# FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

## COUNTY OF SANTA CLARA

## LOS ALTOS HILLS, CALIFORNIA

## FINANCIAL STATEMENTS

## WITH SUPPLEMENTAL INFORMATION

## FOR THE YEAR ENDED JUNE 30, 2010

## AND

## INDEPENDENT AUDITOR'S REPORT

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**FINANCIAL STATEMENTS**
**WITH SUPPLEMENTAL INFORMATION**

**For the Year Ended June 30, 2010**

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# FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

## FINANCIAL STATEMENTS
## WITH SUPPLEMENTAL INFORMATION

### For the Year Ended June 30, 2010

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PERRY-SMITH
THE POWER OF CONFIDENCE

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# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

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

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Foothill-De Anza Community College District and the discretely presented component unit as of June 30, 2010, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) and the Required Supplementary Information, such as the Schedule of Other Postemployment Benefits Funding Progress, are not required parts of the financial statements but are supplemental information required by the Governmental Accounting Standards Board. 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.

**INDEPENDENT AUDITOR'S REPORT**
(Continued)

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

Perry-Smith LLP

Sacramento, California
November 18, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fiscal Year Ending June 30, 2010

The Management Discussion and Analysis provides an overview of the District's financial activities for the year. The District has prepared the accompanying financial statements in accordance with the Governmental Accounting Standards Board's (GASB) Codification Section (Cod. Sec.) 2200.101 and GASB Cod. Sec. 2200.190-.191. The statements are prepared using the Business Type Activity (BTA) model; this is in compliance with the California Community College Chancellor's Office recommendation to report in a manner consistent with other community college districts.

The annual report consists of three basic financial statements that provide information on the District as a whole:

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

Each one of these statements will be discussed.

### Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – is one way to measure the financial health of the District.

**Condensed Statement of Net Assets (in thousands)**

| | 2010 | 2009 | Year to Year Change | Dollar Change |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 71,983 | $ 62,851 | 14.5 % | $ (9,132) |
| Short-term investments | 81 | 81 | 0.0 % | |
| Receivables | 26,155 | 31,073 | (15.8)% | (4,918) |
| Inventory and other assets | 8,224 | 3,879 | 112.0 % | 4,345 |
| Total current assets | 106,443 | 97,884 | 8.7 % | 8,559 |
| Noncurrent assets: | | | | |
| Restricted cash and cash equivalents | 236,314 | 268,854 | (12.1)% | (32,540) |
| Receivables | 1,905 | 2,030 | (6.2)% | (125) |
| Capital assets, net | 370,163 | 347,245 | 6.6 % | 22,918 |
| Total noncurrent assets | 608,382 | 618,129 | (1.6)% | (9,747) |
| Total assets | $ 714,825 | $ 716,013 | (0.2)% | $ (1,188) |
| **LIABILITIES** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 34,027 | $ 23,613 | 44.1 % | $ 10,414 |
| Deferred revenue | 11,931 | 13,839 | (13.8)% | (1,908) |
| Amounts held in trust | 3,015 | 2,720 | 10.8 % | 295 |
| Long-term liabilities-current portion | 15,755 | 5,822 | 170.6 % | 9,933 |
| Total current liabilities | 64,728 | 45,994 | 40.7 % | 18,734 |
| Noncurrent liabilities: | | | | |
| Long-term liabilities, noncurrent portion | 7,060 | 7,704 | (8.4)% | (644) |
| Long-term debt, noncurrent portion | 533,960 | 541,340 | (1.4)% | (7,380) |
| Total noncurrent liabilities | 541,020 | 549,044 | (1.5)% | (8,024) |
| Total liabilities | 605,748 | 595,038 | 1.8 % | 10,710 |
| **NET ASSETS** | | | | |
| Invested in capital assets, net of related debt | 28,530 | 51,284 | (44.4)% | (22,754) |
| Restricted | 52,072 | 43,845 | 18.6 % | 8,227 |
| Unrestricted | 28,475 | 25,846 | 10.2 % | 2,629 |
| Total net assets | 109,077 | 120,975 | (9.8)% | (11,898) |
| Total liabilities and net assets | $ 714,825 | $ 716,013 | (0.2)% | $ (1,188) |

**Statement of Net Assets** (Continued)

- Current receivables decreased by 15.8%, or approximately $4.9 million, as a result of reduced funding for capital outlay projects for the State. Grant funding was received on time, compared to the previous year when it was received after the year-end close.

