641,005	2,267,463
Enrollment fees - tuition, registration, materials	3,875,629	2,411,848
Other local	4,557,941	4,055,330
Total	<u>\$ 10,074,575</u>	<u>\$ 8,787,895</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 - LONG-TERM DEBT

Long-Term Debt Summary

The changes in the District's long-term obligations during 2005 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	\$ 96,298,613	\$ 72,270,210	\$ 3,455,000	\$ 165,113,823	\$ 4,945,000
Certificates of participation	30,885,000	-	-	30,885,000	-
Capital leases	-	467,842	155,358	312,484	156,242
Total Bonds and Notes Payable	127,183,613	72,738,052	3,610,358	196,311,307	5,101,242
Other Liabilities					
Compensated absences	595,430	124,912	-	720,342	-
Total Other Liabilities	595,430	124,912	-	720,342	-
Total Long-Term Debt	127,779,043	72,862,964	3,610,358	197,031,649	5,101,242
Premiums, net of amortization	784,163	1,887,261	38,588	2,632,836	114,078
Total	\$ 128,563,206	\$ 74,750,225	\$ 3,648,946	\$ 199,664,485	\$ 5,215,320

The change in the District's long-term obligations during 2004 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	\$ 97,579,417	\$ 1,054,196	\$ 2,335,000	\$ 96,298,613	\$ 3,455,000
Certificates of participation	-	30,885,000	-	30,885,000	-
Notes payable	261,517	-	261,517	-	-
Total Bonds and Notes Payable	97,840,934	31,939,196	2,596,517	127,183,613	3,455,000
Other Liabilities					
Compensated absences	697,183	-	101,753	595,430	-
Total Other Liabilities	697,183	-	101,753	595,430	-
Total Long-Term Debt	98,538,117	31,939,196	2,698,270	127,779,043	3,455,000
Premiums, net of amortization	1,151,622	(328,871)	38,588	784,163	38,588
Total	\$ 99,689,739	\$ 31,610,325	\$ 2,736,858	\$ 128,563,206	\$ 3,493,588

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Description of Debt

General obligation bonds were approved by a local election in 2001. The total amount approved by the voters was \$207,000,000. At June 30, 2005, \$166,870,745 had been issued and \$165,113,823 was outstanding. Interest rates on the bonds are from 3.00 percent – 5.74 percent. Payments are made by the Bond Interest and Redemption Fund.

The certificates of participation were issued in 2004 in the amount of \$30,885,000 to finance and construct athletic facility improvements, faculty and staff housing units, college bookstores and other facilities for the District. The certificates mature through 2038 with interest rates not to exceed 5.25 percent. Payments are made by the COP Payment Fund.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Interest		Bonds	
				Outstanding July 1, 2004	Issued	Accretions	Redeemed	Outstanding June 30, 2005	
6/4/2002	9/1/2026	5.2-5.74%	\$96,875,613	\$96,298,613	\$ -	\$ 1,693,150	\$3,455,000	\$ 94,536,763	
2/9/2005	9/1/2029	3.00-5.00%	69,995,132	-	69,995,132	581,928	-	70,577,060	
				<u>\$96,298,613</u>	<u>\$69,995,132</u>	<u>\$ 2,275,078</u>	<u>\$3,455,000</u>	<u>\$ 165,113,823</u>	

Debt Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2006	\$ 4,945,000	\$ 1,061,410	\$ 6,006,410
2007	1,835,000	5,391,889	7,226,889
2008	2,360,000	5,281,190	7,641,190
2009	2,835,000	5,223,664	8,058,664
2010	3,330,000	5,145,658	8,475,658
2011-2015	25,785,000	23,639,379	49,424,379
2016-2020	40,071,228	27,266,821	67,338,049
2021-2025	38,878,980	30,876,121	69,755,101
2026-2030	42,798,537	19,631,642	62,430,179
Total	<u>162,838,745</u>	<u>\$ 123,517,774</u>	<u>\$ 286,356,519</u>
Accretions to date	2,275,078		
	<u>\$ 165,113,823</u>		

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

Certificates of Participation

Year Ending June 30,	Principal	Interest	Total
2006	\$ -	\$ 748,728	\$ 748,728
2007	-	1,497,456	1,497,456
2008	385,000	1,485,906	1,870,906
2009	465,000	1,471,956	1,936,956
2010	525,000	1,456,206	1,981,206
2011-2015	1,930,000	7,043,699	8,973,699
2016-2020	3,335,000	6,499,564	9,834,564
2021-2025	5,920,000	5,284,852	11,204,852
2026-2030	9,625,000	3,273,690	12,898,690
2031-2035	3,940,000	1,654,095	5,594,095
2036-2039	4,760,000	599,625	5,359,625
Total	<u>\$ 30,885,000</u>	<u>\$ 31,015,777</u>	<u>\$ 61,900,777</u>

Capital Leases

The District's liability on lease agreement with options to purchase are paid by the General Fund-Unrestricted and summarized below:

Year Ending June 30,	Lease Payment
2006	\$ 164,867
2007	160,616
Total	325,483
Less: Amount Representing Interest	12,999
Present Value of Minimum Lease Payments	<u>\$ 312,484</u>

NOTE 9 – 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 55 and a minimum ten 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 2004-2005 fiscal year, the District provided insurance premium benefits to 679 retired employees with total expenditures of \$4,924,762.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

The District had an actuarial study of the postemployment health benefits completed in December 2001. The accumulated future liability as of July 2001 amounted to \$86,174,000 as determined by the actuarial study.

