

SAN MATEO COUNTY COMMUNITY
COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the business-type activities of the San Mateo County Community College District (the District) as of and for the years ended June 30, 2008 and 2007, and its discretely presented component unit the Education Housing Corporation as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the San Mateo County Community College District and its discretely presented component unit as of June 30, 2008 and 2007, 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.

As discussed in the Notes to the Financial Statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45 for the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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

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

The Additional Supplementary Information, as listed in the table of contents, has been presented for purposes of additional analysis. We have applied certain limited procedures consisting primarily of analysis and inquiry regarding presentation; however, we did not audit the information. Accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 18, 2008

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

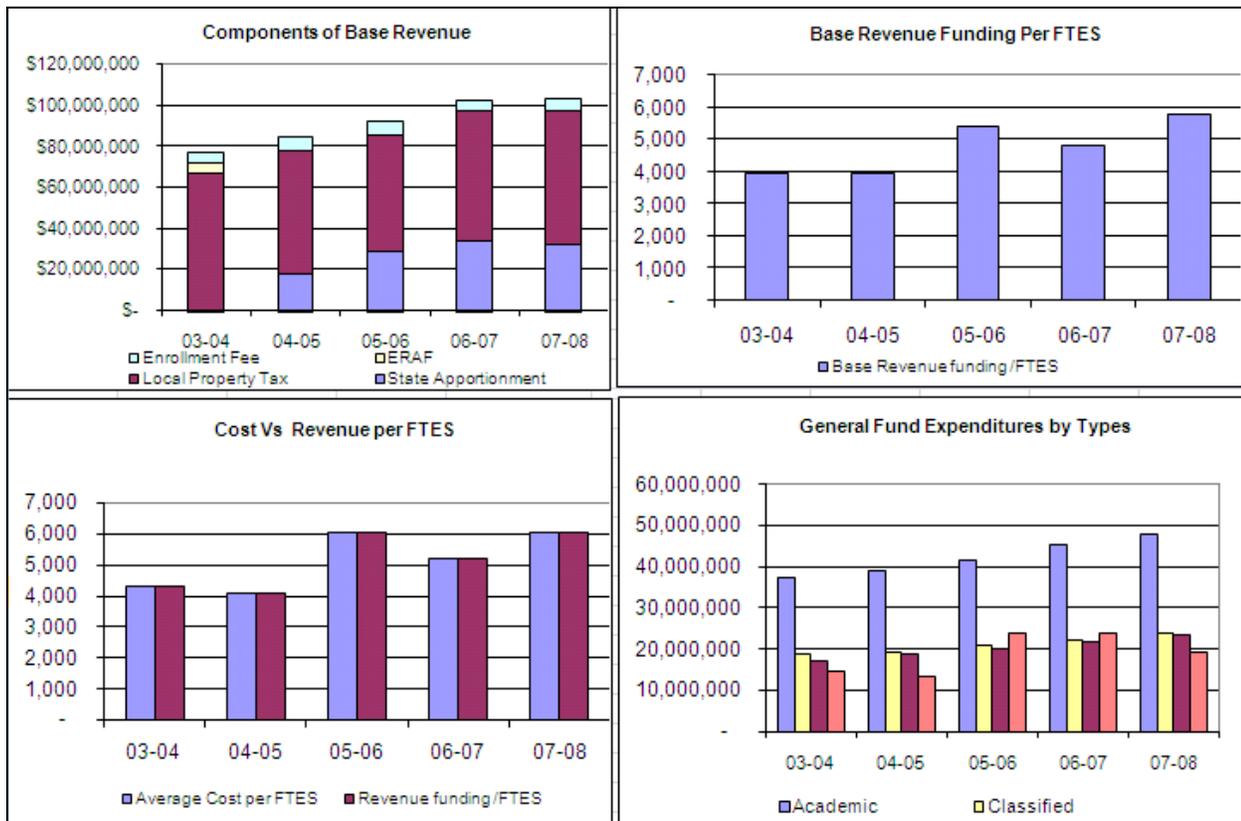
Introduction

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, 2008, June 30, 2007 and June 30, 2006. 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 2007-08



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Financial Overview

- Assets exceeded liabilities for the fiscal year ended June 30, 2008 by \$194 million, and net assets increased \$7 million over last year.
- Net noncurrent capital assets and restricted cash increased \$13 million.
- Net operating loss was \$132 million.
- Net non-operating gain was \$123 million.

Reporting for the District as a Whole

- Economic position of the District with the State

When actual tax revenues fall below the budgeted amount, K-12 districts are guaranteed property tax backfill. However, California community colleges do not have the same protection. \$69 million is proposed to be appropriated to backfill the current year deficit caused by the anticipated property tax shortfall of which \$47.3 million is carryover savings from 2007-08 and \$21.7 million is from the Reversion Account. The full \$69 million will be distributed in the 2008-09 budget year on a one-time basis in February 2009. The District's share of the \$69 million is estimated to be \$1.5 million. Until the District's property taxes exceed the base apportionment funding, which could take many more years, enrollment growth will continue to be the most significant factor in determining the District's funding. The District has engaged in several strategies to improve access and enrollment at all three Colleges. The Colleges' 2008-09 budgeted FTES reflects a better than previously expected enrollment growth. All three Colleges appear to have exceeded their 2007-08 FTES goals. In addition to actual growth, the District's strategy has been to maximize revenue by shifting FTES from one year to another. Currently, the District is in enrollment restoration, which means that the District has not yet reached its funded enrollment cap. Depending on the funded growth in the 2008-09 budget, the District may reach cap in 2008-09.

- Salaries and Benefits

The expenditure projection for salaries includes increases for movement on step and column placements and longevity service increments only. The District completed year one of its three-year contracts with each of the employee bargaining groups. The 2008-09 (second year) settlement provides salary and benefit increases for the AFSCME bargaining unit only (3% on wages; 1% towards medical cap). All other bargaining units agreed to the State-approved COLA. With no State COLA currently proposed, COLA is not projected in budget for those employee groups. The budget includes the January 1, 2008 increases (9 – 10%) in non-capped health premium rates for employees and retirees. Dental insurance rates increased by 2% in October 2007. Vision Care (VSP) rates also increased 3.1%. The District's Unemployment Insurance Contribution Rate increased six times from 0.45% to 3% for fiscal year 2008-09.

- Bond construction

As of June 30, 2008 a total of \$201 million of the \$207 million November 2001 general obligation bond and \$286 million of the \$468 million November 2005 general obligation bond have been spent or encumbered by contract. The 2001 bond authorization projects are scheduled to be completed in 2009. A program definition identifying projects, sequence of construction, and cost estimates has been developed for the 2005 general obligation authorization. This will be adjusted regularly to keep pace with the academic and construction environment.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

The funds of the 2005 general obligation will be used to refurbish most of the three colleges' classroom spaces and to construct additional instructional and student services facilities as well as faculty offices. The 2005 general obligation bond construction projects are scheduled to be completed in 2010.

- Cañada College's Science & Engineering Building (Buildings 16 and 18) recently completed its modernization of new lab spaces with modern fixtures, equipment and infrastructure, and has renovated the facilities to meet current code and accessibility requirements. The buildings were re-occupied this Fall 2008 semester. The college is also currently building a new Facilities Maintenance Center which will allow the Facilities Department to be better equipped to address maintenance and operations issues campuswide. Building 8 Administration is currently undergoing major renovations. These renovations will provide modernized offices and meeting spaces for the college. It is currently under construction and scheduled for completion in 2009. Cañada College's largest bond funded project – Gateways, Circulation, Parking and Infrastructure project – intends to enhance the exterior environment at the college and make the whole campus experience an integral part of attaining this goal. Parking lots will be improved, new lighting will be installed, which will improve safety for students and faculty. It is currently under construction and is scheduled for completion in 2009.
- College of San Mateo's Fine Arts Complex (Buildings 2 and 4) and General Lecture Buildings (Buildings 14 and 16) are currently undergoing major renovations with upgraded classrooms and offices, ADA restrooms, and enhanced entries and lobbies. The buildings are scheduled for occupancy in Spring 2009. College of San Mateo's largest bond funded project is the Design-Build Project. Buildings 5 and 6 were demolished this year to allow for the construction of the new Building 5N which will be the new home for the Workforce programs, including Dental Assisting, Dental Hygiene, Nursing and Cosmetology, as well as the new home for Wellness and Aquatics. The new building is scheduled for completion in 2010.
- Skyline College's Science Building (Building 7) is close to completing its modernization. The remodel will provide an improved learning environment for science, medical and mathematics students and instructors. The college is also currently building a new Facilities Maintenance Center. The new facilities will allow the staff to function in an efficient and safe environment and be able to better serve the college. Skyline College's largest bond funded project is the Design-Build Project which is in the design phase. The new buildings 4N and 11N will be the new home of the Cosmetology program, the Multi-Cultural Center and Hosting Gallery, Automotive Repair Facility, college administration and general assignment classrooms. The new buildings are scheduled for completion in 2010.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008



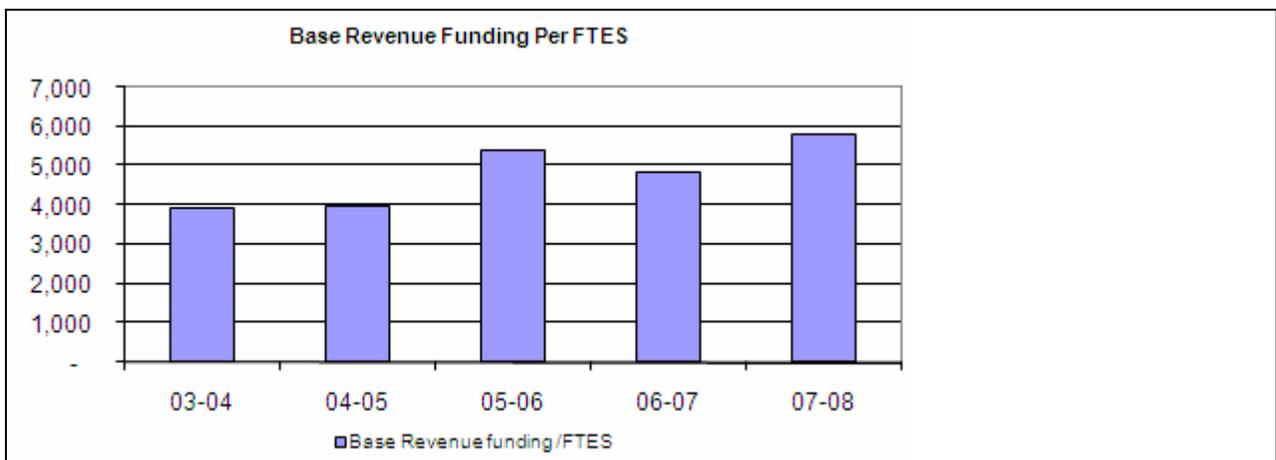
Cañada College Conceptual Rendering of Building 7 Facilities Maintenance Center (Top Left)
CSM Conceptual Rendering of Building 5N Cosmetology and Wellness Center (Top Right)
Skyline College Conceptual Rendering of Building 4N Cosmetology/Administration Building (Middle Left)
Skyline College Building 7 Allied Health Biomanufacturing Classroom (Middle Right)
Cañada College Conceptual Image of its Primary Gateway (Bottom Left)
Cañada College Upper Quad Concession Stand "Pony Espresso" (Bottom Right)

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

- Enrollment

In 2006-07, SMCCCD grew only slightly and took advantage of that by shifting all of Summer 2007 (1,980 FTES) into 2006-07. Since the District could not report those FTES in 2007-08, resulted in the District's declining enrollment status during 2007-08. However, the District's revenue base was held harmless, that is, the District received the same amount of FTES funding in 2007-08 as was received in 2006-07. In addition to a 4.23% state revenue COLA, these revenues kept the District in a stable financial situation. The District anticipates growing over 3% in 2008-09 and possibly reaching our growth funding cap, having fully restored all of the shifted FTES. The following chart shows comparative funded FTES data for the past five fiscal years.



Net Assets

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

- Cash and cash equivalents consist of cash in the Treasury, Local Agency Investment Fund (LAIF) of the State Treasurer's Office, San Mateo County Pool Investment, Special Deposit Bond with Lehman Brothers and with Wells Fargo Bank, proceeds from the District's general obligation construction bond and certificates of deposit with various banks.
- Accounts receivable primarily consists of revenues from local, state, and federal sources from which the District had earnings but which were not received as of the fiscal year's closing date.
- Inventories and other assets include prepaid expenses and bookstore inventories.
- Capital assets, net of depreciation, are the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation.