- Capital assets, net of accumulated depreciation, increased by 6.6%, or approximately $22.9 million, in connection with the construction of numerous Measure E capital projects that began in 2001 and work in process on Measure C capital projects at both colleges which include, among other projects, construction of the physical sciences and engineering building and the mediated learning center, modernization of classrooms, installation of photovoltaic arrays, and utility and technology infrastructure upgrades. We anticipate continued growth in capital assets in future years as Measure E and C projects are completed.

- Restricted cash decreased by 12.1%, or approximately $32.5 million, consistent with the increase in capital assets described above.

- Accounts payable increased by 44.1%, or approximately $10.4 million, due mainly to the increased activities in capital projects.

- Deferred revenue decreased by 13.8%, or approximately $1.9 million, as a result of reductions in categorical programs.

- The current portion of long-term liabilities increased by 170.6%, or approximately $9.9 million, in alignment with the debt payment schedule. See Note 6 for long-term debt discussion.

- The noncurrent portion of long-term liabilities decreased by 1.4%, or approximately $7.4 million, consistent with the increase in the current portion of long-term liabilities.

**Statement of Revenues, Expenses and Change in Net Assets**

The Statement of Revenues, Expenses and Change in Net Assets presents the operating results of the District, as well as the non-operating revenue and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenues according to Generally Accepted Accounting Principles.

### Condensed Statement of Revenues, Expenses and Change in Net Assets (in thousands)

| | 2010 | 2009 | Year to Year Change | Dollar Change |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Net tuition and fees | $ 42,399 | $ 38,200 | 11.0 % | $ 4,199 |
| Grants and contracts, non-capital | 38,666 | 34,032 | 13.6 % | 4,634 |
| Auxiliary enterprise, net | 14,356 | 14,905 | (3.7)% | (549) |
| Other | 10,992 | 18,672 | (41.1)% | (7,680) |
| Total operating revenues | 106,413 | 105,809 | 0.6 % | 604 |
| Operating expense | 264,866 | 270,569 | (2.1)% | (5,703) |
| Loss from operations | (158,453) | (164,760) | 3.8 % | 6,307 |
| Non-operating revenues (expenses): | | | | |
| State apportionments, non-capital | 67,600 | 82,786 | (18.3)% | (15,186) |
| Local property taxes | 76,655 | 71,618 | 7.0 % | 5,037 |
| State taxes and other revenues | 5,482 | 5,207 | 5.3 % | 275 |
| Investment (loss) income | (2,888) | (324) | 791.4 % | (2,564) |
| Interest expense | (27,204) | (27,646) | (1.6)% | 442 |
| Total non-operating revenues (expenses) | 119,645 | 131,641 | (9.1)% | (11,996) |
| Loss before capital revenues | (38,808) | (33,119) | 17.2 % | (5,689) |
| Capital revenues | 34,467 | 16,942 | 103.4 % | 17,525 |
| Decrease in net assets | (4,341) | (16,177) | 73.2 % | 11,836 |
| Net assets – beginning of year | 120,975 | 137,152 | (11.8)% | (16,177) |
| Restatement | (7,557) | | (100.0)% | (7,557) |
| Net assets – end of year | $ 109,077 | $ 120,975 | (9.8)% | $ (11,898) |

The change in operating revenues consists of an increase in resident and non-resident tuition fees in the current year and an increase in Pell grants. The decrease in other operating revenue is mainly due to the decrease in interest income. Overall, total operating revenues remain consistent with the prior year.

Non-operating revenue decreased by 9.1%, or approximately $12 million, due to the reversal of prior year's unrealized gains/losses in investments and the decrease in State apportionment due to the reduction in base workload measures.

Capital revenues increased by approximately $17.5 million, in alignment with the debt payment schedule.

### Operating Expenses (by natural classification) (in thousands)

| | 2010 | 2009 | *Year to Year Change* | *Dollar Change* |
|---|---|---|---|---|
| Salaries | $ 137,968 | $ 142,638 | (3.3)% | $ (4,670) |
| Benefits | 44,181 | 42,667 | 3.5 % | 1,514 |
| Total salaries and benefits | 182,149 | 185,305 | 1.7 % | (3,156) |
| Supplies, materials, and other operating expenses and services | 56,794 | 59,023 | (3.8)% | (2,229) |
| Utilities | 3,962 | 4,677 | (15.3)% | (715) |
| Depreciation | 21,961 | 21,564 | 1.8 % | 397 |
| Total operating expenses | $ 264,866 | $ 270,569 | (2.1)% | $ (5,703) |

- Salaries decreased by 3.3%, or approximately $4.7 million, resulting from the workforce reduction and vacant positions that were not filled.
- Benefits increased by 3.5%, or approximately $1.5 million, due to the increase in medical benefit costs.
- Supplies, materials, other operating expenses and services decreased by 3.8%, or approximately $2.2 million, due to the overall decreased spending in the General Fund.