NOTE 10 - 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, 2005, the District contracted with the Bay Area Community Colleges Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2005, the District participated in the Protected Insurance Program for Schools Joint Powers Authority (PIPS), an insurance purchasing pool. The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the PIPS. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of 23 percent. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the PIPS. Participation in the PIPS is limited to districts that can meet the PIPS selection criteria. The firm of Keenan and Associates provides administrative, cost control, and actuarial services to the group.

Coverage provided by BACCD JPA and PIPS for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
Protected Insurance Program for Schools JPA (PIPS)	Workers' Compensation	\$ 1,000,000
Protected Insurance Program for Schools JPA (PIPS)	Excess Workers' Compensation	\$ 5,000,000
Bay Area CCD JPA	Property and Liability	\$ 4,000,000

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.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

NOTE 11 - 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 (services) 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, services 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-2005 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 part-time instructors. Instructors who choose not to sign up for the DB Plan or social security may participate in the CB Benefit Program. The District's 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, 2005 AND 2004

Annual Pension Cost

The District's total contribution to STRS for the fiscal years ended June 30, 2005, 2004, and 2003, were \$2,986,039, \$3,189,148, and \$3,019,236, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges on the State.

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 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2004-2005 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$2,511,809, \$2,489,436, and \$706,898 and equaled 100 percent of the required contributions for the 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 \$1,734,177 (4.517 percent of salaries subject to STRS). A contribution to CalPERS was not required for the year ended June 30, 2005. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

revenues and expenditures. This amount has been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

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. During fiscal year 2004-2005, program membership grew to 30 from 47.

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 12 - 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, 2005.

The California State Controller's Office audited the District's mandated costs claims in the prior year. As the result of the audit, the District has set aside the 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, 2005.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005 AND 2004

Construction Commitments

As of June 30, 2005, 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	\$ 5,480,906	within 5 years
State Funded Scheduled Maintenance Projects	1,610,101	within 3 years
General Obligation Bond Construction Projects	42,850,973	within 3 years
Faculty/Staff Housing (College Vista)	3,702,346	within 1 years
Districtwide Athletic Facilities	3,421,821	within 1 years
	<u>\$ 57,066,147</u>	

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

NOTE 13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the Bay Area Community College (BACC) Joint Powers Authority JPA and Protective Insurance Program for Schools (PIPS) risk pool. The District pays an annual premium to the applicable entity for its property and liability insurance and workers' compensation coverage. Payments for the property and liability insurance are paid to the BACC JPA and workers' compensation are paid to the administrator Keenan & Associates then remitted to the JPA's. The relationships between the District, the pools, and the JPA's 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, 2005, the District made payment of \$616,207 and \$1,478,880 to BACC Joint Powers Authority JPA and PIPS risk pools, respectively, for the insurance coverages.

NOTE 14 - TAX AND REVENUE ANTICIPATION NOTES

On July 1, 2003, the District issued \$10,300,000 Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2004. By May 1, 2004, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On October 2, 2003, the District issued \$20,000,000 Taxable Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on October 2, 2004. By June 30, 2004, the District had placed 100 percent of principal and interest in county treasury for the sole purpose of satisfying the notes.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

On July 6, 2004, the District issued \$12,000,000 Tax and Revenue Anticipation Notes bearing interest at 3.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2005. By June 30, 2005, the District had placed 100 percent of principal and interest in the county treasury for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded 100 percent principal and interest as a current liability in the financial statements.

NOTE 15 - SUBSEQUENT EVENTS

The District issued \$15,000,000 of Tax And Revenue Anticipation Notes dated July 6, 2005. The notes mature on July 6, 2006, and have a 4.0 percent interest rate. The notes were sold to supplement cash flow. Repayment requirements are that 40 percent of the principal and interest be deposited with the Fiscal Agent in February 2006, 10 percent in March, 10 percent in April and the remaining 40 percent to be deposited in May 2006.

NOTE 16 – FUNCTIONAL EXPENSES

	Salaries	Employee Benefits	Supplies Material and Other Expenses and Services	Depreciation	Total
Instructional activities	\$ 38,169,184	\$ 13,020,131	\$ 2,429,106	\$ -	\$ 53,618,421
Academic support	4,491,378	1,191,793	447,199	-	6,130,370
Student services	9,511,354	2,425,335	1,397,523	-	13,334,212
Plant operations and maintenance	5,624,720	1,936,542	38,154,482	-	45,715,744
Instructional support services	8,272,849	3,382,197	4,713,198	-	16,368,244
Community services and economic development	500,936	151,731	306,071	-	958,738
Ancillary services and auxiliary operations	4,836,732	1,764,962	4,417,542	-	11,019,236
Depreciation expense	-	-	-	2,265,503	2,265,503
Total	\$ 71,407,153	\$ 23,872,691	\$ 51,865,121	\$ 2,265,503	\$ 149,410,468

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SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2005

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>
Patricia Miljanich	President	2007
Dave Mandelkern	Vice President- Clerk	2007
Richard Holober	Member	2005
Helen Hausman	Member	2005
Karen Schwarz	Member	2007
Patrick Burns	Student Trustee	2006