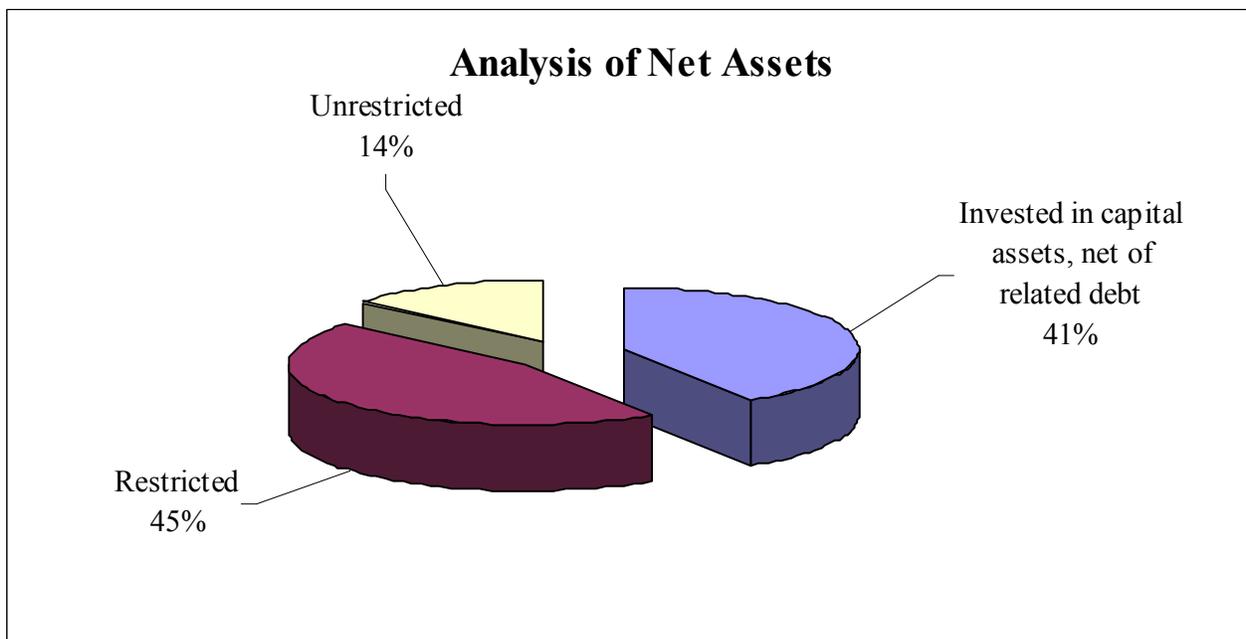
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

- Accounts payable and accrued liabilities consist of payables to the state, federal grants, benefits, salaries and local vendors which the District incurred but for which payments were not issued as of the end of the fiscal year.
- Deferred revenues represent cash received during the fiscal year from state, federal grants, general state apportionment and student fees; however, the funds were not earned as the end of the fiscal year.
- Long-term liabilities include obligations to be paid over a period longer than 1 year. The current portion represents payments due within the next 12 months. The District has compensated absences payable, and construction bond.
- According to GASB Statements, equity is reported as "Net Assets" rather than "Fund Balance." The District's net assets are classified as follows:
 - Invested in capital assets, net of related debt, represents the District's total investment in capital assets and net of outstanding debt obligations related to those capital assets.
 - Restricted net assets consist of expendable and nonexpendable portions. Restricted expendable net assets include resources which the District is contractually obligated to expend in accordance with restrictions imposed by external third parties.
 - Unrestricted net assets represent resources used for transactions relating to the educational and general operations of the District.

Analysis of Net Assets – June 30, 2008



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

STATEMENTS OF NET ASSETS JUNE 30, 2008, 2007 AND 2006

| | 2008 | 2007 | 2006 |
|---|-----------------------|-----------------------|-----------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 5,554,918 | \$ 981,235 | \$ 1,286,987 |
| Investments | 66,683,257 | 67,134,733 | 271,179,198 |
| Accounts receivable | 22,256,730 | 22,535,089 | 21,105,769 |
| Student loans receivable | 621,628 | 510,673 | 586,741 |
| Prepaid expenses | 3,586,283 | 1,516,058 | 93,963 |
| Deferred charges | 266,780 | 266,780 | 195,957 |
| Stores inventories | 1,754,594 | 1,692,450 | 1,678,001 |
| Other current assets | | 25,750 | 25,565 |
| Total Currents Assets | 100,724,190 | 94,662,768 | 296,152,181 |
| Noncurrent Assets: | | | |
| Deferred charges | 5,682,608 | 5,949,388 | 3,284,350 |
| Prepaid expenses | 7,387,606 | - | - |
| Restricted cash and cash equivalents | 499,030,957 | 538,217,494 | 5,621,269 |
| Non-depreciable capital assets | 99,114,649 | 45,311,034 | 108,375,276 |
| Depreciable capital assets, net of depreciation | 250,013,002 | 251,229,009 | 138,102,083 |
| Total Noncurrent Assets | 861,228,822 | 840,706,925 | 255,382,978 |
| TOTAL ASSETS | 961,953,012 | 935,369,693 | 551,535,159 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 25,564,758 | 18,072,661 | 23,061,711 |
| Interest payable, restricted | 17,622,768 | 8,107,914 | 2,574,201 |
| Deferred revenue | 10,178,081 | 10,003,127 | 8,456,809 |
| Amount held in trust on behalf of others | 949,659 | 1,803,748 | 1,452,285 |
| Compensated absences payable - current portion | 2,303,149 | 2,038,973 | 1,924,219 |
| Bonds and notes payable - current portion | 16,065,000 | 12,245,000 | 2,435,000 |
| Other long-term liabilities - current portion | 877,627 | 877,627 | 195,957 |
| Total Current Liabilities | 73,561,042 | 53,149,050 | 40,100,182 |
| Noncurrent Liabilities | | | |
| Compensated absences payable - noncurrent portion | 1,013,153 | 2,975,755 | 828,618 |
| Other long-term liabilities - noncurrent portion | 692,962,001 | 691,536,128 | 342,181,694 |
| Total Noncurrent Liabilities | 693,975,154 | 694,511,883 | 343,010,312 |
| TOTAL LIABILITIES | 767,536,196 | 747,660,933 | 383,110,494 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 79,328,342 | 69,284,869 | 76,864,540 |
| Restricted for: | | | |
| Debt service | 26,772,227 | 30,844,675 | 5,669,093 |
| Capital projects | 56,979,609 | 52,659,542 | 45,146,987 |
| Educational programs | 3,976,966 | 3,973,234 | 3,132,518 |
| Other activities | 177,874 | 156,256 | 272,564 |
| Unrestricted | 27,181,798 | 30,790,184 | 37,338,963 |
| TOTAL NET ASSETS | \$ 194,416,816 | \$ 187,708,760 | \$ 168,424,665 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Total net assets at June 30, 2008, increased \$7 million over the prior fiscal year. The increase was primarily due to the increase of net capital assets from Bond and C.O.P. construction in the District.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets shown below consists of operating and non-operating results of the District. Operating revenues represent all revenues from programmatic sources. Non-operating revenues include State apportionments, Local property tax revenues, investment earnings and gifts. Operating revenues include activities characterized by exchange transactions, such as student fees, sales and services of Bookstore and Cafeteria operations, services provided and contracted to grants agencies, and interest from institutional student loans. Non-operating revenue, on the other hand, is characterized by non-exchange transactions, such as donations, gifts, State appropriations and regular investment income.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008, 2007 AND 2006

| | 2008 | 2007 | 2006 |
|--|-----------------------|-----------------------|-----------------------|
| OPERATING REVENUES | | | |
| Tuition and Fees | \$ 12,617,332 | \$ 13,319,298 | \$ 14,552,548 |
| Less: Fee waivers and allowance | (2,942,230) | (3,380,891) | (3,880,732) |
| Net Tuition and fees | 9,675,102 | 9,938,407 | 10,671,816 |
| Grants and Contracts, noncapital: | | | |
| Federal | 9,526,924 | 8,422,187 | 9,525,670 |
| State | 12,572,475 | 12,628,741 | 16,361,652 |
| Local | 2,811,493 | 2,693,243 | 3,006,382 |
| Auxiliary Enterprise Sales and Charges | | | |
| Bookstore | 8,569,211 | 7,675,822 | 7,164,687 |
| Cafeteria | 207,873 | 156,063 | 142,543 |
| Internal Service Sales and Charges | | 2,003,309 | |
| TOTAL OPERATING REVENUES | 43,363,078 | 43,517,772 | 46,872,750 |
| OPERATING EXPENSES | | | |
| Salaries | 87,820,850 | 83,216,422 | 75,070,580 |
| Employee benefits | 32,107,393 | 27,731,770 | 25,228,934 |
| Supplies, materials, and other operating expenses and services | 43,164,717 | 42,979,059 | 43,470,952 |
| Depreciation | 12,596,369 | 6,705,276 | 3,595,888 |
| TOTAL OPERATING EXPENSES | 175,689,329 | 160,632,527 | 147,366,354 |
| OPERATING LOSS | (132,326,251) | (117,114,755) | (100,493,604) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| State apportionments, noncapital | 33,478,098 | 36,434,017 | 36,086,461 |
| Local property taxes, levied for general purpose | 66,173,389 | 62,006,836 | 56,824,309 |
| Local property taxes, levied for special purposes | 23,577,893 | 22,568,644 | 7,564,854 |
| State taxes and other revenues | 2,518,268 | 3,875,899 | 59,813 |
| Investment income, net | 26,619,435 | 33,969,407 | 2,098,731 |
| Interest expense on capital related debt | (40,904,192) | (44,963,775) | (10,959,993) |
| Interest income on capital asset-related debt, net | 164,587 | 118 | 63,894 |
| Other non-operating revenue | 11,808,859 | 7,797,167 | 12,562,119 |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | 123,436,337 | 121,688,313 | 104,300,188 |
| INCOME BEFORE OTHER REVENUES AND EXPENSES | (8,889,914) | 4,573,558 | 3,806,584 |
| OTHER REVENUES AND EXPENSES | | | |
| State revenues, capital | 12,762,469 | 12,238,275 | 16,224,616 |
| Local revenues, capital | 2,835,501 | 2,472,262 | 2,513,127 |
| TOTAL INCOME BEFORE OTHER REVENUES AND EXPENSES | 15,597,970 | 14,710,537 | 18,737,743 |
| NET INCREASE IN NET ASSETS | 6,708,056 | 19,284,095 | 22,544,327 |
| NET ASSETS, BEGINNING OF YEAR | 187,708,760 | 168,424,665 | 145,880,338 |
| NET ASSETS, END OF YEAR | \$ 194,416,816 | \$ 187,708,760 | \$ 168,424,665 |

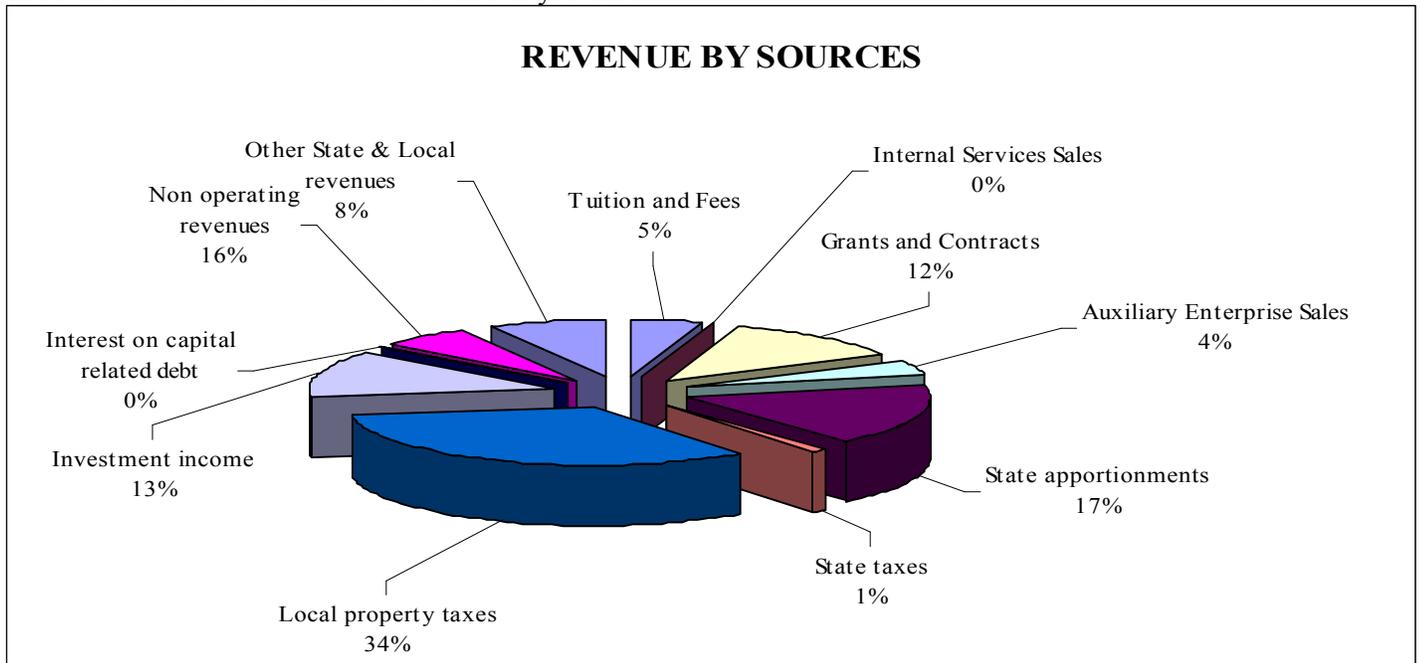
SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Explanatory information for the statement is as follows:

- Tuition and Fees are net of enrollment, health, non-resident tuition, other student fees and less scholarship discount and allowance as defined by GASB statement No. 35.
- Federal, and state grants and contract services are “exchange” transactions for which the District files applications, complies with individual spending restrictions, files expenditure reports, and/or signs contracts.
- Auxiliary Enterprise Sales and Charges consist of bookstore and cafeteria sales less discount allowances.
- State apportionments, non-capital includes state apportionment, apprenticeship, Partnership for Excellence and child care development apportionment.
- Local property taxes and other non-operating revenues consist primarily of secured and unsecured taxes which are payable to the District in December and March of each year. The County of San Mateo collects the taxes on behalf of the District. Other non-operating revenues are State Lottery revenue and miscellaneous local income.
- Net investment income includes interest from the San Mateo County Investment Pool managed by the County Treasurer, certificates of deposit, bond proceeds, and Local Agency Investment Fund (LAIF), less interest expense on capital related debt.
- State and Local Revenues, capital includes State scheduled maintenances funding and issuance of the General Bond. These revenues relate mainly to construction activities.