### Statement of Cash Flows (in thousands)

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

| | 2010 | 2009 | Year to Year Change | Dollar Change |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operating activities | $ (145,206) | $ (166,097) | 12.6 % | $ 20,891 |
| Non-capital financing activities | 149,185 | 152,072 | (1.9)% | (2,887) |
| Capital and related financing activities | (39,953) | (39,161) | (20.2)% | (792) |
| Investing activities | 12,567 | 13,110 | (4.1)% | (543) |
| Net decrease in cash | (23,407) | (40,076) | 41.6 % | 16,669 |
| Cash-beginning of the fiscal year | 331,705 | 371,781 | (10.8)% | (40,076) |
| Cash-end of the fiscal year | $ 308,298 | $ 331,705 | (7.1)% | $ (23,407) |

## Economic Factors That May Affect the Future

2010-2011 Fiscal Year

The State of California controls most of the Foothill-De Anza Community College District's operating income through the apportionment process, growth allowances, Cost of Living Adjustments (COLA) and categorical allocations. The fiscal year 2009-10 State budget was delayed and signed into law on October 8, 2010. The 2009-10 state allocation reduced categorical funding across the board and imposed a 3.39% workload reduction on apportionment funding. The District addressed the $14 million revenue reductions through a combination of operational budget cuts, staffing reductions, and shifting a portion of medical benefits costs from the district to employees through the collective bargaining process.

The District developed a balanced budget plan for 2010-11 that provides funding for proposed staffing levels and operating expenses. The District ended the 2009-10 year with a planned $37 million ending fund balance. Due to the continuing volatile nature of the economy and information from Sacramento that a mid-year re-opening of the budget is likely, the overall budget strategy for 2010-11 and looking ahead to 2011-12 is to maintain a strategic series of dedicated reserves beyond the chancellor's office recommended minimum. The Board of Trustees approved as a part of the adopted budget a $7.9 million "Stability" fund, in addition to the 5% ($9.9 million) General Reserve, and set aside $10 million in funds for anticipated increases in our medical benefits package.

Capital Improvement expenditures made possible by the passage of General Obligation Bond Measure C have now reached approximately $100 million. Major accomplishments include significant progress in all aspects of the program including maintenance and renovation projects, scheduled maintenance projects, new construction projects, and technology and instructional equipment acquisition. A third bond issuance (Series C) is planned for the spring of 2011 to cover planned projects through 2014. The project commitment and spend plan for Series C is estimated to range between $100-160 million for projects to be completed over the next three years. Measure E, the 1999 General Obligation Bond measure is nearing completion. The most significant projects to be completed and funded from this bond are the District Office renovation project and construction of a new District Data Center.

In July of 2010, the District completed its most recent update of the actuarial analysis for its unfunded retiree medical liability. The study lists the Actuarial Accrued Liability (AAL) at $106 million. The District uses a budget "smoothing" calculation for the Annual Required Contribution (ARC) to more evenly average the annual required contributions over each budget year cycle. At the June 7, 2010 meeting, the Board of Trustees approved a transfer of $711,314 budgeted for fiscal year 2009-10, in addition to the pay-as-you-go balance totaling $8,477,402, into the irrevocable trust to fully fund the ARC.

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF NET ASSETS**

**June 30, 2010**

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents (Note 2) | $ 71,983,231 |
| Short term investments (Note 2) | 81,501 |
| Accounts receivable, net (Note 3) | 25,630,994 |
| Student loans receivable, net - current portion | 523,732 |
| Stores inventories | 1,518,772 |
| Prepaid expenses | 2,916,488 |
| Net OPEB asset (Note 10) | 3,788,600 |
| Total current assets | 106,443,318 |
| Noncurrent assets: | |
| Restricted cash, cash equivalents and investments (Note 2) | 236,314,321 |
| Student loans receivable, net - noncurrent portion | 1,904,591 |
| Capital assets, net (Notes 4) | 370,162,910 |
| Total noncurrent assets | 608,381,822 |
| Total assets | $ 714,825,140 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts and claims payable (Note 8 and 16) | $ 30,560,497 |
| Deferred revenue (Note 5) | 11,930,926 |
| Compensated absences payable - current portion | 3,466,448 |
| Amounts held in trust | 3,015,239 |
| Long-term debt - current portion (Note 6) | 15,755,453 |
| Total current liabilities | 64,728,563 |
| Noncurrent liabilities: | |
| Compensated absences payable - noncurrent portion | 1,922,800 |
| Unpaid claims and claim adjustment expenses (Notes 6 and 8) | 5,136,857 |
| Long-term debt - noncurrent portion (Note 6) | 533,960,086 |
| Total noncurrent liabilities | 541,019,743 |
| Total liabilities | 605,748,306 |
| Commitments and contingencies (Note 12) | |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 28,530,296 |
| Restricted for: | |
| Scholarships and loans | 2,556,559 |
| Capital projects | 8,013,866 |
| Debt services | 17,676,569 |
| Other special purposes | 23,824,252 |
| Unrestricted | 28,475,292 |
| Total net assets | 109,076,834 |
| Total liabilities and net assets | $ 714,825,140 |