ADMINISTRATION

Ron Galatolo	Chancellor - Superintendent
James W. Keller	Executive Vice Chancellor
Shirley Kelly	President – College of San Mateo
Tom Mohr	Interim 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, 2005**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster ^[1]			
Federal Work Study Program	84.033	none	\$ 440,085
Pell Grant	84.063	none	5,259,710
Supplemental Educational Opportunity Grant (SEOG)	84.007	none	436,401
Postsecondary Education			
Business and International Education	84.153A	none	68,272
TRIO: Student Support Services	84.042A	none	416,054
TRIO: Upward Bound	84.047A	none	245,766
Higher Education - Institutional Aid Title V Hispanic Serving Institutions	84.031S	none	235,807
Passed through California Department of Education:			
Vocational Education			
VATEA I-B State Leadership - Bay Region Consortium ^[1]	84.048A	02-0342	404,396
VATEA I-C Basic Grants to States ^[1]	84.048A	02-C01	388,021
VATEA II - Tech Prep Education	84.243	02-0139	206,400
Special Education and Rehabilitation Services			
Passed through California Department of Rehabilitation:			
Vocational Rehabilitation -Workability III	84.126A	23405	306,934
Total U.S. Department of Education			<u>8,407,846</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Administration for Children and Families			
Temporary Assistance to Needy Families (TANF)	93.558	unknown	38,871
Child Care and Development Block Grant	93.575	5036	28,632
Passed through County of San Mateo			
Foster Care Title IV-E - Training for Community Based Organiz	93658	unknown	226,625
Total U.S. Department of Health and Human Services			<u>294,128</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through County of San Mateo and City of Daly City			
Community Development Block Grant	14.218	unknown	48,132
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child and Adult Care Food Program	10.558	5320	27,781
U.S. DEPARTMENT OF LABOR			
Passed through NOVA/California EDD:			
WIA Adult Program	17.258	0110-H-1B-04	121,080
Passed through County of San Mateo/California Employment Development Department:			
WIA Dislocated Workers	17.260	73200-03-D012	131,195
Total U.S. Department of Labor			<u>252,275</u>
NATIONAL SCIENCE FOUNDATION			
Passed through University of California CSEMS:			
Education and Human Resources	47.076	0324218	1,563
Total Expenditures of Federal Awards			<u>\$ 9,031,725</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, 2005**

Program	Program Revenues			Total Revenue	Program Expenditures
	Cash Received	Accounts Receivable	Deferred Revenue		
GENERAL FUND					
AB 77/DSPS/Handicap	\$ 1,497,937	\$ -	\$ -	\$ 1,497,937	\$ 1,497,937
Extended Opportunity Programs	1,494,501	-	-	1,494,501	1,494,501
Care/EOP	109,772	-	-	109,772	109,772
Matriculation	1,038,078	-	-	1,038,078	1,038,078
Foster Parent Training	46,211	40,642	-	86,853	86,852
State Instructional Equipment Program	446	-	-	446	446
AB 602 FA Administrative Allowance	897,142	444	-	897,586	897,586
Block Grant	1,018,531	-	630,147	388,384	388,384
T-Com and Technology	418,280	-	193,647	224,633	224,634
Cal Works	169,032	445	-	169,477	169,477
Middle College High School	269,894	63,500	80,465	252,929	252,930
CITD Economic Development	124,540	54,335	-	178,875	178,875
Applied Bio Technology	-	9,400	-	9,400	9,400
California Articulation No System	15,000	-	-	15,000	15,000
AB 1725 Staff Diversity	38,506	-	27,884	10,622	10,622
Staff Development	26,782	-	7,393	19,389	19,389
Statewide Leadership Multimedia	136,500	26,000	-	162,500	162,500
MESA/CCCP FSS	159,690	29,763	-	189,453	189,454
Economic Development Advanced Trans Tech	10,000	-	-	10,000	10,000
Economic Development IDRC Manufacturing	170,820	32,537	-	203,357	203,357
Economic Development IDRC Biotechnology	258,297	49,199	-	307,496	307,496
Economic Development IDRC Rio Hondo CCD	16,460	44,753	-	61,213	61,213
RCSD CBET Program	101,151	28,788	-	129,939	129,939
Ravenswood SD CBET Program	-	8,813	-	8,813	8,813
MANEX - Employment Training Panel	-	20,400	-	20,400	20,400
Lottery-Prop 20-Instructional Materials	402,297	397,897	504,943	295,251	295,251
CCC Live Caption	97,484	-	46,685	50,799	10,799
SFSU Project	211,756	-	74,132	137,624	137,624
San Bruno Elementary	306	788	-	1,094	1,094
Nursing-Enrollment Growth	99,250	511	45,543	54,218	54,218
TTIP Video Over IP Grant	18,083	-	11,619	6,464	6,464
SUHSD CBET Program	12,702	31,784	-	44,486	44,486
State Library	18,547	-	18,547	-	-
Child Development program	486,919	34,918	-	521,837	521,587
Cal Grant	448,198	43,843	-	492,041	492,041
Total State Programs	<u>\$ 9,813,112</u>	<u>\$ 918,760</u>	<u>\$ 1,641,005</u>	<u>\$ 9,090,867</u>	<u>\$ 9,050,619</u>

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE APPORTIONMENT
ANNUALIZED ATTENDANCE AND ANNUAL APPRENTICESHIP HOURS
OF INSTRUCTION
FOR THE YEAR ENDED JUNE 30, 2005**

	Reported Data	Audit Adjustments	Audited Data
CATEGORIES			
A. <u>Credit Full-Time Equivalent Student (FTES)</u>			
1. Summer	4,348	-	4,348
2. Weekly census	14,504	-	14,504
3. Daily census	1,497	-	1,497
4. Actual hours of attendance	1,059	-	1,059
5. Independent study/work experience	549	-	549
Subtotal	21,957	-	21,957
B. <u>Noncredit FTES</u>			
1. Summer	2	-	2
2. Actual hours of attendance	52	-	52
Subtotal	55	-	55
Total FTES	22,012	-	22,012
C. <u>In-Service Training Courses</u>			
	124	-	124
D. <u>Basic Skills Courses</u>			
1. Credit	2,098	-	2,098
2. Non credit	-	-	-
Total Basic Skills FTES	2,098	-	2,098
E. <u>FTES Generated in Leased Space</u>			
	-	-	-
F. <u>Gross Square Footage</u>			
1. Existing facilities	1,255,045	-	1,255,045
2. New facilities	(34,153)	-	(34,153)
Total Gross Square Footage	1,220,892	-	1,220,892
Schedule of Annual Apprenticeship Hours of Instruction			
	Reported Data	Audit Adjustments	Audited Data
July 1 - December 31, 2004	35,820	-	35,820
January 1 - April 15, 2005	372	-	372
April 16 - June 30, 2005	39,555	-	39,555
Total	75,747	-	75,747

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, 2005**

There were no adjustments to the CFS-311, Annual Financial and Budget Report, which required reconciliation to the audited financial statements as of June 30, 2005.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2005

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 Program-Based Funding

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. This schedule provides 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.