Below is an illustration of District revenues by source:



SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Revenues and expenses changed mainly due to the following:

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

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

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

Statement of Operation Expenses by Account

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| | in thousands | in thousands | in thousands |
| Salaries | \$ 87,821 | \$ 83,216 | \$ 75,071 |
| Employee benefits | 32,107 | 27,732 | 25,229 |
| Supplies, materials, and other operating expenses | 43,165 | 42,979 | 43,471 |
| Depreciation expense | 12,596 | 6,705 | 3,596 |
| TOTAL OPERATING EXPENSES | \$ 175,689 | \$ 160,633 | \$ 147,366 |

Statement of Operating Expenses by Activity

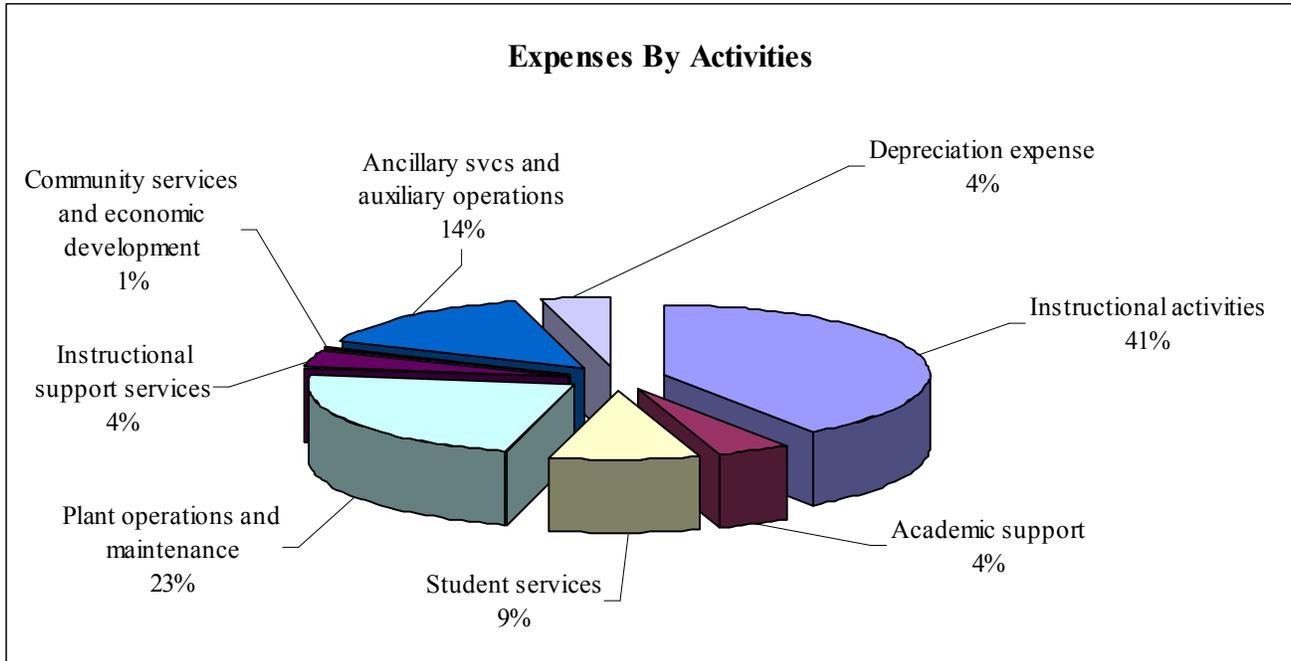
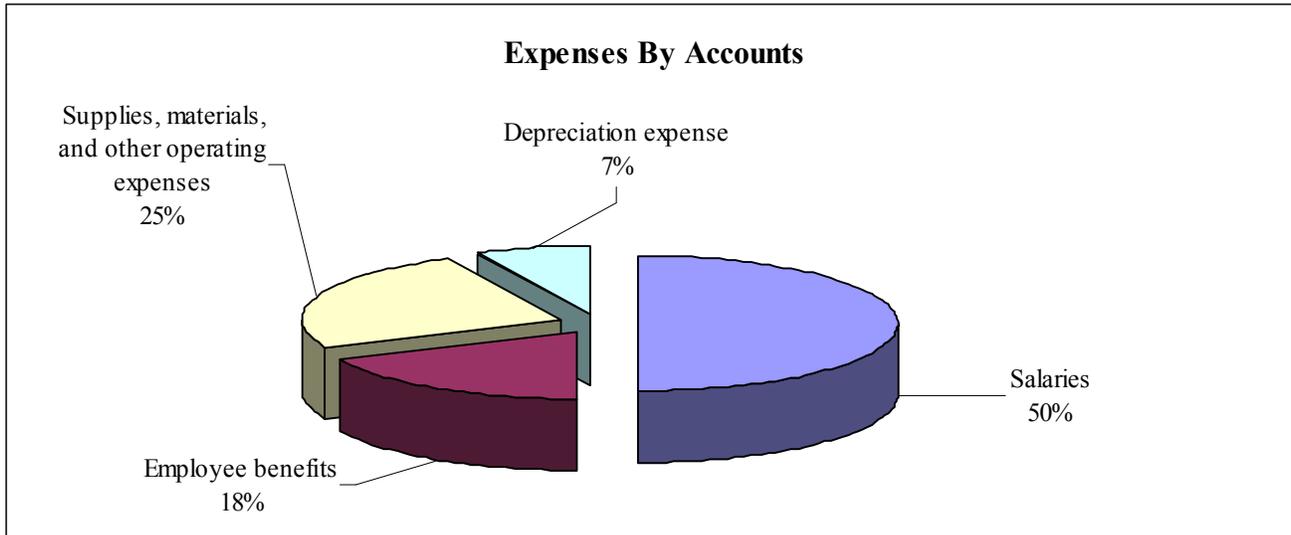
| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-------------------|-------------------|-------------------|
| | in thousands | in thousands | in thousands |
| Instructional activities | \$ 67,279 | \$ 65,249 | \$ 54,369 |
| Academic support | 10,159 | 7,021 | 6,832 |
| Student services | 13,923 | 14,541 | 14,254 |
| Plant operations and maintenance | 46,142 | 36,870 | 38,691 |
| Instructional support services | 3,554 | 6,503 | 6,203 |
| Community svcs and economic development | 1,043 | 1,160 | 1,036 |
| Ancillary svcs and auxiliary operations | 20,993 | 22,583 | 22,385 |
| Depreciation expense | 12,596 | 6,706 | 3,596 |
| TOTAL OPERATING EXPENSES | \$ 175,689 | \$ 160,633 | \$ 147,366 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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.

- For capital financing activities, the main sources are from special State Apportionments and General Obligation Bond and C.O.P. proceeds.
- Cash from investing activities consists of Interest from County Investment Pool, Certifications of Deposits, Bond and Local Agency Investment Fund (LAIF).

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008, 2007 AND 2006

| | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---|-----------------------|-----------------------|-----------------------|
| | in thousands | in thousands | in thousands |
| CASH FLOWS PROVIDED BY (USED IN): | | | |
| Operating Activities | \$ (117,456,329) | \$ (109,377,683) | \$ (121,990,177) |
| Noncapital financing activities | 124,326,655 | 134,483,187 | 109,964,048 |
| Capital financing activities | (70,927,807) | 273,569,740 | 73,543,998 |
| Investing activities | 28,993,151 | 29,570,764 | 1,421,629 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (35,064,330) | 328,246,008 | 62,939,498 |
| CASH & CASH EQUIVALENTS, BEGINNING OF YEAR | 606,333,462 | 278,087,454 | 215,147,956 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 571,269,132 | \$ 606,333,462 | \$ 278,087,454 |

Economic Factors and the 2008-09 Budget

The 2008-09 state budget was passed 85 days after the statutory deadline and was immediately pronounced out of balance by state legislators. The continuing decline in the housing market in conjunction with the credit squeeze has made the state's budget very precarious. Despite the low funding in the 2008-09 state budget, including only a .68% COLA and 2% growth, the District anticipates mid-year cuts of around 5% for community colleges. The District has some reserves and has weathered cuts of this magnitude before and anticipates continued growth in concert with the available funding.

C.I.P. Planning 2008-09 and Beyond

Staff continues to revise and update the master schedule and the master budget of the Capital Improvement Program to coincide with the funding and programming requirements of CSM and Skyline College's Design-Build Projects, State and locally funded modernization projects. In the summer of 2008 this process was

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

complicated by the decision at the State level to suspend the November 2008 bond election. The District had six approved State Funded projects that lost their funding when the State Chancellor's Office decided against a November 2008 bond. Staff is currently working with senior campus and district administration to react to this impact on the program and reprioritize renovations based on this unprecedented decision.

The following projects are in the design or preconstruction phases:

Cañada College:

- Cañada College Buildings 5& 6 Instructional & Student Center Modernization
- Cañada College Building 1 Fitness Center Expansion

College of San Mateo:

- Building 9 Modernization
- North Gateway (Demolition of Buildings 21-29) Project (State Funded Project)
 - Increment 1- Electrical Load Center 4 Replacement
 - Increment 2- Demolition of Buildings 21-27 & 29; Construction of new North Gateway
- CIP2 College of San Mateo Design-Build Project
 - Demolition of Buildings 10, 11, 13
 - New Building 10N
 - South East Infrastructure Project
 - Sitework, lighting and parking lots, Electrical Upgrade and Chiller Plant
- Building 12, 15, 17 & 34 Modernization Design Build Project

Skyline College

- Building 5 Modernization
 - Buildings & Sitework of CIP2 Skyline College Design-Build Project New Building 11 Auto Transmission
 - New Building 4 Cosmetology and Administration
 - Parking, Paving, Sidewalk, Roadway Upgrade work
 - Gateways & Quad Construction
 - Building 1
 - Ceramics Relocation
 - Electrical Upgrade

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

Staff and Faculty Housing

The College District is planning to build a second housing project (Canada Vista) for faculty and staff on Parking Lot 3 at Cañada College. The project has been fully entitled by the City of Redwood City, Town of Woodside and the Local Agency Formation Commission. A grading permit has been issued and issuance of a building permit is expected in the near term. We anticipate that construction will begin in March or April, 2009, with expected completion in early Summer 2010.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

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

Contacting the District's Financial Management Office

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for funding received. Questions or concerns about this report or requests for additional financial information should be addressed to James W. Keller, Executive Vice Chancellor, by phone at 650-574-6500 or by e-mail at kellerj@smccd.edu.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF NET ASSETS
JUNE 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,554,918 | \$ 981,235 |
| Investments | 66,683,257 | 67,134,733 |
| Accounts receivable, net | 22,256,730 | 22,535,089 |
| Student loans receivable | 621,628 | 510,673 |
| Prepaid expenses | 3,586,283 | 1,516,058 |
| Deferred charges | 266,780 | 266,780 |
| Stores inventories | 1,754,594 | 1,692,450 |
| Other current assets | - | 25,750 |
| Total Current Assets | <u>100,724,190</u> | <u>94,662,768</u> |
| Noncurrent Assets | | |
| Deferred charges | 5,682,608 | 5,949,388 |
| Prepaid expenses | 7,387,606 | - |
| Restricted cash and cash equivalents | 499,030,957 | 538,217,494 |
| Nondepreciable capital assets | 99,114,649 | 45,311,034 |
| Depreciable capital assets, net of depreciation | 250,013,002 | 251,229,009 |
| Total Noncurrent Assets | <u>861,228,822</u> | <u>840,706,925</u> |
| TOTAL ASSETS | <u>961,953,012</u> | <u>935,369,693</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | 25,564,758 | 18,072,661 |
| Interest payable, restricted | 17,622,768 | 8,107,914 |
| Deferred revenue | 10,178,081 | 10,003,127 |
| Amounts held in trust on behalf of others | 949,659 | 1,803,748 |
| Compensated absences payable - current portion | 2,303,149 | 2,038,973 |
| Bonds and notes payable - current portion | 16,065,000 | 12,245,000 |
| Other long-term liabilities - current portion | 877,627 | 877,627 |
| Total Current Liabilities | <u>73,561,042</u> | <u>53,149,050</u> |
| Noncurrent Liabilities | | |
| Compensated absences payable - noncurrent portion | 1,013,153 | 2,975,755 |
| Other long-term liabilities - noncurrent portion | 692,962,001 | 691,536,128 |
| Total Noncurrent Liabilities | <u>693,975,154</u> | <u>694,511,883</u> |
| TOTAL LIABILITIES | <u>767,536,196</u> | <u>747,660,933</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 79,328,342 | 69,284,869 |
| Restricted for: | | |
| Debt service | 26,772,227 | 30,844,675 |
| Capital projects | 56,979,609 | 52,659,542 |
| Educational programs | 3,976,966 | 3,973,234 |
| Other activities | 177,874 | 156,256 |
| Unrestricted | 27,181,798 | 30,790,184 |
| TOTAL NET ASSETS | <u>\$ 194,416,816</u> | <u>\$ 187,708,760</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, 2008 AND 2007