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

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**DISCRETELY PRESENTED COMPONENT UNIT -**
**FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION**
**(A Nonprofit Organization)**

**STATEMENT OF NET ASSETS**

**June 30, 2010**

| | |
|---|---|
| **ASSETS** | |
| Cash in County Treasury (Note 2) | $ 3,579,386 |
| Investments (Note 2) | 21,507,780 |
| Contributions receivable, net (Note 3) | 1,154,283 |
| Accounts receivable (Note 3) | 7,797 |
| Accrued interest receivable | 9,208 |
| Prepaid expenses | 4,293 |
| Total assets | $ 26,262,747 |
| **LIABILITIES** | |
| Accounts payable and accrued liabilities | $ 57,222 |
| Due to other funds of the District | 1,355,215 |
| Total liabilities | 1,412,437 |
| **NET ASSETS** | |
| Net assets: | |
| Unrestricted (Note 11) | 3,323,388 |
| Temporarily restricted (Note 11) | 6,889,372 |
| Permanently restricted (Note 11) | 14,637,550 |
| Total net assets | 24,850,310 |
| Total liabilities and net assets | $ 26,262,747 |

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

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**

**For the Year Ended June 30, 2010**

| | |
|---|---|
| Operating revenues: | |
| Tuition and fees | $ 48,292,399 |
| Less: scholarship discounts and allowances | (5,893,170) |
| Net tuition and fees | 42,399,229 |
| Grants and contracts, non-capital: | |
| Federal | 24,550,627 |
| State | 12,235,488 |
| Local | 1,879,984 |
| Auxiliary enterprise sales and charges | 14,355,650 |
| Interest on student loans | 30,081 |
| Other operating revenues | 10,961,645 |
| Total operating revenues | 106,412,704 |
| Operating expenses (Note 14): | |
| Salaries | 137,968,184 |
| Benefits (Notes 9 and 10) | 44,180,682 |
| Supplies, materials, and other operating expenses and services | 56,793,558 |
| Utilities | 3,962,452 |
| Depreciation (Note 4) | 21,960,667 |
| Total operating expenses | 264,865,543 |
| Loss from operations | (158,452,839) |
| Non-operating revenues (expenses): | |
| State apportionment, non-capital | 67,599,547 |
| Local property taxes (Note 7) | 76,655,175 |
| State taxes and other revenues | 5,482,326 |
| Investment income, noncapital | 192,512 |
| Investment income (loss), capital | (3,080,901) |
| Interest expense on capital asset-related debt, net | (27,204,184) |
| Total non-operating revenues (expenses) | 119,644,475 |
| Loss before capital revenues | (38,808,364) |
| Capital revenues: | |
| State apportionment | 353,164 |
| Local property taxes and revenues | 34,113,408 |
| Total capital revenues | 34,466,572 |
| Decrease in net assets | (4,341,792) |
| Net assets, July 1, 2009, as previously reported | 120,975,378 |
| Restatement (Note 16) | (7,556,752) |
| Net assets, July 1, 2009, as restated | 113,418,626 |
| Net assets, June 30, 2010 | $ 109,076,834 |

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

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**DISCRETELY PRESENTED COMPONENT -
FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
(A Nonprofit Organization)**