ADDITIONAL SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
ALL GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<u>General Unrestricted</u>	<u>General Restricted</u>	<u>Child Development</u>	<u>Bond Interest and Redemption</u>
ASSETS				
Cash and cash equivalents	\$ 693,351	\$ 404,375	\$ -	\$ -
Investments	27,545,308	2,876,766	238,163	7,168,374
Accounts receivable, net of allowance	5,242,191	2,721,626	54,639	49,359
Due from other funds	4,407,054	2,916,848	76,864	-
Prepaid expenses	48,953	25,038	-	-
Other current assets	9,104	-	-	-
Total Assets	<u>\$37,945,961</u>	<u>\$ 8,944,653</u>	<u>\$ 369,666</u>	<u>\$ 7,217,733</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Cash over draft	\$ -	\$ -	\$ 1,734	\$ -
Accounts payable	7,126,850	1,147,986	44,038	-
Compensated absences	1,830,686	-	-	-
Due to other funds	3,116,833	2,738,409	73,769	-
Other current liabilities	12,000,000	-	-	-
Deferred revenue	3,944,206	5,090,651	-	-
Total Liabilities	<u>28,018,575</u>	<u>8,977,046</u>	<u>119,541</u>	<u>-</u>
FUND EQUITY				
Fund Balances				
Reserved	1,166,290	-	-	-
Unreserved				
Designated	8,466,180	-	2,682	4,497,007
Undesignated	294,916	(32,393)	247,443	2,720,726
Total Fund Equity	<u>9,927,386</u>	<u>(32,393)</u>	<u>250,125</u>	<u>7,217,733</u>
Total Liabilities and Fund Equity	<u>\$37,945,961</u>	<u>\$ 8,944,653</u>	<u>\$ 369,666</u>	<u>\$ 7,217,733</u>

COP Payment	Capital Outlay Projects	COP Construction	Bond Construction	Retiree Benefits	Governmental Funds
\$ -	\$ 18,904	\$ -	\$ -	\$ -	\$ 1,116,630
2,299,651	44,642,245	9,099,090	84,160,645	21,445,371	199,475,613
127,067	2,164,805	-	783,466	166,547	11,309,700
375,447	620,772	-	-	-	8,396,985
-	-	16,756	-	-	90,747
-	-	-	-	350,000	359,104
<u>\$ 2,802,165</u>	<u>\$ 47,446,726</u>	<u>\$ 9,115,846</u>	<u>\$ 84,944,111</u>	<u>\$ 21,961,918</u>	<u>\$ 220,748,779</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,734
-	3,491,957	1,865,538	4,234,780	-	17,911,149
-	-	-	-	-	1,830,686
-	1,957,387	-	1,129	911	7,888,438
-	-	-	-	-	12,000,000
-	593,178	-	-	-	9,628,035
-	6,042,522	1,865,538	4,235,909	911	49,260,042
-	-	-	-	-	1,166,290
2,802,165	11,488,184	7,250,308	80,708,202	21,961,007	137,175,735
-	29,916,020	-	-	-	33,146,712
<u>2,802,165</u>	<u>41,404,204</u>	<u>7,250,308</u>	<u>80,708,202</u>	<u>21,961,007</u>	<u>171,488,737</u>
<u>\$ 2,802,165</u>	<u>\$ 47,446,726</u>	<u>\$ 9,115,846</u>	<u>\$ 84,944,111</u>	<u>\$ 21,961,918</u>	<u>\$ 220,748,779</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

BALANCE SHEET RECONCILIATION JUNE 30, 2005

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance - All Governmental Funds	\$ 171,488,737
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. However, capital assets in enterprise funds are financial resources and no adjustment is needed for those capital assets.</p>	
The cost of capital assets in governmental funds is	216,431,724
Accumulated depreciation in governmental funds is	48,894,809
	167,536,915
<p>Payments made for Enterprise fund expenditures</p>	
<p>Expenditures relating to issuance costs of debt were recognized in modified accrual basis, but should not be recognized in accrual basis.</p>	
	2,476,744
<p>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.</p>	
	(2,565,549)
<p>An internal service fund is used by the District's management to charge the costs of the property and liability insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.</p>	
	528,891
<p>Enterprise funds are used by the District's management to account for the activity of the bookstores and cafeterias. The assets and liabilities of the enterprise funds are included with governmental activities.</p>	
	5,991,274
<p>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.</p>	
	87,811
<p>Long-term liabilities at year end consist of:</p>	
Bonds payable	165,113,823
Unamortized debt premium/discount	2,632,836
Certificates of participation	30,885,000
Capital leases	312,484
Compensated absences (vacations)	720,342
	(199,664,485)
Total Net Assets	\$ 145,880,338