| | 2008 | 2007 |
|--|----------------|----------------|
| OPERATING REVENUES | | |
| Student Tuition and Fees | \$ 12,617,332 | \$ 13,319,298 |
| Less: Fee waivers and allowance | (2,942,230) | (3,380,891) |
| Net tuition and fees | 9,675,102 | 9,938,407 |
| Grants and Contracts, noncapital: | | |
| Federal | 9,526,924 | 8,422,187 |
| State | 12,572,475 | 12,628,741 |
| Local | 2,811,493 | 2,693,243 |
| Auxiliary Enterprise Sales and Charges | | |
| Bookstore | 8,569,211 | 7,675,822 |
| Cafeteria | 207,873 | 156,063 |
| Internal Service Sales and Charges | - | 2,003,309 |
| TOTAL OPERATING REVENUES | 43,363,078 | 43,517,772 |
| OPERATING EXPENSES | | |
| Salaries | 87,820,850 | 83,216,422 |
| Employee benefits | 32,107,393 | 27,731,770 |
| Supplies, materials, and other operating expenses and services | 43,164,717 | 42,979,059 |
| Depreciation | 12,596,369 | 6,705,276 |
| TOTAL OPERATING EXPENSES | 175,689,329 | 160,632,527 |
| OPERATING LOSS | (132,326,251) | (117,114,755) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State apportionments, noncapital | 33,478,098 | 36,434,017 |
| Local property taxes, levied for general purposes | 66,173,389 | 62,006,836 |
| Local property taxes, levied for special purposes | 23,577,893 | 22,568,644 |
| State taxes and other revenues | 2,518,268 | 3,875,899 |
| Investment income, net | 26,619,435 | 33,969,407 |
| Interest expense on capital related debt | (40,904,192) | (44,963,775) |
| Interest income on capital asset-related debt, net | 164,587 | 118 |
| Other nonoperating revenue | 11,808,859 | 7,797,167 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 123,436,337 | 121,688,313 |
| INCOME/(LOSS) BEFORE OTHER REVENUES AND EXPENSES | (8,889,914) | 4,573,558 |
| State revenues, capital | 12,762,469 | 12,238,275 |
| Local revenues, capital | 2,835,501 | 2,472,262 |
| TOTAL OTHER REVENUES AND EXPENSES | 15,597,970 | 14,710,537 |
| INCREASE IN NET ASSETS | 6,708,056 | 19,284,095 |
| NET ASSETS, BEGINNING OF YEAR | 187,708,760 | 168,424,665 |
| NET ASSETS, END OF YEAR | \$ 194,416,816 | \$ 187,708,760 |

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, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 8,845,398 | \$ 8,211,939 |
| Non capital grants and contracts | 24,614,658 | 24,139,354 |
| Payments to vendors for supplies and services | (27,955,087) | (37,284,869) |
| Payments to or on behalf of employees | (122,159,326) | (109,073,971) |
| Payments from/(to) students for scholarships and grants | (7,009,990) | (6,885,735) |
| Auxiliary sales | 7,062,107 | 11,164,136 |
| Amounts held for others | (854,089) | 351,463 |
| Net Cash Flows Used For Operating Activities | <u>(117,456,329)</u> | <u>(109,377,683)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State apportionments | 33,100,152 | 36,578,562 |
| Property taxes, levied for general purposes | 91,228,267 | 83,903,919 |
| State taxes and other apportionments | 2,518,268 | 3,875,899 |
| Other receipts (payments) | (2,520,032) | 10,124,807 |
| Net Cash Flows From Noncapital Financing Activities | <u>124,326,655</u> | <u>134,483,187</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Purchase of capital assets | (61,111,115) | (58,821,096) |
| Loss on disposal of capital assets | 297,436 | - |
| Proceeds from sale of general obligation bond | - | 345,832,949 |
| Bond accretions | 15,659,497 | 17,041,753 |
| Net OPEB obligations | 2,709,003 | - |
| State revenue, capital projects | 12,762,469 | 12,238,275 |
| Local revenue, capital projects | 2,835,501 | 2,472,262 |
| Deferred cost on issuance | 266,780 | (2,735,861) |
| Principal paid on capital debt | (13,122,627) | (3,028,598) |
| Interest paid on capital debt | (31,389,338) | (39,430,062) |
| Interest received on capital asset-related debt | 164,587 | 118 |
| Net Cash Flows From Capital Financing Activities | <u>(70,927,807)</u> | <u>273,569,740</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received from investments | 28,993,151 | 29,570,764 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (35,064,330) | 328,246,008 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 606,333,462 | 278,087,454 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 571,269,132</u> | <u>\$ 606,333,462</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS, Continued
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|---|-------------------------|-------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating Loss | \$ (132,326,251) | \$ (117,114,755) |
| Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities: | | |
| Depreciation expense | 12,596,369 | 6,705,276 |
| Changes in Assets and Liabilities: | | |
| Receivables, net | (2,095,357) | 733,449 |
| Inventories | (62,144) | (14,449) |
| Prepaid items | (2,044,475) | (1,422,280) |
| Notes receivables, net | (110,955) | 76,068 |
| Accounts payable and accrued liabilities | 7,265,619 | (238,773) |
| Deferred revenue | 174,954 | 1,546,318 |
| Funds held for others | (854,089) | 351,463 |
| Total Adjustments | <u>14,869,922</u> | <u>7,737,072</u> |
| Net Cash Flows From Operating Activities | <u>\$ (117,456,329)</u> | <u>\$ (109,377,683)</u> |
| CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING: | | |
| Cash in banks, unrestricted | \$ 5,554,918 | \$ 981,235 |
| Cash equivalents, restricted | 499,030,957 | 538,217,494 |
| Cash equivalents | 66,683,257 | 67,134,733 |
| Total Cash and Cash Equivalents | <u>\$ 571,269,132</u> | <u>\$ 606,333,462</u> |
| NON CASH TRANSACTIONS | | |
| On behalf payments for benefits | <u>\$ 1,771,986</u> | <u>\$ 2,004,829</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT EDUCATIONAL HOUSING CORPORATION STATEMENTS OF FINANCIAL POSITION JUNE 30, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|---|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 53,577 | \$ 85,703 |
| Accounts receivable | 404 | 525 |
| Prepaid expenses | 2,721 | 3,158 |
| Total Current Assets | <u>\$ 56,702</u> | <u>\$ 89,386</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ - | \$ 1,966 |
| Deferred rent | - | 32,036 |
| Rent security deposits | 50,024 | 49,434 |
| Total Current Liabilities | <u>50,024</u> | <u>83,436</u> |
| NET ASSETS | | |
| Unrestricted | 6,678 | 5,950 |
| Total Liabilities and Net Assets | <u>\$ 56,702</u> | <u>\$ 89,386</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**DISCRETELY PRESENTED COMPONENT UNIT
EDUCATIONAL HOUSING CORPORATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------|------------------|------------------|
| REVENUES | | |
| Rental income | \$ 553,581 | \$ 542,497 |
| Interest and dividends | 146 | 503 |
| Commission | 2,262 | 194 |
| Water reimbursement | 8,670 | 10,544 |
| Total Revenues | <u>564,659</u> | <u>553,738</u> |
| EXPENSES | | |
| Operating expenses | 93,931 | 91,948 |
| Total Expenses | <u>93,931</u> | <u>91,948</u> |
| OTHER SOURCES AND USES | | |
| Transfer out to SMCCCD | (470,000) | (460,000) |
| Total Other Uses | <u>(470,000)</u> | <u>(460,000)</u> |
| CHANGE IN NET ASSETS | 728 | 1,790 |
| NET ASSETS, BEGINNING OF YEAR | <u>5,950</u> | <u>4,160</u> |
| NET ASSETS, END OF YEAR | <u>\$ 6,678</u> | <u>\$ 5,950</u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNIT EDUCATIONAL HOUSING CORPORATION STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ 728 | \$ 1,790 |
| Changes in Assets and Liabilities | | |
| Decrease in accounts receivable | 121 | 544 |
| Decrease in prepaid expenses | 437 | 2,083 |
| (Increase)/decrease in accounts payable | (1,966) | 232 |
| (Decrease) in deferred rent | (32,036) | (691) |
| Increase in rent security deposits | 590 | 609 |
| Net Cash Flows From Operating Activities | <u>(32,126)</u> | <u>4,567</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (32,126) | 4,567 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>85,703</u> | <u>81,136</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 53,577</u></u> | <u><u>\$ 85,703</u></u> |

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Financial Reporting Entity

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

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

The San Mateo County Community College District Financing Corporation (the Corporation) is a legally separate organization component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity has been “blended” or consolidated within the financial statements as the District as if the activity was the District’s. The activity is included as the COP Payment Fund and COP Construction Fund in the District’s governmental funds. The Certificates of participation issued by the Corporation were defeased in fiscal year 2005-2006 and the related liabilities have been removed from the District’s financial statement. Individually-prepared financial statements are not prepared for the Corporation.

The San Mateo County Community Colleges Educational Housing Corporation (the Corporation) is a legally separate organization component unit of the District. The Corporation was formed to operate staff and faculty housing. The Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity of the Corporation is reported separately in the financial statements. Individually-prepared financial statements are not prepared for the Corporation.

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and 35 as amended by GASB Statements No. 37 and No. 38. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously require. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end.

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

The accounting policies of the District conform to accounting principles generally accepted in the United State of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges System's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State System's Office *Budget and Accounting Manual*.

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

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets
 - Statement of Revenues, Expenses and Changes in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon a five-year average ratio over actual revenues. The allowance was estimated at \$1,429,168 and \$1,096,949 for the years ended June 30, 2008 and 2007, respectively.

Prepaid Expenditures

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

Inventory

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

Capital Assets and Depreciation

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

Accrued Liabilities and Long-term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

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

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, 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.

Deferred Revenue

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Net Assets

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

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

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

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operations are classified as nonoperating as defined by GASB Statement No. 35. Classifications are as follows:

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 (4) interest on institutional student loans.

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

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

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) on behalf of all community colleges in California. The amounts of on-behalf payments were \$1,771,986.

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 Taxes

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

The voters of the District passed General Obligation Bonds in 2001 and 2005 for the acquisition, construction, and remodeling of District capital assets. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected. The property tax rate for the years ended June 30, 2008 and 2007, was \$21,051,557 and \$21,020,890, respectively.

Scholarship Discounts and Allowances

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2008 and 2007, the District distributed \$423,255 and \$279,920 in student loans through the U.S. Department of Education Federal Family Education Loan Program. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students; however, the amounts are included on the Schedule of Expenditures of Federal Awards.

Interfund Activity

Exchange transactions between funds of the District are reported as revenues and expenses within the Statement of Revenues, Expenses, and Changes in Net Assets. Flows of cash or goods from one fund to another without a requirement for repayment are recognized as interfund transfers within the District's fund financial statements. Amounts owing between funds for both exchange and non-exchange transactions are recorded as interfund receivables and payables within the District's fund financial statements. Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

Component Unit

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

- The Corporation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private corporation. Accordingly, no provision for income taxes has been provided in the financial statements. The Corporation annually files information returns, Forms 990, 199, and RRF-1, with the appropriate agencies.

Changes in Accounting Principles

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2008

This Statement provided for prospective implementation – that is that employers set the beginning OPEB obligation at zero as the beginning of the initial year. The District has implemented the provision of the Statement for the fiscal year ended June 30, 2008. The District had an annual required contribution of \$9,056,503 for the year June 30, 2008, and made a contribution of \$6,347,500 resulting in an OPEB obligation of \$2,709,003.

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 in current year.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as RSI by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

New Accounting Pronouncements

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to those intangible assets, as applicable. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments, financial arrangements used by governments to manage specific risks or make investments, in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

Comparative Financial Information

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

NOTE 3 - CASH AND INVESTMENTS

Policies and Practices

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

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 accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

General Authorizations

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

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

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 and 2007, are classified in the accompanying financial statements as follows:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|-----------------------|-----------------------|
| Business-type activities | \$ 571,269,132 | \$ 606,333,462 |
| Component Unit | 53,577 | 85,703 |
| Total Deposits and Investments | <u>\$ 571,322,709</u> | <u>\$ 606,419,165</u> |

Deposits and investments as of June 30, 2008 and 2007, consist of the following:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------|-----------------------|-----------------------|
| Cash on hand and in banks | 5,546,595 | \$ 999,041 |
| Cash in revolving | 61,900 | 67,897 |
| Investments | 565,714,214 | 605,352,227 |
| Total Deposits and Investments | <u>\$ 571,322,709</u> | <u>\$ 606,419,165</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County pool and local agency investment fund (LAIF).