**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**

**For the Year Ended June 30, 2010**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenues: | | | | |
| Contributions | $ 1,813,809 | $ 2,404,407 | $ 188,603 | $ 4,406,819 |
| Donated services and facilities (Note 15) | 81,862 | | | 81,862 |
| Interest and dividend income (loss) | 535,683 | 154,942 | | 690,625 |
| Change in fair value of investments (Note 2) | 339,858 | 532,662 | | 872,520 |
| Other revenues | 20,617 | 122,076 | | 142,693 |
| Net assets released from restrictions by payments | 2,979,411 | (2,979,411) | | |
| Transfers | 18,790 | | (18,790) | |
| Total revenues | 5,790,030 | 234,676 | 169,813 | 6,194,519 |
| Expenses: | | | | |
| Grants and related activities | 4,489,940 | | | 4,489,940 |
| Donated services and facilities (Note 15) | 81,862 | | | 81,862 |
| Total expenses | 4,571,802 | | | 4,571,802 |
| Changes in net assets | 1,218,228 | 234,676 | 169,813 | 1,622,717 |
| Net assets, July 1, 2009, as previously reported | 309,817 | 6,675,906 | 16,241,870 | 23,227,593 |
| Restatement (Note 11) | 1,795,343 | (21,210) | (1,774,133) | |
| Net assets, July 1, 2009, as restated | 2,105,160 | 6,654,696 | 14,467,737 | 23,227,593 |
| Net assets, June 30, 2010 | $ 3,323,388 | $ 6,889,372 | $ 14,637,550 | $ 24,850,310 |

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

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2010**

| | |
|---|---|
| Cash flows from operating activities: | |
| Tuition and fees | $ 42,333,772 |
| Federal grants and contracts | 24,557,380 |
| State grants and contracts | 13,164,601 |
| Local grants and contracts | 1,101,767 |
| Payments to suppliers | (33,765,189) |
| Payments to utilities | (4,291,771) |
| Payment to employees | (137,978,238) |
| Payment for benefits | (48,824,296) |
| Payment to students | (20,124,714) |
| Loans to students | 104,183 |
| Auxiliary enterprises sales and charges | 14,378,972 |
| Other receipts, net | 4,137,407 |
| Net cash used in operating activities | (145,206,126) |
| Cash flows from noncapital financing activities: | |
| State appropriations | 66,107,242 |
| Local property taxes | 76,700,060 |
| State taxes and other revenues | 6,082,758 |
| Scholarship and trust receipts | (58,764) |
| Scholarship and trust disbursements | 9,462 |
| Student organization agency receipts | 1,622,221 |
| Student organization agency disbursements | (1,277,385) |
| Net cash provided by noncapital financing activities | 149,185,594 |
| Cash flows from capital and related financing activities: | |
| State appropriations for capital purposes | 3,040,485 |
| Local revenue for capital purposes | 34,027,143 |
| Purchase of capital assets | (44,878,559) |
| Principal paid on capital debt | (5,822,085) |
| Interest paid on capital debt, net | (26,320,376) |
| Net cash used in capital and related financing activities | (39,953,392) |
| Cash flows from investing activities: | |
| Interest income | 12,566,988 |
| Short-term investments | (176) |
| Net cash provided by investing activities | 12,566,812 |
| Net decrease in cash and cash equivalents | (23,407,112) |
| Cash and cash equivalents balance, beginning of year | 331,704,664 |
| Cash and cash equivalents balance, end of year | $ 308,297,552 |

(Continued)

## STATEMENT OF CASH FLOWS
(Continued)
**For the Year Ended June 30, 2010**

| | |
|---|---|
| Reconciliation of loss from operations to net cash used in operating activities: | |
| Loss from operations | $ (158,452,839) |
| Adjustments to reconcile loss from operations to net cash used in operating activities: | |
| Depreciation expense | 21,960,667 |
| Changes in assets and liabilities: | |
| Receivables, net | 1,130,373 |
| Inventories | (87,408) |
| Prepaid expenses | (468,581) |
| Net OPEB asset | (3,788,600) |
| Accounts payable | 2,900,283 |
| Deferred revenue | (695,037) |
| Compensated absences | 25,182 |
| Claims liability | (647,613) |
| Interest on investments | (7,082,553) |
| Net cash used in operating activities | $ (145,206,126) |
| Noncash capital and related financing activities: | |
| Accretion of interest | $ 8,375,567 |

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

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**DISCRETELY PRESENTED COMPONENT UNIT -**
**FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION**
**(A Nonprofit Organization)**