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SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	General Unrestricted	General Restricted	Child Development	Bond Interest and Redemption
REVENUES				
Federal revenues	\$ 1,106	\$3,299,258	\$ 33,687	\$ -
State revenues	22,967,579	8,074,901	521,837	62,861
Local revenues	69,420,270	8,109,112	126,173	9,135,730
Total Revenues	<u>92,388,955</u>	<u>19,483,271</u>	<u>681,697</u>	<u>9,198,591</u>
EXPENDITURES				
Current Expenditures				
Academic salaries	39,149,047	3,567,928	176,346	-
Classified salaries	19,361,862	6,854,624	376,086	-
Employee benefits	20,690,600	2,620,742	177,998	-
Books and supplies	1,761,041	1,904,228	53,569	-
Services and operating expenditures	8,203,128	3,992,660	116,819	811,952
Capital outlay	415,886	1,064,213	3,832	-
Debt service - principal	-	-	-	3,455,000
Debt service - interest and other	-	-	-	3,469,803
Total Expenditures	<u>89,581,564</u>	<u>20,004,395</u>	<u>904,650</u>	<u>7,736,755</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>2,807,391</u>	<u>(521,124)</u>	<u>(222,953)</u>	<u>1,461,836</u>
OTHER FINANCING SOURCES/(USES)				
Operating transfers in	55,000	912,953	379,224	-
Operating transfers out	(2,949,407)	(158,892)	-	-
Other sources	66,817	456,747	-	-
Other uses	(109)	(1,321,544)	-	-
Total Other Financing Sources/(Uses)	<u>(2,827,699)</u>	<u>(110,736)</u>	<u>379,224</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	<u>(20,308)</u>	<u>(631,860)</u>	<u>156,271</u>	<u>1,461,836</u>
FUND BALANCE, BEGINNING OF YEAR	<u>9,947,694</u>	<u>599,467</u>	<u>93,854</u>	<u>5,755,897</u>
FUND BALANCE, END OF YEAR	<u>\$ 9,927,386</u>	<u>\$ (32,393)</u>	<u>\$ 250,125</u>	<u>\$ 7,217,733</u>

COP Payment	Capital Outlay Projects	COP Construction	Bond Construction	Retiree Benefits	Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,334,051
-	4,602,094	-	-	-	36,229,272
114,455	3,695,528	583,112	202,408	461,184	91,847,972
<u>114,455</u>	<u>8,297,622</u>	<u>583,112</u>	<u>202,408</u>	<u>461,184</u>	<u>131,411,295</u>
-	-	-	-	-	42,893,321
-	31,406	-	-	-	26,623,978
-	4,616	-	-	-	23,493,956
-	243,239	184,286	906,588	-	5,052,951
-	874,167	160,305	3,082,348	-	17,241,379
-	3,999,679	18,640,139	32,149,763	-	56,273,512
-	-	-	-	-	3,455,000
1,264,519	-	-	-	-	4,734,322
<u>1,264,519</u>	<u>5,153,107</u>	<u>18,984,730</u>	<u>36,138,699</u>	<u>-</u>	<u>179,768,419</u>
<u>(1,150,064)</u>	<u>3,144,515</u>	<u>(18,401,618)</u>	<u>(35,936,291)</u>	<u>461,184</u>	<u>(48,357,124)</u>
634,088	-	-	110,000	1,500,000	3,591,265
-	(689,088)	-	-	-	(3,797,387)
178,838	8,119,471	-	69,995,132	-	78,817,005
-	-	-	(741,577)	-	(2,063,230)
<u>812,926</u>	<u>7,430,383</u>	<u>-</u>	<u>69,363,555</u>	<u>1,500,000</u>	<u>76,547,653</u>
(337,138)	10,574,898	(18,401,618)	33,427,264	1,961,184	28,190,529
3,139,303	30,829,306	25,651,926	47,280,938	19,999,823	143,298,208
<u>\$ 2,802,165</u>	<u>\$ 41,404,204</u>	<u>\$ 7,250,308</u>	<u>\$ 80,708,202</u>	<u>\$ 21,961,007</u>	<u>\$ 171,488,737</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2005**

Total Net Change in Fund Balances - Governmental Funds

Amounts Reported for Governmental Activities in the Statement of

Revenues, Expenses, and Changes in Net Assets are Difference Because: \$ 28,190,529

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the district-wide statement of revenues, expenses, and net assets.

The amount by which the current period capital outlays exceed depreciation

The cost of capital assets in governmental funds is	39,555,614	
Accumulated depreciation in governmental funds is	<u>2,187,497</u>	37,368,117

Fiduciary fund is used by the District's management to account for the student activities. The net assets of the fiduciary funds are recorded as in the statement of net assets as a liability to the student. (1,265,041)

An internal service fund is used by District's management to charge the costs of property and liability insurance programs to the individual funds. The net revenue of the internal service fund is reported with the district wide statement of revenues, expenses, and changes in net assets. (40,831)

Enterprise funds are used by the District's management to account for the activity of the bookstores and cafeterias. The revenues and expenses of the enterprise funds are included with district wide statement of revenues, expenses, and net assets. 302,376

In the district wide statement of revenues, expenses and net assets, certain operating expenses (compensated absences - vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amount paid). This year vacation paid was more than the amount earned. (124,912)

Issuance of general obligation bonds are a revenue in the governmental funds when debt is issued, however it is recorded as a long term liability on the district-wide statement of net assets. (69,995,132)

Accretion of loan principal on general obligation bonds is reported as debt proceeds in the governmental funds, but it increases long term liabilities in the statement of net assets and does not affect the district wide statement of revenues, expenses, and net assets. (2,275,078)

Issuance of vehicle loan are a revenue in the governmental funds when debt is issued, however it is recorded as a long term liability on the district-wide statement of net assets. (467,842)

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS RECONCILIATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005**