Weighted Average Maturity

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

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Weighted Average Maturity In Years</u> |
|----------------------------------|-----------------------|---|
| Brokered certificates of deposit | \$ 5,000 | 0.35 |
| County Pool | 537,970,419 | 1.2 |
| State Investment Pool | 27,738,795 | 0.58 |
| Total | <u>\$ 565,714,214</u> | |

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2008.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit.) The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008 and 2007, the District's bank balances of approximately \$628,000 and \$790,000, respectively, were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Custodial Credit Risk - Investments

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

NOTE 4 - ACCOUNTS RECEIVABLE

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

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|----------------------|----------------------|
| Federal Government | | |
| Categorical aid | \$ 1,412,150 | \$ 1,290,555 |
| State Government | | |
| Apportionment | 2,762,055 | 2,384,109 |
| Categorical aid | 1,071,633 | 962,992 |
| Lottery | 1,008,431 | 1,155,462 |
| Other state sources | 744,000 | 2,932,773 |
| Local Sources | | |
| Interest | 4,351,623 | 6,725,339 |
| Other local sources | <u>5,100,667</u> | <u>2,757,107</u> |
| Subtotal | 16,450,559 | 18,208,337 |
| Student receivables | 7,235,339 | 5,423,701 |
| Less allowance for bad debt | <u>(1,429,168)</u> | <u>(1,096,949)</u> |
| Accounts receivables, net | <u>\$ 22,256,730</u> | <u>\$ 22,535,089</u> |
| | | |
| Student loans | <u>\$ 621,628</u> | <u>\$ 510,673</u> |

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

Receivables at June 30, 2008 and 2007 include \$573,923 for loans made to nine District employees to purchase houses. All full time employees who purchase a home and contribute at least 20 percent of the purchase price are eligible to receive loans of up to \$75,000 per employee. Repayment terms and interest rates are: no payments due in years 1 through 5, payments of principal and interest in years 6-29, with final payment of any remaining balance in year 30. Selling the property, withdrawing cash from the equity, or leaving the District’s employment accelerates the due date of the loan. Interest is charged at 4 percent per year.

Discretely Presented Component Unit

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

The significant item within prepaid expense is that the District has entered into a long-term contract for the insurance of the bond construction projects throughout the District. The insurance agreement calls for a lump-sum payment of \$10,264,301 which is being amortized over the life of the insurance coverage. Amortization of the prepaid balance is as follows:

| | |
|-----------|-----------------------------|
| 2008-2009 | \$ 2,876,695 |
| 2009-2010 | 2,567,604 |
| 2010-2011 | 2,471,911 |
| 2011-2012 | 1,508,091 |
| 2012-2013 | <u>840,000</u> |
| Total | <u><u>\$ 10,264,301</u></u> |

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2008, was as follows:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---------------------------------|-----------------------------|-----------------------------|------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 20,628,292 | \$ - | \$ - | \$ 20,628,292 |
| Construction in progress | 24,682,742 | 64,031,063 | 10,227,448 | 78,486,357 |
| Total Capital Assets Not Being Depreciated | <u>45,311,034</u> | <u>64,031,063</u> | <u>10,227,448</u> | <u>99,114,649</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 10,973,536 | 1,979,815 | - | 12,953,351 |
| Buildings and improvements | 279,333,055 | 8,247,633 | - | 287,580,688 |
| Furniture, equipment, and vehicles | 20,662,450 | 1,450,351 | 2,434,618 | 19,678,183 |
| Total Capital Assets Being Depreciated | <u>310,969,041</u> | <u>11,677,799</u> | <u>2,434,618</u> | <u>320,212,222</u> |
| Less Accumulated Depreciation | | | | |
| Land improvements | 8,131,701 | 269,500 | - | 8,401,201 |
| Buildings and improvements | 43,115,386 | 9,373,895 | - | 52,489,281 |
| Furniture, equipment, and vehicles | 8,492,945 | 2,952,974 | 2,137,181 | 9,308,738 |
| Total Accumulated Depreciation | <u>59,740,032</u> | <u>12,596,369</u> | <u>2,137,181</u> | <u>70,199,220</u> |
| Net Capital Assets Being Depreciated | <u>251,229,009</u> | <u>(918,570)</u> | <u>297,437</u> | <u>250,013,002</u> |
| Net Capital Assets | <u><u>\$ 296,540,043</u></u> | <u><u>\$ 63,112,493</u></u> | <u><u>\$ 10,524,885</u></u> | <u><u>\$ 349,127,651</u></u> |

Depreciation expense for the year was \$12,596,369.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Capital asset activity for the District for the fiscal year ended June 30, 2007, was as follows:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---------------------------------|-----------------------|-----------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 20,628,292 | \$ - | \$ - | \$ 20,628,292 |
| Construction in progress | 87,746,984 | 53,056,283 | 116,120,525 | 24,682,742 |
| Total Capital Assets Not Being Depreciated | <u>108,375,276</u> | <u>53,056,283</u> | <u>116,120,525</u> | <u>45,311,034</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 10,973,074 | 462 | - | 10,973,536 |
| Buildings and improvements | 162,924,321 | 116,408,734 | - | 279,333,055 |
| Furniture, equipment, and vehicles | 17,649,933 | 3,446,670 | 434,153 | 20,662,450 |
| Total Capital Assets Being Depreciated | <u>191,547,328</u> | <u>119,855,866</u> | <u>434,153</u> | <u>310,969,041</u> |
| Less Accumulated Depreciation | | | | |
| Land improvements | 7,407,627 | 724,074 | - | 8,131,701 |
| Buildings and improvements | 39,003,843 | 4,111,543 | - | 43,115,386 |
| Furniture, equipment, and vehicles | 7,033,775 | 1,869,659 | 410,489 | 8,492,945 |
| Total Accumulated Depreciation | <u>53,445,245</u> | <u>6,705,276</u> | <u>410,489</u> | <u>59,740,032</u> |
| Net Capital Assets Being Depreciated | <u>138,102,083</u> | <u>113,150,590</u> | <u>23,664</u> | <u>251,229,009</u> |
| Net Capital Assets | <u>\$ 246,477,359</u> | <u>\$ 166,206,873</u> | <u>\$ 116,144,189</u> | <u>\$ 296,540,043</u> |

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

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

| | 2008 | 2007 |
|-------------------------|----------------------|----------------------|
| Accrued payroll | \$ 1,470,404 | \$ 1,738,885 |
| Federal categorical aid | 1,775 | - |
| Construction | 14,976,277 | 10,903,415 |
| Vender | 9,116,302 | 5,430,361 |
| Total | <u>\$ 25,564,758</u> | <u>\$ 18,072,661</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Discretely Presented Component Unit

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

NOTE 8 - DEFERRED REVENUE

Deferred revenue at consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|------------------------------|----------------------|----------------------|
| Federal financial assistance | \$ 13,880 | \$ - |
| State categorical aid | 542,988 | 1,481,685 |
| Enrollment fees | 3,952,675 | 3,302,960 |
| Other local | <u>5,668,538</u> | <u>5,218,482</u> |
| Total | <u>\$ 10,178,081</u> | <u>\$ 10,003,127</u> |

NOTE 9 – INTERFUND TRANSACTIONS

Interfund Receivables and Payable (Due To/Due From)

Interfund receivables and payables consist of amounts owed between funds as a result of the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions recorded in the accounting system and (3) payments between funds occur. Interfund receivable and payable balances at June 30, 2008, have been eliminated in the consolidation process.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers between funds of the District have been eliminated in the consolidation process.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2008 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions/ Accretions | Deductions | Balance End of Year | Due in One Year |
|-------------------------------|---------------------------------|--------------------------|----------------------|---------------------------|----------------------|
| Bonds and Notes Payable | | | | | |
| General obligation bonds | \$ 683,597,226 | \$ 15,659,497 | \$ 12,245,000 | \$ 687,011,723 | \$ 16,065,000 |
| Other Liabilities | | | | | |
| Compensated absences | 2,975,755 | 340,547 | - | 3,316,302 | 2,303,149 |
| Net OPEB obligation | - | 9,056,503 | 6,347,500 | 2,709,003 | - |
| Total Other Liabilities | 686,572,981 | 16,000,044 | 12,245,000 | 693,037,028 | 18,368,149 |
| Premiums, net of amortization | 21,061,529 | - | 877,627 | 20,183,902 | 877,627 |
| Total Long-term Liabilities | <u>\$ 707,634,510</u> | <u>\$ 16,000,044</u> | <u>\$ 13,122,627</u> | <u>\$ 713,220,930</u> | <u>\$ 19,245,776</u> |

The changes in the District's long-term obligations during the 2007 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions/ Accretions | Deductions | Balance End of Year | Due in One Year |
|------------------------------|---------------------------------|--------------------------|---------------------|---------------------------|----------------------|
| Bonds and Notes Payable | | | | | |
| General obligation bonds | \$ 340,199,277 | \$ 345,832,949 | \$ 2,435,000 | \$ 683,597,226 | \$ 12,245,000 |
| Other Liabilities | | | | | |
| Compensated absences | 2,752,837 | 222,918 | - | 2,975,755 | 2,038,973 |
| Total Other Liabilities | 342,952,114 | 346,055,867 | 2,435,000 | 686,572,981 | 14,283,973 |
| Premium, net of amortization | 4,613,374 | 17,041,753 | 593,598 | 21,061,529 | 877,627 |
| Total Long-term Liabilities | <u>\$ 347,565,488</u> | <u>\$ 363,097,620</u> | <u>\$ 3,028,598</u> | <u>\$ 707,634,510</u> | <u>\$ 13,122,627</u> |

Description of Debt

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

General obligation bonds were approved by local elections in 2001 and 2005. The total amount approved by the voters in 2001 and 2005 were \$207,000,000 and \$468,000,000, respectively. All of the authorized 2001 and 2005 bonds have been issued. Interest rates on the 2001 bonds are range from 3.00 percent -5.74 percent and the interest rates on the 2005 bonds are range from 3.50 percent – 5.00 percent. At June 30, 2008, the outstanding balances for the 2001 and 2005 bonds were \$207,078,869 and \$479,932,854, respectively.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Debt Maturity

General Obligation Bonds

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds | | | Bonds |
|------------|---------------|---------------|----------------|--------------------------|----------------------|----------------------|---------------------------|
| | | | | Outstanding July 1, 2007 | Interest Accretions | Redeemed | Outstanding June 30, 2008 |
| 6/4/2002 | 9/1/2026 | 5.2-5.74% | \$96,875,613 | \$ 91,721,276 | \$ 1,348,077 | \$ 1,560,000 | \$ 91,509,353 |
| 2/9/2005 | 9/1/2029 | 3.00-5.00% | 69,995,132 | 71,903,967 | 1,270,482 | 440,000 | 72,734,449 |
| 4/11/2006 | 3/1/2031 | 3.50-5.00% | 40,124,660 | 41,865,558 | 1,369,512 | 400,000 | 42,835,070 |
| 4/11/2006 | 9/1/2030 | 3.75-5.00% | 135,429,395 | 140,327,945 | 3,878,533 | 9,845,000 | 134,361,478 |
| 12/12/2006 | 9/1/2038 | 3.50-5.00% | 332,570,194 | 337,778,480 | 7,792,893 | - | 345,571,373 |
| | | | | <u>\$ 683,597,226</u> | <u>\$ 15,659,497</u> | <u>\$ 12,245,000</u> | <u>\$ 687,011,723</u> |

The bonds mature through 2040 as follows:

| Fiscal Year | Interest to | | Total |
|-------------|-----------------------|-----------------------|-----------------------|
| | Principal | Maturity | |
| 2009 | \$ 16,065,000 | \$ 16,318,961 | \$ 32,383,961 |
| 2010 | 9,575,000 | 15,685,881 | 25,260,881 |
| 2011 | 11,200,000 | 15,294,608 | 26,494,608 |
| 2012 | 12,985,000 | 14,836,700 | 27,821,700 |
| 2013 | 14,910,000 | 14,289,483 | 29,199,483 |
| 2014-2018 | 106,459,078 | 60,690,891 | 167,149,969 |
| 2019-2023 | 122,020,976 | 43,515,413 | 165,536,389 |
| 2024-2028 | 132,665,138 | 32,383,062 | 165,048,200 |
| 2029-2033 | 124,728,025 | 21,151,487 | 145,879,512 |
| 2034-2038 | 112,512,208 | 9,493,000 | 122,005,208 |
| 2039-2040 | 23,891,298 | 491,000 | 24,382,298 |
| Total | <u>\$ 687,011,723</u> | <u>\$ 244,150,486</u> | <u>\$ 931,162,209</u> |

NOTE 11 – DEFEASED DEBT

In 2006, the District defeased \$30,885,000 certificates of participation issued in 2004 by creating an irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District’s Long-Term Obligations. As of June 30, 2008, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to \$30,755,743.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

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

Plan Description

The Postemployment Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the San Mateo County Community College District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 716 retirees and beneficiaries currently receiving benefits and 805 active plan members. Board designated amount of the Plan is presented in these financial statements as the Retiree Health Benefits Reserve Fund. Unfunded portion of annual required contributions (net OPEB obligation) is presented in the statement of net assets as a portion of long-term obligations.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2007-2008, the District contributed \$6,347,500 to the Plan, all of which was used for premiums (approximately 70 percent of current year's annual required contribution). Plan members receiving benefits contributed \$668,983. Contributions made by retirees include \$7,509 paid to the District by the retirees for premiums and approximately \$73,000 deducted from the retirees' pensions for premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

| | |
|--|----------------------------|
| Annual required contribution | \$ 9,056,503 |
| Annual OPEB cost (expense) | <u>(6,347,500)</u> |
| Increase in net OPEB obligation | 2,709,003 |
| Net OPEB obligation, beginning of year | - |
| Net OPEB obligation, end of year | <u><u>\$ 2,709,003</u></u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 was as follows:

| Year Ended June 30, 2008 | Annual Required Contribution | Percentage Contributed | Net OPEB Obligation |
|-----------------------------|---------------------------------|---------------------------|------------------------|
| 2008 | \$ 9,056,503 | 70% | \$ 2,709,003 |

Funding Status and Funding Progress

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

Actuarial Methods and Assumptions

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

In the January 4, 2007, actuarial valuation, the Entry Age Normal actuarial cost method was used. The actuarial assumptions included a 5 percent investment rate of return (net of administrative expenses), based on the Plan being funded in a retiree benefits reserve fund invested in a long-term fixed income portfolio. Healthcare cost trend rates assumed 4 percent per year. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2007, was 30 years. The actuarial value of assets was not determined in this actuarial valuation. At July 1, 2008, the District's Retiree Health Benefits Reserve Fund held net assets in the amount of \$32,836,442, which consisted of \$32,095,360 on deposit with the bank and county treasurer and receivables in the amount of \$741,082.