**STATEMENT OF CASH FLOWS**

**For the Year Ended June 30, 2010**

| | |
|---|---|
| Cash flows from operating activities: | |
| Increase in net assets | $ 1,622,717 |
| Adjustments to reconcile increase in net assets | |
| to net cash used in operating activities: | |
| Change in fair value of investments | (872,520) |
| Effects of changes in: | |
| Increase in contributions receivable | (558,790) |
| Decrease in accounts receivable | 371 |
| Decrease in accrued interest receivable | 11,514 |
| Decrease in prepaid expenses | 1,827 |
| Increase in accounts payable and accrued liabilities | 43,325 |
| Decrease in due to other funds | (231,431) |
| Net cash used in operating activities | 17,013 |
| Cash flows used in investing activities: | |
| Sale of investments | (1,562,865) |
| Net decrease in cash and cash equivalents | (1,545,852) |
| Cash and cash equivalents - beginning of year | 5,125,238 |
| Cash and cash equivalents - end of year | $ 3,579,386 |
| Supplemental information: | |
| Noncash investing activities: | |
| Change in fair value of investments | $ 872,520 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Foothill-De Anza Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Codification Section (Cod. Sec.) 2100.101. The District is classified as a state instrumentality under Internal Revenue Code Section 115.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Cod. Sec. 2100.101 as amended by GASB Cod. Sec. 2100.138. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion. The District identified the Foothill-De Anza Community College District Financing Corporation (Financing Corporation) and the Foothill-De Anza Community Colleges Foundation (Foundation) as its potential component units.

The Financing Corporation is an organization whose activities to date have been limited to the issuance of Certificates of Participation and entering into lease arrangements with the District as discussed in Note 6. The District and the Financing Corporation have financial and operational relationships which met the reporting entity definition of GASB Cod. Sec. 2100.101 for inclusion of the Financing Corporation as a component unit of the District. Accordingly, the financial activities of the Financing Corporation have been blended with the financial statements of the District.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investments earnings to the District. The funds contributed by the Foundation to the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Cod. Sec. 2100.138 and, therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements. The Foundation also issues a stand-alone audited, financial report, which can be obtained from the District or the Foundation.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

GASB released Cod. Sec. 2200.101 in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Cod. Sec. Co5.101 which applies the new reporting standards of GASB Cod. Sec. 2200.190-.191 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Cod. Sec. 2200 and 2300. The District adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Cod. Sec. 2100.138 which amends GASB Cod. Sec. 2100.119-.140, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by the aforementioned provisions. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

Financial Presentation

For financial presentation purposes, the Financing Corporation financial activity has been blended, or combined, with the financial data of the District.

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's financial statements provide a comprehensive one-time look at its financial activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All significant intra-agency transactions have been eliminated.

The Foundation's financial statements are prepared on the accrual basis of accounting. Recognition of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statement of Net Assets as unrestricted, temporarily restricted or permanently restricted net assets based on the absence or existence of donor-imposed restrictions.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after that date.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in the Santa Clara County Treasury are considered cash equivalents.

### Restricted Cash, Cash Equivalents and Investments

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as non current assets in the statement of net assets.

### Fair Value of Investments

The District records its investment in Santa Clara County Treasury at fair value. Changes in fair value are reported as revenue in the Statement of Revenues, Expenses and Change in Net Assets. The fair value of investments, including the Santa Clara County Treasury external investment pool, at June 30, 2010 approximated their carrying value.

Because the Foundation's deposits are maintained in a recognized pooled investment fund under the care of a third party and the Foundation's share of the pool does not consist of specific, identifiable investment securities owned by the Foundation, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

The Foundation's investments are pooled and are valued at their fair market value based upon quoted market prices, when available, or estimates of fair value in the balance sheet and unrealized and realized gains and losses are included in the Statement of Revenues, Support, Expenses and Change in Net Assets.

### Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the Federal Government, State and Local Governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Contributions

Contributions receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. An allowance for uncollectible contributions receivable is established based upon estimated losses related to specific amounts and is recorded through a provision for bad debt which is charged to expense. Unconditional promises to give that are expected to be collected with future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable in the years in which those promises are received. As of June 30, 2010, the Foundation has applied a discount rate of 1.08 to all contributions expected to be received in future years greater than one year. At June 30, 2010, an allowance for uncollectible contributions is not considered necessary and has not been recorded.

Inventory

Inventory consists of stores supplies, cafeteria food, textbooks and educational supplies. Except for bookstore inventories, which are valued using the retail method, inventories are stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Capital assets are recorded at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the District's capitalization policy included all items with a unit cost of $5,000 or more, and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for land improvements, 8 years for most equipment and vehicles, and 3 years for technology equipment such as computers.

The District evaluates capital assets for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

Compensated Absences

Compensated absences costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and PERS employees, when the employee retires.

### Deferred Revenue

Revenue from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

### Net Assets

The District's net assets are classified as follows:

*Invested in capital assets, net of related debt:* This represents the District's total investment in capital assets, net of associated outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

*Restricted net assets:* Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Unrestricted net assets:* Unrestricted net assets represent resources derived from student tuition and fees, State apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

The Foundation's net assets are classified as follows:

*Unrestricted:* Unrestricted net assets consist of all resources of the Foundation, which have not been specifically restricted by a donor.