Payment of debt principal is an expenditures in the governmental funds, but it reduces long term liabilities in the statement of net assets and does not affect the district wide statement of revenues, expenses, and net assets.	3,610,358
Interest on long term debt in the district-wide statement of revenues, expenses, and net assets differs from the amount reported in governmental funds because interest is recorded as an expenditure in the governmental funds when it is due. However, interest expense is recognized as an expense in the district-wide statement of revenues, expenses, and net assets when it accrues, regardless of when it is due.	1,405,166
Bond issue costs are recognized in the governmental funds when debt is issued, however they are recorded as prepaid assets and amortized over the term of the debt on the district-wide statement of net assets and statement of revenues, expenses and changes in net assets.	745,813
Bond premiums and discounts are recognized in the governmental funds when debt is issued, however they are recorded as other liabilities and amortized over the term of the bond on the district-wide statement of net assets and statement of revenues, expenses and changes in net assets.	(1,848,674)
Total Net Assets	<u>\$ (4,395,151)</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
 PROPRIETARY FUNDS
 JUNE 30, 2005**

	Enterprise Funds			Internal
	Bookstore	Cafeteria	Total	Service Fund
ASSETS				
Cash and cash equivalents	\$ 415,480	\$ 15,584	\$ 431,064	\$ -
Investments	3,914,514	726,951	4,641,465	1,071,945
Accounts receivable, net	411,182	10,317	421,499	5,284
Due from other funds	99,149	-	99,149	-
Prepaid expenses	17,325	-	17,325	-
Stores inventories	1,395,011	-	1,395,011	-
Furniture and equipment (net)	100,322	61,746	162,068	-
Total Assets	\$ 6,352,983	\$ 814,598	\$ 7,167,581	\$ 1,077,229
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable	\$ 847,012	\$ 121,791	\$ 968,803	\$ 67,000
Due to other funds	115,000	-	115,000	481,338
Other current liabilities	92,504	-	92,504	-
Total Liabilities	1,054,516	121,791	1,176,307	548,338
FUND EQUITY				
Retained earnings	5,298,467	692,807	5,991,274	528,891
Total Liabilities and Fund Equity	\$ 6,352,983	\$ 814,598	\$ 7,167,581	\$ 1,077,229

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Bookstore</u>	<u>Cafeteria</u>	<u>Total</u>	
OPERATING REVENUES				
Sales revenues	\$8,125,966	\$ 152,620	\$8,278,586	\$ -
OPERATING EXPENSES				
Classified salaries	1,615,269	149,673	1,764,942	-
Employee benefits	378,315	420	378,735	-
Books and supplies	5,885,732	-	5,885,732	-
Services and other operating expenditures	665,469	74,025	739,494	31,933
Total Operating Expenses	<u>8,544,785</u>	<u>224,118</u>	<u>8,768,903</u>	<u>31,933</u>
Operating Loss	<u>(418,819)</u>	<u>(71,498)</u>	<u>(490,317)</u>	<u>(31,933)</u>
NONOPERATING REVENUES				
Interest and investment income	170,052	17,889	187,941	12,764
Operating transfers in	-	-	-	60,000
Total Nonoperating Revenues	<u>170,052</u>	<u>17,889</u>	<u>187,941</u>	<u>72,764</u>
NET INCOME (LOSS)	(248,767)	(53,609)	(302,376)	40,831
RETAINED EARNINGS, BEGINNING OF YEAR	<u>5,547,234</u>	<u>746,416</u>	<u>6,293,650</u>	<u>488,060</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 5,298,467</u>	<u>\$ 692,807</u>	<u>\$ 5,991,274</u>	<u>\$ 528,891</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Enterprise Funds			Internal Service Fund
	Bookstore	Cafeteria	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from user charges	\$ 7,915,625	\$ 149,977	\$ 8,065,602	\$ 452,109
Cash payments to employees for services	(1,993,584)	(150,093)	(2,143,677)	-
Cash payments to suppliers for goods and services	(5,924,926)	(36,656)	(5,961,582)	-
Net Cash Provided (Used) for Operating Activities	12,966	(36,772)	(23,806)	452,109
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	-	-	60,000
Acquisition of capital assets	(26,621)	(654)	(27,275)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(26,621)	(654)	(27,275)	60,000
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	170,052	17,889	-	12,764
Net Cash Provided from Investing Activities	170,052	17,889	-	12,764
Net increase (decrease) in cash and cash equivalents	156,397	(19,537)	136,860	524,873
Cash and cash equivalents - Beginning	4,173,597	762,072	4,935,669	547,072
Cash and cash equivalents - Ending	\$ 4,329,994	\$ 742,535	\$ 5,072,529	\$ 1,071,945
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating loss	\$ (418,819)	\$ (71,498)	\$ (490,317)	\$ (31,933)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation	37,096	32,057	69,153	-
Changes in assets and liabilities:				
Receivables	(40,289)	(2,643)	(42,932)	(1,796)
Prepaid expenses	12,371	-	12,371	-
Inventories	257,063	-	257,063	-
Accrued liabilities	134,719	5,312	140,031	485,838
Other current liabilities	14,974	-	14,974	-
NET CASH PROVIDED (USED) BY OPERATING ACTI	\$ 12,966	\$ (36,772)	\$ (23,806)	\$ 452,109
CASH AND CASH EQUIVALENTS				
Cash	\$ 415,480	\$ 15,584	\$ 431,064	\$ -
Investments	3,914,514	726,951	4,641,465	1,071,945
Total cash and cash equivalents	\$ 4,329,994	\$ 742,535	\$ 5,072,529	\$ 1,071,945

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**BALANCE SHEET
FIDUCIARY FUNDS
JUNE 30, 2005**