NOTE 13 - 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, 2008, the District contracted with MacCorkle Inc., an insurance broker to manage the District's insurance claims. The District is self-insured for the first \$150,000. Settled claims have not exceeded this commercial coverage.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Workers' Compensation

For fiscal year 2007-2008, the District contracted with Andreini and Company for placement of excess workers' compensation insurance program. The district is self-insured for the first \$350,000.

Employee Medical Benefits

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

Claim Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2006 to June 30, 2008 (in thousands):

| | <u>Workers' Compensation</u> | <u>Property and Liability</u> |
|---|----------------------------------|-----------------------------------|
| Liability Balance, July 1, 2006 | \$ - | \$ 50,000 |
| Claims and changes in estimates | 347,781 | 201,465 |
| Claims payments | <u>(121,834)</u> | <u>(11,050)</u> |
| Liability Balance, June 30, 2007 | 225,947 | 240,415 |
| Claims and changes in estimates | 859,601 | 71,130 |
| Claims payments | <u>(216,923)</u> | <u>(11,545)</u> |
| Liability Balance, June 30, 2008 | <u>\$ 868,625</u> | <u>\$ 300,000</u> |
| Assets available to pay claims at June 30, 2008 | <u>\$ 868,625</u> | <u>\$ 485,575</u> |

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active members are required to contribute eight percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$3,538,898, \$3,385,035, and \$3,010,591, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2007-2008 was 9.306 percent of annual payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2008, 2007, and 2006, were \$3,067,890, \$2,734,647, and \$2,462,338, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS. The State of California made contributions to CalSTRS on behalf of the District for fiscal year ending June 30, 2008, 2007, and 2006 amounted to \$1,771,986,

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

\$2,004,829, and \$1,765,554, respectively, and equaled 4.517 percent of salaries subject to CalSTRS. A contribution to CalPERS was not required for fiscal year ended June 30, 2008, 2007, and 2006. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees a Hartford administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The District oversees the investment and administrative functions of the Hartford 457 Deferred Compensation Program. There were 42 members participating in the 457 plan at June 30, 2008.

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 15 - 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, 2008.

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

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2008.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payment |
|-------------------------|-------------------|
| 2009 | \$ 274,688 |
| 2010 | 199,969 |
| 2011 | 52,166 |
| 2012 | 38,593 |
| 2013 | 24,503 |
| Total | <u>\$ 589,919</u> |

Rental expenditures for the year ended June 30, 2008, amounted to \$248,922.

Construction Commitments

As of June 30, 2008, 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 | \$ 29,072 | within 1 years |
| State funded capital outlay projects | 9,047,029 | within 2 year |
| 2001 G.O. Bond (Measure C) construction projects | 540,590 | within 1 years |
| 2005 G.O. Bond (Measure A) construction projects | 197,856,355 | within 6 years |
| | <u>\$207,473,046</u> | |

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

**NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS
AUTHORITIES**

The District is self-insured for the workers' compensation and property and liability up to \$500,000. The District contracts with MacCorkle Inc., an insurance broker to manage the District's insurance claims. The District pays an annual premium to MacCorkle for their services. The relationships between the District and the risk management company are such that they are not component units of the District for financial reporting purposes.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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, 2008, the District made payment of \$1,142,593 to MacCorkle Inc. for the insurance related services, \$30,803 to School Excess Liability Fund for excess liability program and approximately \$325,771 to South Bay Regional Public Safety Training Consortium JPA.

NOTE 17 - TAX AND REVENUE ANTICIPATION NOTES

On July 6, 2006, the District issued \$10,000,000 Tax and Revenue Anticipation Notes bearing interest at 4.50 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2007. By June 30, 2007, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

On July 6, 2007, the District issued \$5,000,000 Tax and Revenue Anticipation Notes bearing interest at 4.250 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2008. By May 2008, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$5,000,000 and related accrued interest and cash held in trust are not included in these financial statements.

| | Outstanding Beginning of Year | Additions | Deletions | Outstanding End of Year |
|------------------|-------------------------------------|--------------|--------------|-------------------------------|
| 2007 4.25% TRANS | \$ - | \$ 5,000,000 | \$ 5,000,000 | \$ - |

NOTE 18 - SUBSEQUENT EVENTS

The District issued \$13,395,000 of Tax and Revenue Anticipation Notes dated July 1, 2008. The notes mature on July 6, 2009, and yield 1.650 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February, 2009, until 100 percent of principal and interest due is on account in May, 2009.

Subsequent to June 30, 2008, San Mateo County Pool investments declined in value. The decrease in value of the District’s investments was estimated by the County Treasurer to be approximately 5%, or \$24.5 million, as of October 2008. The District will record this decrease in October 2008. The District estimates 80 percent of the investment in the County Pool was bond project funds, 15 percent was general fund investments, and the remaining 5 percent was allocated between the various other District funds with County Pool investments.

***REQUIRED SUPPLEMENTARY
INFORMATION***

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) - Entry Age Normal (b)</u> | <u>Unfunded AAL (UAAL) (b - a)</u> | <u>Funded Ratio (a / b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered Payroll ([b-a] / c)</u> |
|---|--|---|--|---------------------------------|--------------------------------|--|
| September 1, 2006 | - | \$ 149,530,877 | \$ 149,530,877 | - | 87,823,351 | 170.26% |

SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2008

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> |
|--------------------------|--------------------------|---------------------|
| Richard Holober | President | 2009 |
| Karen Schwarz | Vice President- Clerk | 2011 |
| Helen Hausman | Trustee | 2009 |
| Dave Mandelkern | Trustee | 2011 |
| Patricia Miljanich | Trustee | 2011 |
| Virginia Medrano Rosales | Student Trustee | 2009 |

ADMINISTRATION

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

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|---|-------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Student Financial Aid Cluster | | | |
| Federal Work Study Program | 84.033 | none | \$ 469,989 |
| Pell Grant | 84.063 | none | 5,940,680 |
| Supplemental Educational Opportunity Grant (SEOG) | 84.007 | none | 443,043 |
| Federal Family Education Loans | 84.032 | none | 423,255 |
| Academic Competitiveness Grant (ACG) | 84.375 | none | 30,650 |
| Postsecondary Education | | | |
| TRIO Cluster | | | |
| Student Support Services | 84.042A | none | 641,831 |
| Upward Bound | 84.047A | none | 240,697 |
| International Education | | | |
| Title VI - Undergraduate International Studies and Foreign Language | 84.016 | none | 58,035 |
| Vocational Education | | | |
| Passed through California Department of Education: | | | |
| CTEA I-B State Leadership - Bay Area Regional Consortium | 84.048A | 07-0342-004 | 336,000 |
| CTEA I-C Basic Grants to States | 84.048A | 07-C01-052 | 615,440 |
| CTEA II Tech Prep Education | 84.243 | 07-0139-062 | 284,944 |
| Special Education and Rehabilitation Services | | | |
| Passed through California Department of Rehabilitation: | | | |
| Vocational Rehabilitation-Workability | 84.126A | 26744 | 140,547 |
| Total U.S. Department of Education | | | <u>9,625,111</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Administration for Children and Families | | | |
| Passed through California Department of Education: | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | none | 71,250 |
| Child Care and Development Block Grant | 93.575 | 3939,4047 | 26,681 |
| Total U.S. Department of Health and Human Services | | | <u>97,931</u> |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through California Department of Education: | | | |
| Child and Adult Care Food Program | 10.558 | 41-17540A | <u>32,426</u> |
| U.S. DEPARTMENT OF LABOR | | | |
| Passed through County of San Mateo: | | | |
| WIA Dislocated Workers | 17.260 | 73200-07 | <u>526</u> |
| NATIONAL SCIENCE FOUNDATION | | | |
| Education and Human Resources | 47.076 | none | 202,147 |
| Total Expenditures of Federal Awards | | | <u>\$ 9,958,141</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| Program | Program Revenues | | | Total Revenue | Total Program Expenditures |
|---|----------------------|---------------------|--------------------------------|----------------------|----------------------------|
| | Cash Received | Accounts Receivable | Deferred Income ^[1] | | |
| GENERAL FUND | | | | | |
| AB 77/Disabled Students Program | \$ 1,775,723 | \$ - | \$ - | \$ 1,775,723 | \$ 1,775,723 |
| Extended Opportunity Programs | 1,836,000 | - | 348 | 1,835,652 | 1,835,652 |
| Care/EOP | 121,596 | - | - | 121,596 | 121,596 |
| Matriculation | 1,467,776 | - | - | 1,467,776 | 1,467,776 |
| Foster Parent Training | - | 93,181 | - | 93,181 | 93,181 |
| AB 602 FA Administrative Allowance | 790,546 | - | 18,832 | 771,714 | 771,714 |
| Block Grant | 358,201 | - | (110,459) | 468,660 | 468,660 |
| T-Com and Technology (TTIP) | 144,369 | - | (1,379) | 145,748 | 145,748 |
| CalWorks | 303,750 | - | 29,699 | 274,051 | 274,051 |
| Middle College High School | 136,770 | 136,768 | - | 273,538 | 273,538 |
| CITD Economic Development | 172,200 | - | 81,381 | 90,819 | 90,819 |
| Transfer and Articulation | 15,000 | - | 3 | 14,997 | 14,997 |
| Staff Diversity | 22,068 | - | (4,902) | 26,970 | 26,970 |
| Staff Development | - | - | (5,471) | 5,471 | 5,471 |
| Statewide Leadership Multimedia | 144,900 | 19,101 | - | 164,001 | 164,001 |
| MESA/CCCP Funds for Student Success | 122,250 | 38,734 | - | 160,984 | 160,984 |
| RCSD CBET Program | 79,893 | 23,362 | 34 | 103,221 | 103,221 |
| Lottery-Prop 20-Instructional Materials | 116,926 | 234,054 | - | 350,980 | 361,837 |
| Nursing -Enrollment Growth | 161,062 | - | 65,241 | 95,821 | 95,821 |
| SUHSD CBET Program | 30,363 | 8,586 | 444 | 38,505 | 38,505 |
| Economic Development Quick Start Biotech | - | 175,231 | - | 175,231 | 175,231 |
| Economic Development Quick Start Multimedia Cabrillo | 40,400 | - | - | 40,400 | 40,400 |
| Basic Skills reappropriation | - | - | (506,372) | 506,372 | 506,372 |
| Economic Development IDRC Insurance Instructor | 39,161 | 1,665 | - | 40,826 | 40,826 |
| Economic Development IDRC Judicial Careers | 257,807 | 120,477 | - | 378,284 | 378,284 |
| Economic Development IDRC International Trade Logistics | 285,720 | - | 7,698 | 278,022 | 278,022 |
| Economic Development JDIF Technician Training | 296,866 | - | 5,498 | 291,368 | 291,368 |
| Economic Development IDRC West Valley CCD | 34,410 | - | - | 34,410 | 34,410 |
| Economic Development Health Careers Pathways | 125,000 | - | 79,870 | 45,130 | 45,130 |
| Garfield RCSD CBET Program | 8,838 | 3,448 | 181 | 12,105 | 12,105 |
| Basic Skills 07-08 | 513,826 | - | 512,049 | 1,777 | 1,777 |
| CCC Live Caption | 9,148 | - | 9,148 | - | - |
| Economic Development Incumbent Worker - Healthcare | 334,558 | 63,725 | - | 398,283 | 398,283 |
| Economic Development Incumbent Worker - Solar Energy | 420,000 | - | 249,084 | 170,916 | 170,916 |
| CTE Equipment - Allied Health | 103,695 | - | 101,978 | 1,717 | 1,717 |
| State Library | 13,919 | - | 121 | 13,798 | 13,798 |
| CDE Child Development | 410,764 | 143,479 | - | 554,243 | 554,243 |
| Cal Grant | 486,068 | 9,822 | 9,962 | 485,928 | 485,928 |
| Subtotal | <u>\$ 11,179,573</u> | <u>\$ 1,071,633</u> | <u>\$ 542,988</u> | <u>\$ 11,708,218</u> | <u>\$ 11,719,075</u> |

[1] Includes prior year and current year deferred revenue.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE
GENERAL APPORTIONMENT – ANNUAL/ACTUAL ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008**

| CATEGORIES | <u>Revised Reported Data*</u> | <u>Audit Adjustments</u> | <u>Audited Data</u> |
|---|---------------------------------------|------------------------------|-------------------------|
| A. Summer Intersession (Summer 2007) | | | |
| 1. Noncredit | 5 | - | 5 |
| 2. Credit | 281 | - | 281 |
| B. Summer Intersession (Summer 2008) | | | |
| 1. Noncredit | - | - | - |
| 2. Credit | - | - | - |
| C. Primary Terms | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 14,905 | - | 14,905 |
| (b) Daily Census Contact Hours | 1,027 | - | 1,027 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit | 35 | - | 35 |
| (b) Credit | 1,144 | - | 1,144 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 649 | - | 649 |
| (b) Daily Census Contact Hours | 264 | - | 264 |
| (c) Noncredit Independent Study/Distance Education Courses | <u>-</u> | <u>-</u> | <u>-</u> |
| D. Total FTES | <u>18,310</u> | <u>-</u> | <u>18,310</u> |
| E. Basic Skills courses and Immigrant Education (FTES) | | | |
| 1. Noncredit | 42 | - | 42 |
| 2. Credit | <u>2,050</u> | <u>-</u> | <u>2,050</u> |
| | <u>2,092</u> | <u>-</u> | <u>2,092</u> |

* Revised on October 1, 2008

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, 2008**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311), which required reconciliation to the audited financial statements at June 30, 2008.