*Temporarily restricted:* Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenue, Expense, and Change in Net Assets as net assets released from restriction.

*Permanently restricted:* Permanently restricted net assets are nonexpendable net assets consisting of endowment and similar type funds in which the donor has stipulated as condition of the gift, that the principal be maintained in perpetuity.

In August 2008, the FASB issued Accounting Standard Codification (ASC) 958.205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to and Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and Enhanced Disclosures for All Endowment Funds (previously, FSP FAS 117-1), which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. In 2008, the State of California adopted UPMIFA, which became effective January 1, 2009. As a result of the adoption of UPMIFA, the Foundation has reclassified net assets previously stated as permanently restricted as temporarily restricted and unrestricted through a cumulative change in accounting principle. The following disclosures are made as required by ASC 958.205.

The Foundation's endowment currently consists of 58 individual funds established for the purpose of supporting education at Foothill and De Anza Colleges as well as the District. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation follows the Foundation's adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds.

The investment objective is to optimize earnings on all invested funds, while maintaining the preservation of capital. Risk will be minimized by investing in high quality fixed income and equity instruments with the objective of maintaining a balanced portfolio in accordance with the Foundation's investment policy.

State Apportionments

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Prior year corrections due to the recalculation in February 2010 will be recorded in the year computed by the State.

On-Behalf Payments

GASB Cod. Sec. 2200.190-.191 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructed districts not to record revenue and expenditures for these on-behalf payments.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

As more fully described in Note 8, the District is partially self-insured with regard to workers' compensation and medical claims and certain other risks. The amount of the outstanding liability at June 30, 2010 for workers' compensation and medical claims includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date and is based on information provided by an outside actuary. Outstanding claims which are expected to become due and payable within the subsequent fiscal year are reflected as an accounts and claims payable liability and the balance of the estimated liability is reflected as a long-term liability.

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Cod. Sec. Co5.101 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

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

*Nonoperating revenues:* Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Cod. Sec. Co5.101, such as State appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and change in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

### New Financial Accounting Pronouncements

*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

In March 2009, the GASB issued Governmental Accounting Standards Board Codification Section (GASB Cod. Sec.) 1000, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB Cod. Sec. 1000). This Statement is intended to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standard's Board (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. The adoption of this update did not have a material impact on the District's net assets, change in net assets and cash flows.

*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*

In March 2009, the GASB issued GASB Cod. Sec. 2250, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (GASB Cod. Sec. 2250). The objective of this Statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) in the GASB standards. The adoption of this Statement did not have a material impact on the District's net assets, change in net assets and cash flows.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

District cash, cash equivalents and investments at June 30, 2010, consisted of the following:

| | |
|---|---|
| Pooled Funds: | |
| Cash in County Treasury | $ 73,879,521 |
| Deposits: | |
| Cash on hand and in banks | 1,118,949 |
| Cash held by Fiscal Agents | 233,299,082 |
| Total cash and cash equivalents | 308,297,552 |
| Less: restricted cash and cash equivalents: | |
| Cash held by Fiscal Agents | 233,299,082 |
| Cash held in trust for students and scholarships | 3,015,239 |
| Total restricted cash and cash equivalents | 236,314,321 |
| Net cash and cash equivalents | $ 71,983,231 |
| Investments: | |
| Certificates of deposit | $ 81,501 |

Foundation cash and cash equivalents at June 30, 2010 totaled $3,579,386.

The Foundation maintains substantially all of its cash in the Santa Clara County Treasury commingled in a concentration account held by Foothill-De Anza Community College District. The County pools and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

As provided for by in Education Code, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool.

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2010, the Santa Clara County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Under provision of the District and Foundation's policies and in accordance with Sections 53601 and 53602 of the California Government code, the District and Foundation may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2010, the carrying amount of the District's cash on hand and in banks (including certificates of deposit) was $1,200,450 and the bank balance was $1,096,349. The bank balance amount insured by the FDIC was $535,525.

### Cash with Fiscal Agent

Cash with Fiscal Agent of $233,299,082 represents amounts held in the District's name with third party custodians for future construction projects and repayment of long-term liabilities.

### Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2010, the District had no significant interest rate risk related to cash and investments held.

### Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

### Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2010, the District had no concentration of credit risk.