	Associated Students Trust	Student Representation Fee	Student Financial Aid	BACC JPA	Total
ASSETS					
Cash and cash equivalents	\$ 683,689	\$ 112,564	\$ 10,556	\$ -	\$ 806,809
Investments	394,542	-	124,912	7,084,976	7,604,430
Accounts receivable, net	321,857	-	-	55,650	377,507
Student loans receivable, net	-	-	397,810	-	397,810
Due from other funds	-	-	23,177	-	23,177
Fixed Assets	18,254	-	-	-	18,254
Total Assets	\$ 1,418,342	\$ 112,564	\$ 556,455	\$ 7,140,626	\$ 9,227,987
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts payable	\$ 58,287	\$ -	\$ 59,983	\$ -	\$ 118,270
Due to other funds	-	-	34,535	-	34,535
Deferred revenue	-	112,564	333,976	-	446,540
Due to others	1,360,055	-	-	7,140,626	8,500,681
Total Liabilities	1,418,342	112,564	428,494	7,140,626	9,100,026
FUND EQUITY					
Fund Balances					
Reserved	-	-	127,961	-	127,961
Total Fund Equity	-	-	127,961	-	127,961
Total Liabilities and Fund Equity	\$ 1,418,342	\$ 112,564	\$ 556,455	\$ 7,140,626	\$ 9,227,987

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FIDUCIARY FUNDS
JUNE 30, 2005**

	Associated Students Trust	Student Financial Aid	Total
REVENUES			
Federal revenues	\$ -	\$ 5,697,674	\$ 5,697,674
State revenues	-	492,041	492,041
Local revenues	716,322	575	716,897
Total Revenues	<u>716,322</u>	<u>6,190,290</u>	<u>6,906,612</u>
EXPENDITURES			
Current Expenditures			
Classified salaries	67,497	-	67,497
Books and supplies	9,102	-	9,102
Services and operating expenditures	230,927	-	230,927
Total Expenditures	<u>307,526</u>	<u>-</u>	<u>307,526</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>408,796</u>	<u>6,190,290</u>	<u>6,599,086</u>
OTHER FINANCING SOURCES/(USES)			
Operating transfers in	-	158,892	158,892
Operating transfers out	-	(12,769)	(12,769)
Other uses	-	(6,335,838)	(6,335,838)
Total Other Financing Sources/(Uses)	<u>-</u>	<u>(6,189,715)</u>	<u>(6,189,715)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	<u>408,796</u>	<u>575</u>	<u>409,371</u>
FUND BALANCE/DUE TO STUDENT GROUPS, BEGINNING OF YEAR	<u>951,259</u>	<u>127,386</u>	<u>1,078,645</u>
FUND BALANCE/DUE TO STUDENT GROUPS, END OF YEAR	<u>\$ 1,360,055</u>	<u>\$ 127,961</u>	<u>\$ 1,488,016</u>

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 financial statements of San Mateo County Community College District (the District) as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 30, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered San Mateo County Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain 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 September 30, 2005.

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 for the information of the Board of Trustees, District Management, the California State Chancellor's Office, and 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.

Vaurinek, Trune, Day & Co LLP

Pleasanton, California
September 30, 2005



**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 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. The District's major Federal programs are identified in the Summary of Auditors' Results 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, 2005.

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 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 requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

This report is intended for the information of the Board of Trustees, Management, the California State Chancellor's Office, and 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, Trine, Day & Co LLP

Pleasanton, California
September 30, 2005



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the consolidated financial statements of the San Mateo County Community College District for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 30, 2005.

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 Directives

- MIS Implementation - Required Data Elements

Administrative

- Fiscal Operations - Salaries of Classroom Instructors (50 Percent Law)
- Fiscal Operation - Gann Limit Calculation
- Apportionment - Instructional Service Agreements/Contracts
- Apportionment - Residency Determination for Credit Classes
- Apportionments - Students Actively Enrolled
- Apportionments - Enrollment Fees
- Apportionment - Concurrent Enrollment of K-12 Students in Community College Courses
- Open Enrollment

- Minimum Conditions – “Standards of Scholarship”
- Student Fees – Instructional Materials and Health Fees

Student Services

- Uses of Matriculation Funds

Special Programs

- Extended Opportunity Programs and Services - (EOP&S) - Allocation of Costs
- Extended Opportunity Programs and Services (EOP&S) - Administrator/Director Requirements

Facilities Program

- Scheduled Maintenance Program

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, 2005.

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

Vairinsk, Tine, Day & Co LLP

Pleasanton, California
September 30, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.033, 84.063, 84.007	Student Financial Aid Cluster
84.048A	VTEA

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

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

FINANCIAL STATEMENT FINDINGS

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None reported.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

STATE AWARDS FINDINGS AND QUESTIONED COSTS

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

2005-1 STANDARDS OF SCHOLARSHIP – COURSE REPETITION

Criteria or Specific Requirements

Under the California Code of Regulations, Title V, subsection 58161, specific criteria must be met for a District to claim repeated courses for State apportionment. Additionally, the regulations have placed a limit on the number of times a student repeating a course can be claimed for apportionment. These regulations require the District to identify and evaluate each repeating student and deduct the FTES generated by those students that have exceeded the allowable repeats.

Condition

Certain classes allow students to repeat the course several times, however, there is a maximum number of times for which the course repeat may be claimed for apportionment. During our audit of the State Compliance requirements, we noted that the District is not reducing apportionment for the FTE's associated with repeated classes exceeding the maximum of three repeats that are allowable for apportionment purposes.

Questioned Costs

Unknown.