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2008**

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

| | |
|--|---------------------------------|
| Total Fund Balance - All District Funds | \$ 555,100,306 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | |
| The cost of capital assets is | \$ 418,230,389 |
| Accumulated depreciation is | <u>(69,549,763)</u> 348,680,626 |
| 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. | 192,000 |
| Expenditures relating to issuance of debt were recognized on the modified accrual basis, but should not be recognized in accrual basis. | 5,949,388 |
| 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. | (17,622,768) |
| An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. | 13,035,045 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. | |
| Long-term liabilities at year end consist of: | |
| Bonds payable | 687,011,723 |
| Premiums, net of amortization | 20,183,902 |
| Net OPEB Obligation | 2,709,003 |
| Compensated absences (vacations) | <u>1,013,153</u> (710,917,781) |
| Total Net Assets | <u>\$ 194,416,816</u> |

See accompanying note to supplementary information.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. These schedules provide information regarding the attendance of students throughout the District.

Reconciliation of Annual Financial and Budget Report with Fund Financial Statements

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

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

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

***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 *GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of the business-type activities of the San Mateo County Community College District (the District) for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 18, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Mateo County Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Mateo County Community College District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of San Mateo County Community College District in a separate letter dated December 18, 2008.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 18, 2008



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

VALUE THE DIFFERENCE

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

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

Compliance

We have audited the compliance of San Mateo County Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. San Mateo County Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Mateo County Community College District's management. Our responsibility is to express an opinion on San Mateo County Community College District's compliance based on our audit.

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

In our opinion, San Mateo County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of San Mateo County Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered San Mateo County Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Mateo County Community College District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

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

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

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

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 18, 2008



REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the San Mateo County Community College District (the District) for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 18, 2008.

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 District Audit Manual (CDAM)*.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fee - Instructional Materials and Health Fees

Section 423: Apportionment of Instructional Service Agreements/Contracts

Section 425: Residency Determination for Credit Courses

Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses

Section 432: Enrollment Fee

Section 421: Salaries of Classroom Instructors (50% Law)

Section 426: Students Actively Enrolled

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

Section 433: CalWORKs - Use of State and Federal TANF Funding

Facilities

Section 434: 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 for finding 2008-1 as described in the accompanying 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, 2008.

San Mateo County Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit San Mateo County Community College District's responses and, accordingly, we express no opinion on them.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
December 18, 2008

***SCHEDULE OF FINDINGS
AND
QUESTIONED COSTS***

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

| | |
|---|----------------------|
| Type of auditors' report issued: | <u>Unqualified</u> |
| Internal control over financial reporting: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified not considered to be material | <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> |
| Significant deficiencies identified not considered to be material | <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) | <u>No</u> |
| Identification of major programs: | |

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|---|---|
| 84.033, 84.063, 84.007, 84.375, 84.032 | Student Financial Aid Cluster |
| 84.048A | CTEA |
| _____ | _____ |
| _____ | _____ |

| | |
|--|-------------------|
| 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> |
| Significant deficiencies identified not considered to be material | <u>Yes</u> |
| Type of auditors' report issued on compliance for State programs: | <u>Qualified</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

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

2008-1 Finding

College of San Mateo – 8 of 10 concurrent students were enrolled in over 11 units and the college did not charge enrollment fees. 6 of 10 concurrent students did not have an application signed by their home school principal.

Canada College – 4 of 10 concurrent students were enrolled in over 11 units and the college did not charge enrollment fees. HSCI*105, course number 91403 was offered after the publication and final addendums to the Fall, 2007 class schedule and was not reasonably publicized to the general public within 30 days prior to the start of the course and was only publicized on the colleges website. In addition, the site didn't maintain dated hardcopy printouts of the web posting for review.

The District does not appear to have procedures to require K-12 principals certify that they have not recommended for college attendance more than 5% of the total number of pupils who completed the grade immediately prior to the time of recommendation.

The District cannot receive state apportionment in excess of 5% of the District's total reported FTES enrollment of special part-time and full-time students. We found that the District had exceeded this limit in the Fall semester by 6.63 FTES and 17.8 FTES in the Spring semester. It is broken down by site as follows: Skyline exceeded the limit by .06 in the Fall and 2.88 in the Spring; Canada College exceeded the limit by 5.52 FTES in the Fall and 7.89 FTES in the Spring; and College of San Mateo exceeded the limit by .66 FTES in the Fall and 2.32 FTES in the Spring.

For physical education course sections, not more than 10% of the enrollment claimed for apportionment for each course section can consist of special part-time or full-time students (Ed. Code Section 76002(a)(4)). During our testing we found that each site had exceeded this limit. Skyline had exceeded this limit by .04 FTES in the Fall and .641 FTES in the Spring, Canada had exceeded this limit by 5.33 in the Fall and 6.76 in the Spring semester, and College of San Mateo exceeded this limit by .04 in the Fall and 4.92 FTES in the Spring.

Criteria or Specific Requirement

Education Code 76300 indicates that special part-time students may be exempted as a group from paying the \$26 per unit enrollment fee. However, there is no such authority for special full time students and thus a college district cannot exempt all such students as a group.

California Code of Regulations, title 5, section 58104 indicates that if a decision to offer a course is made so late that it cannot be listed in the latest addendum to the schedule of classes that the course be reasonably well publicized to the general public and if the District chooses to advertise solely on the internet they should observe the following:

- Must be advertised for a minimum of 30 continuous days prior to the first meeting of the class.
- The District should maintain dated hardcopy printouts of the web postings on file for a minimum of at least three years.

The physical education courses have limits to how much apportionment from these types of students can be claimed. Education code 76002 (a) (4), indicates that the District cannot receive state apportionment in excess of 5% of the District's total reported FTES enrollment of special part-time and full-time students.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

Education Code 48800(d) indicates that recommendation of special part-time students will not result in recommendations of more than 5% of the total number of pupils who completed that grade immediately prior to the time of the recommendation. Legal Opinion M02-20, the Chancellor's Office advises colleges admitting minors as special students in summer session credit courses to obtain certification from school principals that the number of students recommended to attend college courses does not exceed the 5% statutory limit.

Education code 76002(a) (4) indicates that Districts cannot claim apportionment for special full-time and part-time students in excess of 10% of the total FTES claimed for each physical education course section.

Condition

Several instances of non-compliance over special part-time and full-time student enrollment and apportionment requirements.

Questioned Costs

- \$4,433 for the two colleges with students exceeding 11 units in missed enrollment fees.
- The total apportionment claimed for HSCI*105*91403 is 0.74.
- The District is over the 5% limit by 24.43 FTES over the fall and spring semesters.
- The District is over the 10% limit by 17.73 FTES for both fall and spring semesters.

Context

- The District does not have a process in place to assure compliance with the 5% limits over concurrent students enrolling in summer session.
- The District did not have a process to review FTES claimed for these types of students to determine compliance with the 5% and 10% limits over physical education courses.
- The sites misunderstood the compliance requirements over charging fees after these students exceed 11 units.

Effect

- For College of San Mateo and Canada College \$4,433 was lost in total tuition from the number of these students selected during our audit.
- In addition, the District may be claiming more students for apportionment than allowed for physical education courses.
- Canada's failure to provide adequate notification could jeopardize the total apportionment claimed and received for HSCI*105*91403.
- The District is over the 5% limit by 6.63 FTES in the Fall and 17.8 FTES in the Spring semesters.
- The District is over the 10% limit by 5.41 FTES in the Fall and 12.32 FTES in the Spring semesters.

Cause

- The District does not have a process in place to assure compliance with the 5% limits over concurrent students enrolling in summer session.
- The District did not have a process to review FTES claimed for these types of students to determine compliance with the 5% and 10% limits over physical education courses.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008

- The sites misunderstood the compliance requirements over charging fees after these students exceed 11 units.

Recommendation

- The class schedules need to be updated to indicate that fees will be assessed for concurrent students who enroll in more than 11 units. The college needs to update their attendance system to automatically assess fees for special full-time students once they enroll in more than 11 units.
- The apportionment being reported for these types of students in physical education courses should be analyzed to determine compliance with limits provided in the education codes. In addition, the District should consider creating reports within their attendance system that will provide information supporting compliance with these limits as well as other provisions of the education codes over concurrently enrolled students. The District should review the apportionment being claimed for these students while preparing the 320 report removing any apportionment over the limits prior to submitting the reports to the State.
- When a decision to offer a course is made so late that it cannot be listed in the latest addendum to the schedule of classes the District needs to maintain documentation of when the class was advertised for a minimum of three years.

District Response

The District has changed its procedures to charge concurrently enrolled students enrollment fees when they are enrolled in 11.5 or more units effective with Spring, 2009, semester. The District has added the following statement to the high school admission form that the high school principal or his designee signs: "I understand for any grade level in my school I may not recommend for community college summer session attendance more than five percent of the total number of pupils who completed that grade prior to this recommendation, excluding Middle College High School students." This statement will ensure compliance with the 5% limit in Summer 2009. The District is researching mechanisms to prevent over-reporting of concurrent students in physical education courses. The District has appropriate procedures to advertise courses that were added late in the enrollment process and will ensure that all staff are familiar with these procedures.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

The status of the findings and recommendations noted in the prior year audit report is included in the District management letter dated December 3, 2007.

State Awards Findings

2007-1 STUDENTS ACTIVELY ENROLLMENT

Finding

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

Recommendation

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

Current Status

Implemented.

ADDITIONAL SUPPLEMENTARY INFORMATION

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2008**

| | General Unrestricted | General Restricted | Child Development | Bond Interest and Redemption |
|--|---------------------------------|-------------------------------|------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 442,471 | \$ - | \$ - | \$ - |
| Investments | 18,940,467 | 7,343,246 | 62,268 | 26,430,432 |
| Accounts receivable, net of allowance | 7,548,583 | 2,997,628 | 171,005 | 184,895 |
| Due from other funds | 159,906 | 1,000,000 | - | - |
| Prepaid expenses | 17,175 | 3,683 | - | - |
| Total Assets | \$ 27,108,602 | \$ 11,344,557 | \$ 233,273 | \$ 26,615,327 |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 8,897,949 | \$ 1,079,884 | \$ 35,036 | \$ - |
| Due to other funds | 4,634,117 | - | - | - |
| Deferred revenue | 3,264,985 | 6,287,707 | 20,363 | - |
| Total Liabilities | 16,797,051 | 7,367,591 | 55,399 | - |
| FUND EQUITY | | | | |
| Fund Balances | | | | |
| Reserved | 28,975 | 3,683 | - | - |
| Unreserved | | | | |
| Designated | 10,122,872 | 3,618,462 | - | - |
| Undesignated | 159,704 | 354,821 | 177,874 | 26,615,327 |
| Total Fund Equity | 10,311,551 | 3,976,966 | 177,874 | 26,615,327 |
| Total Liabilities and Fund Equity | \$ 27,108,602 | \$ 11,344,557 | \$ 233,273 | \$ 26,615,327 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET - (UNAUDITED) (CONTINUED)
JUNE 30, 2008**

| COP Payment | Capital Outlay Projects | Bond Construction | COP Construction | Retiree Benefits | Total Governmental Funds (Memorandum Only) |
|------------------------|--|------------------------------|-----------------------------|-----------------------------|---|
| \$ 155,839 | \$ - | \$ - | \$ - | \$ 2,298,704 | \$ 2,897,014 |
| 1,053 | 55,574,645 | 412,334,702 | 4,534,286 | 29,796,656 | 555,017,755 |
| 8 | 6,674,112 | 3,452,228 | - | 741,082 | 21,769,541 |
| - | 744,000 | 5,945,753 | 2,300,000 | - | 10,149,659 |
| - | 39,560 | 10,733,897 | - | - | 10,794,315 |
| <u>\$ 156,900</u> | <u>\$ 63,032,317</u> | <u>\$ 432,466,580</u> | <u>\$ 6,834,286</u> | <u>\$ 32,836,442</u> | <u>\$ 600,628,284</u> |
| \$ - | \$ 3,633,167 | \$ 11,342,047 | \$ 1,063 | \$ - | \$ 24,989,146 |
| - | 2,028,579 | 3,912,119 | - | - | 10,574,815 |
| - | 390,962 | - | - | - | 9,964,017 |
| <u>-</u> | <u>6,052,708</u> | <u>15,254,166</u> | <u>1,063</u> | <u>-</u> | <u>45,527,978</u> |
| - | - | - | - | - | 32,658 |
| - | - | - | - | - | 13,741,334 |
| <u>156,900</u> | <u>56,979,609</u> | <u>417,212,414</u> | <u>6,833,223</u> | <u>32,836,442</u> | <u>541,326,314</u> |
| <u>156,900</u> | <u>56,979,609</u> | <u>417,212,414</u> | <u>6,833,223</u> | <u>32,836,442</u> | <u>555,100,306</u> |
| <u>\$ 156,900</u> | <u>\$ 63,032,317</u> | <u>\$ 432,466,580</u> | <u>\$ 6,834,286</u> | <u>\$ 32,836,442</u> | <u>\$ 600,628,284</u> |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