Context

The registration system is designed to allow the District to indicate if a class allows only the original course plus three repeats or an unlimited number of repeats. For those classes which are coded as an unlimited number of repeats, primarily auto, art, music and fitness classes, the District needs to identify those students exceeding three repeats and reduce apportionment FTE's claimed as required by California Code of Regulations, Title V, subsection 58161.

Effect

Not deducting for unallowable repeats results in over reporting of FTES for State Apportionment, and thus resulted in the District having been over paid by the State.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

Cause

The registration system is not tracking and removing repeat courses not allowed for apportionment purposes from totals reported for apportionment.

Recommendation

Maintaining a system to track and evaluate FTEs generated from repeatable course work is important in ensuring the correct reporting for the number of FTEs and therefore the calculation of state apportionment revenues. In order to comply with the State regulations, the District should implement a method of identifying and deducting repeats unallowable for apportionment purposes.

District Response

The District is investigating this finding.

2005-2 PETITION OF REPETITION OF COURSES

Criteria or Specific Requirements

Under the California Code of Regulations, Title V, subsection 55761, Community College District must adopt and publish procedures pertaining to repetition of courses for which substandard work has been performed. Per review of the College of San Mateo's course catalog for the 2004-05 academic year the College requires the student to petition the Counseling department for the repetition of a course.

Condition

During our review of these procedures, we noted that a student at College of San Mateo, who had petitioned and been denied permission to repeat Psychology 100 by the Counseling department based on the fact that the student had previously failed the course repeatedly and it was not a required course for the student's major program, was nevertheless enrolled in the course for Spring 2005.

Questioned Costs

None

Context

It is important to ensure that the policies and procedures pertaining to petitioning for repetition of courses is adhered to in order to ensure that FTEs are properly accounted for.

Effect

Policies and procedures over the petition process were not adhered to and may result in disallowed FTES.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

Cause

The College was unable to provide documentations as to why a student was allowed to repeat a course when petition was denied by the Counseling department.

Recommendation

We recommend the College adhere to all board adopted policies and parameters set forth in the registration policies. In certain circumstances, a student may be approved to repeat a course, however, proper documentation of such approval should be completed and maintained by the College.

District Response

The District is investigating this finding.

2005-3 STANDARDS OF SCHOLARSHIP – REMEDIAL COURSES

Criteria or Specific Requirements

Under CCR 55756.5, the District is required to implement a policy to establish a limit on the amount of remedial coursework, a student may take and then monitor compliance with that policy.

Condition

During our review of the State Compliance of the Standards of Scholarship, we noted that the District has not implemented a written policy limiting the amount of remedial courses a student may take, nor has it implemented a process for monitoring of the allowable limit of remedial course work.

Questioned Costs

Unknown.

Context

The financial aid booklets do refer to a 30 unit remedial exemption and the registration system is programmed to have a 30 unit remedial course limit restriction rule, however, it is important to implement a written policy which limits and monitors the allowable limit of remedial course work and verifies that students are not exceeding limits established by the District Board.

Effect

The lack of a written policy limiting the amount of remedial courses a student may take or a process to monitor the allowable limit of remedial course work may result in an overstatement of FTES.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

Cause

The District does not have a written policy to limit the amount of remedial classes a student may take, nor a procedures in place to monitor the allowable limit of remedial course work

Recommendation

We recommend the District investigate the requirements and parameters of CCR 55756.5 and adopt a written policy statement on the allowable limits of remedial coursework. With the adopted policy, the District should include a monitoring control that will allow testing of compliance with the State requirements.

District Response

The District is investigating this finding.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

SUMMARY OF PRIOR AUDIT FINDINGS

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

Financial Statement Findings

2004-1

ACCOUNTS RECEIVABLES

Finding

During our review of accounts receivable records, we noted that the subsidiary accounts receivable ledgers include balances for customers whose payments have already been received and excludes other customers who have not paid their balances. Based on the responses to our inquiries, we were informed that the Banner software has a setting that automatically applies amounts received to the oldest outstanding receivable regardless of whether or not it was that customer who was the one making the payment.

We also noted that the combined general ledger detail report, which includes both student and non-student receivables, did not match the amount reported on the balance sheet summary. Upon further investigation it was determined that the student receivables tracking system is unable to print an outstanding receivable cut off list as of June 30. The system is a dynamic system that provides detail of amounts owed on any particular day however it cannot look back to a date prior to the processing date and determine the amount that was owed on a date that is in the past. In addition to the student receivable report issue described above, we also noted discrepancies in the non-student receivables between the various levels of detail (report id #TYQFTYP did not match report id #TYQFABL).

Recommendation

In order to maintain a customer balance listing that is in a usable format for the District to be able to follow up on outstanding receivables, we recommend that the District perform a detailed review of the Banner accounts receivable subsidiary ledger and make any necessary corrections. We understand that the KCSM receivables were reviewed and corrected during the 2003-2004 fiscal year, however, it is apparent that significant work remains to be done in the federal and state grant receivable category. We also recommend that the District continue the process of monitoring and refining the District policies over establishment of appropriate allowances for uncollectible amounts.

In addition, we recommend that the District office consult with the technology department to determine if there is a solution to the problem of obtaining a listing of student receivables that supports the accounts receivable balance as of the end of the year. We also recommend that the District compare the various levels of reports and investigate any differences and document explanations for those differences by adding notes to the reports.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Current Status

Implemented.

State Award Findings

2004-2

Attendance Report

Finding

During the review of the Apportionment Attendance Report, Form 320, of Skyline College, we noted a discrepancy between the hours reported under Actual Hour Attendance for Credit Courses in third session and the supporting attendance records.

Recommendation

The District should submit a revised Consolidated 320 report to the Chancellor's office to revise the FTES claimed for Skyline Actual Hours in Credit Courses claimed for the third period.

Current Status

Implemented.