| | General Unrestricted | General Restricted | Child Development | Bond Interest and Redemption |
|--|---------------------------------|-------------------------------|------------------------------|---|
| REVENUES | | | | |
| Federal revenues | \$ - | \$ 3,079,906 | \$ 36,607 | \$ - |
| State revenues | 36,879,303 | 10,648,901 | 554,243 | 165,053 |
| Local revenues | 76,201,651 | 7,936,579 | 215,816 | 24,546,679 |
| Total Revenues | <u>113,080,954</u> | <u>21,665,386</u> | <u>806,666</u> | <u>24,711,732</u> |
| EXPENDITURES | | | | |
| Current Expenditures | | | | |
| Academic salaries | 47,927,030 | 4,701,938 | 178,762 | - |
| Classified salaries | 23,716,634 | 8,061,591 | 527,837 | - |
| Employee benefits | 23,421,570 | 3,095,282 | 272,218 | - |
| Books and supplies | 1,764,178 | 2,208,787 | 66,687 | - |
| Services and operating expenditures | 9,871,992 | 4,203,523 | 93,266 | - |
| Capital outlay | 99,775 | 244,540 | - | - |
| Debt service - principal | - | - | - | 12,245,000 |
| Debt service - interest and other | - | - | - | 16,607,468 |
| Total Expenditures | <u>106,801,179</u> | <u>22,515,661</u> | <u>1,138,770</u> | <u>28,852,468</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>6,279,775</u> | <u>(850,275)</u> | <u>(332,104)</u> | <u>(4,140,736)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 948,908 | 2,023,738 | 353,722 | - |
| Operating transfers out | (7,511,841) | (209,552) | - | - |
| Other sources | 23,058 | 457,351 | - | - |
| Other uses | - | (1,417,530) | - | - |
| Total Other Financing Sources (Uses) | <u>(6,539,875)</u> | <u>854,007</u> | <u>353,722</u> | <u>-</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | <u>(260,100)</u> | <u>3,732</u> | <u>21,618</u> | <u>(4,140,736)</u> |
| FUND BALANCE, BEGINNING OF YEAR | <u>10,571,651</u> | <u>3,973,234</u> | <u>156,256</u> | <u>30,756,063</u> |
| FUND BALANCE, END OF YEAR | <u>\$10,311,551</u> | <u>\$ 3,976,966</u> | <u>\$ 177,874</u> | <u>\$ 26,615,327</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - (UNAUDITED) (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2008**

| COP Payment | Capital Outlay Projects | Bond Construction | COP Construction | Retiree Benefits | Total Governmental Fund (Memorandum Only) |
|------------------------|--|------------------------------|-----------------------------|-----------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 3,116,513 |
| - | 12,762,469 | - | - | - | 61,009,969 |
| 68,288 | 4,493,656 | 20,058,667 | 148,496 | 1,224,572 | 134,894,404 |
| 68,288 | 17,256,125 | 20,058,667 | 148,496 | 1,224,572 | 199,020,886 |
| - | 1,450 | 142,283 | - | - | 52,951,463 |
| - | 45,589 | 2,587,293 | - | - | 34,938,944 |
| - | 9,434 | 764,855 | - | - | 27,563,359 |
| - | 329,468 | 1,897,945 | 5,551 | - | 6,272,616 |
| - | 647,701 | 6,924,373 | 265,618 | 3,833 | 22,010,306 |
| - | 12,630,822 | 46,871,556 | 554,871 | - | 60,401,564 |
| - | - | - | - | - | 12,245,000 |
| - | - | - | - | - | 16,607,468 |
| - | 13,664,464 | 59,188,305 | 826,040 | 3,833 | 232,990,720 |
| 68,288 | 3,591,661 | (39,129,638) | (677,544) | 1,220,739 | (33,969,834) |
| - | 1,334,722 | - | 2,300,000 | 1,500,000 | 8,461,090 |
| - | (940,932) | - | - | - | (8,662,325) |
| - | 470,000 | - | - | - | 950,409 |
| - | (135,384) | - | - | - | (1,552,914) |
| - | 728,406 | - | 2,300,000 | 1,500,000 | (803,740) |
| 68,288 | 4,320,067 | (39,129,638) | 1,622,456 | 2,720,739 | (34,773,574) |
| 88,612 | 52,659,542 | 456,342,052 | 5,210,767 | 30,115,703 | 589,873,880 |
| \$ 156,900 | \$ 56,979,609 | \$417,212,414 | \$ 6,833,223 | \$ 32,836,442 | \$ 555,100,306 |

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2008**

| | Enterprise Funds | | | Internal Service Fund |
|--|-------------------------|-------------------|---------------------|----------------------------------|
| | Bookstore | Cafeteria | Total | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 2,089,999 | \$ - | \$ 2,089,999 | \$ 20,000 |
| Investments | 2,374,560 | 350,318 | 2,724,878 | 6,730,108 |
| Accounts receivable | 285,163 | 44,861 | 330,024 | - |
| Prepaid expenses | 53,193 | 126,381 | 179,574 | - |
| Stores inventories | 1,754,594 | - | 1,754,594 | - |
| Furniture and equipment (net) | 380,327 | 51,793 | 432,120 | - |
| Total Assets | \$ 6,937,836 | \$ 573,353 | \$ 7,511,189 | \$ 6,750,108 |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 755,912 | \$ 5,380 | \$ 761,292 | \$ 300,000 |
| Due to other funds | - | 159,906 | 159,906 | 5,054 |
| Total Liabilities | 755,912 | 165,286 | 921,198 | 305,054 |
| FUND EQUITY | | | | |
| Retained earnings | 6,181,924 | 408,067 | 6,589,991 | 6,445,054 |
| Total Liabilities and Fund Equity | \$ 6,937,836 | \$ 573,353 | \$ 7,511,189 | \$ 6,750,108 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Enterprise Funds</u> | | | <u>Internal Service Fund</u> |
|---|-------------------------|-------------------|---------------------|--------------------------------------|
| | <u>Bookstore</u> | <u>Cafeteria</u> | <u>Total</u> | |
| OPERATING REVENUES | | | | |
| Sales revenues | \$ 8,569,211 | \$ 207,873 | \$ 8,777,084 | \$ - |
| Total Operating Income | <u>8,569,211</u> | <u>207,873</u> | <u>8,777,084</u> | <u>-</u> |
| OPERATING EXPENSES | | | | |
| Certificated salaries | - | - | - | 28,041 |
| Classified salaries | 1,722,791 | 19,758 | 1,742,549 | 122,455 |
| Employee benefits | 17,521 | 4,476 | 21,997 | 41,048 |
| Books and supplies | 6,512,141 | - | 6,512,141 | 2,141 |
| Services and other operating expenditures | 483,504 | 426,778 | 910,282 | 789,608 |
| Total Operating Expenses | <u>8,735,957</u> | <u>451,012</u> | <u>9,186,969</u> | <u>983,293</u> |
| Operating Income (Loss) | <u>(166,746)</u> | <u>(243,139)</u> | <u>(409,885)</u> | <u>(983,293)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income | 196,274 | 21,834 | 218,108 | 422,128 |
| Other sources | 321,189 | - | 321,189 | 1,981,139 |
| Total Nonoperating Revenues (Expenses) | <u>517,463</u> | <u>21,834</u> | <u>539,297</u> | <u>2,403,267</u> |
| NET INCOME (LOSS) | 350,717 | (221,305) | 129,412 | 1,419,974 |
| RETAINED EARNINGS, BEGINNING OF YEAR | <u>5,831,207</u> | <u>629,372</u> | <u>6,460,579</u> | <u>5,025,080</u> |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 6,181,924</u> | <u>\$ 408,067</u> | <u>\$ 6,589,991</u> | <u>\$ 6,445,054</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF CASH FLOWS - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

| | Enterprise Funds | | | Internal Service Fund |
|---|-------------------------|---------------------|---------------------|--------------------------------------|
| | Bookstore | Cafeteria | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash received from user charges | \$ 8,715,528 | \$ 172,262 | \$ 8,887,790 | \$ 153,485 |
| Cash received from other funds | 409,955 | 159,906 | 569,861 | - |
| Cash payments to employees for services | (1,740,312) | (24,234) | (1,764,546) | (191,544) |
| Cash reimbursements from insurance claims | - | - | - | 59,585 |
| Cash payments to suppliers for goods and services | <u>(7,472,295)</u> | <u>(426,207)</u> | <u>(7,898,502)</u> | <u>(791,749)</u> |
| Net Cash Provided (Used) for Operating Activities | <u>(87,124)</u> | <u>(118,273)</u> | <u>(205,397)</u> | <u>(770,223)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Contribution from other funds | <u>321,189</u> | <u>-</u> | <u>321,189</u> | <u>1,981,139</u> |
| Net Cash Provided (Used) from Noncapital Financing Activities | <u>321,189</u> | <u>-</u> | <u>321,189</u> | <u>1,981,139</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest on investments | <u>196,274</u> | <u>21,834</u> | <u>218,108</u> | <u>422,128</u> |
| Net Cash Provided (Used) from Investing Activities | <u>196,274</u> | <u>21,834</u> | <u>218,108</u> | <u>422,128</u> |
| Net increase (decrease) in cash and cash equivalents | 430,339 | (96,439) | 333,900 | 1,633,044 |
| Cash and cash equivalents - Beginning | <u>4,034,220</u> | <u>446,757</u> | <u>4,480,977</u> | <u>5,117,064</u> |
| Cash and cash equivalents - Ending | <u>\$ 4,464,559</u> | <u>\$ 350,318</u> | <u>\$ 4,814,877</u> | <u>\$ 6,750,108</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | |
| Operating income (loss) | (166,746) | (243,139) | (409,885) | (983,293) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation loss on disposal | 91,779 | 64,119 | 155,898 | - |
| Loss on disposal | - | 195,709 | 195,709 | - |
| Changes in assets and liabilities: | | | | |
| Receivables | 146,317 | (35,611) | 110,706 | 153,485 |
| Due from other fund | 409,955 | 159,906 | 569,861 | - |
| Prepaid expenses | 1,720 | (126,381) | (124,661) | - |
| Inventories | (62,144) | - | (62,144) | - |
| Accrued liabilities | <u>(508,005)</u> | <u>(132,876)</u> | <u>(640,881)</u> | <u>59,585</u> |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (87,124)</u> | <u>\$ (118,273)</u> | <u>\$ (205,397)</u> | <u>\$ (770,223)</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEET - (UNAUDITED)
JUNE 30, 2008**

| | Associated Students Trust | Student Representation Fee | Student Financial Aid | BACC JPA | Total |
|--|--|---|--------------------------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 400,147 | \$ 147,573 | \$ 185 | \$ - | \$ 547,905 |
| Investments | 920,472 | - | 312,666 | 8,335 | 1,241,473 |
| Accounts receivable | 157,165 | - | 621,628 | - | 778,793 |
| Due from other funds | 590,116 | - | - | - | 590,116 |
| Fixed assets | 14,905 | - | - | - | 14,905 |
| Total Assets | \$ 2,082,805 | \$ 147,573 | \$ 934,479 | \$ 8,335 | \$ 3,173,192 |
| LIABILITIES AND FUND EQUITY | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 1,289,054 | \$ - | \$ 527,945 | \$ - | \$ 1,816,999 |
| Deferred revenue | - | - | 214,064 | - | 214,064 |
| Due to student groups and other | 793,751 | 147,573 | 470 | 8,335 | 950,129 |
| Total Liabilities | 2,082,805 | 147,573 | 742,479 | 8,335 | 2,981,192 |
| FUND EQUITY | | | | | |
| Fund Balances | | | | | |
| Unreserved | | | | | |
| Undesignated | - | - | 192,000 | - | 192,000 |
| Total Fund Equity | - | - | 192,000 | - | 192,000 |
| Total Liabilities and Fund Equity | \$ 2,082,805 | \$ 147,573 | \$ 934,479 | \$ 8,335 | \$ 3,173,192 |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2008**

| | Student Financial Aid |
|--|--------------------------------------|
| REVENUES | |
| Federal revenues | \$ 6,410,411 |
| State revenues | 485,928 |
| Local revenues | 79 |
| Total Revenues | <u>6,896,418</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>6,896,418</u> |
| OTHER FINANCING SOURCES (USES) | |
| Operating transfers in | 202,501 |
| Operating transfers out | (1,266) |
| Other uses | <u>(7,034,074)</u> |
| Total Other Financing Sources (Uses) | <u>(6,832,839)</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 63,579 |
| FUND BALANCE, BEGINNING OF YEAR | <u>128,421</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 192,000</u> |

See accompanying note to additional supplementary information - unaudited.

SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

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