### District Investments

At June 30, 2010, the District's investments, with a carrying value of $81,501, which equals market value, consist of certificates of deposit. The certificates of deposit are collateralized as required by California State law for any amount exceeding FDIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation Investments

The Foundation investments consist of the Commonfund mutual funds and zero coupon collateralized mortgage obligations, backed by the Government National Mortgage Association. The Foundation investments are pooled and are valued at their fair market value based upon quoted market prices, when available, or estimates of fair value in the balance sheet and unrealized and realized gains and losses are included in the Foundation Statement of Revenues, Expenses and Change in Net Assets. At June 30, 2010, the Foundation's investments consisted of the following:

Foundation investments at June 30, 2010 consisted of the following:

| | |
|---|---|
| Commonfund: | |
| Multi-strategy Equity Fund | $ 12,410,028 |
| Multi-strategy Bond Fund | 9,093,598 |
| Total Commonfund | 21,503,626 |
| Collateralized mortgage obligation | 4,154 |
| Total investments | $ 21,507,780 |

Foundation Investments

The following presents information about the Foundation's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Foundation to determine such fair value based on the hierarchy:

Level 1 - Quoted market prices or identical instruments traded in active exchange markets.

Level 2 - Significant other observable inputs such as quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a reporting entity's own assumptions about the methods that market participants would use in pricing an asset or liability.

The Foundation is required or permitted to record the following assets at fair value on a recurring basis:

| Description | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investment securities | $ 21,507,780 | $ - | $ 21,507,780 | $ - |

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation Investments (Continued)

Certain investments were classified as Level 2 as comparable investment securities were used to determine fair value measurements.

The Foundation had no non recurring assets and no liabilities at June 30, 2010 which were required to be disclosed using the fair value hierarchy.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 are summarized as follows:

| | |
|---|---|
| Federal | $ 1,553,448 |
| State | 15,811,975 |
| Local and other | 8,896,096 |
| | 26,261,519 |
| Less allowance for doubtful accounts | (630,525) |
| | $ 25,630,994 |

The allowance for doubtful accounts is maintained at an amount which management considers sufficient to fully reserve and provide for the possible uncollectibility of other receivable balances.

At June 30, 2010 the Foundation had $7,797 in accounts receivable due from local sources.

Contributions receivable with the Foundation as of June 30, 2010 consist of the following:

| | |
|---|---|
| Due within one year | $ 1,058,296 |
| Due within one to five years | 121,408 |
| Discount | (25,421) |
| Contributions receivable, net | $ 1,154,283 |

## 4. CAPITAL ASSETS

Capital asset activity consists of the following:

| | Balance July 1, 2009 | Additions and Transfers | Deletions and Transfers | Balance June 30, 2010 |
|---|---|---|---|---|
| Non-depreciable: | | | | |
| Land | $ 2,489,776 | | | $ 2,489,776 |
| Construction work in progress | 39,648,764 | $ 43,334,883 | $ (4,705,829) | 78,277,818 |
| Depreciable: | | | | |
| Land improvements | 46,510,830 | | | 46,510,830 |
| Building improvements | 137,615,477 | 4,571,875 | | 142,187,352 |
| Portable buildings | 5,273,060 | | | 5,273,060 |
| Buildings | 251,304,185 | | | 251,304,185 |
| Equipment | 29,853,888 | 1,677,630 | (7,800) | 31,523,718 |
| Software | 1,897,645 | | | 1,897,645 |
| Total | 514,593,625 | 49,584,388 | (4,713,629) | 559,464,384 |
| Less accumulated depreciation: | | | | |
| Land improvements | 19,551,915 | 4,299,940 | | 23,851,855 |
| Building improvements | 75,756,528 | 10,190,751 | | 85,947,279 |
| Portable buildings | 2,529,798 | 351,537 | | 2,881,335 |
| Buildings | 47,308,357 | 5,026,083 | | 52,334,440 |
| Equipment | 20,459,018 | 1,998,997 | (7,800) | 22,450,215 |
| Software | 1,742,991 | 93,359 | | 1,836,350 |
| Total | 167,348,607 | 21,960,667 | (7,800) | 189,301,474 |
| Capital assets, net | $ 347,245,018 | $ 27,623,721 | $ (4,705,829) | $ 370,162,910 |

## 5. DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

| | |
|---|---|
| Deferred Federal, State and local grants and contract revenue | $ 5,122,175 |
| Deferred student fees | 2,398,542 |
| Deferred tuition and other student enrollment fees | 2,742,873 |
| Deferred Celebrity Forum ticket sales | 1,612,900 |
| Deferred event sales | 54,436 |
| Total deferred revenue | $ 11,930,926 |

## 6. LONG-TERM LIABILITIES

Long-term debt at June 30, 2010 consisted of the following:

| Description | Year of Issue | Interest Rate | Final Maturity | Original Amount | Balance June 30, 2010 |
|---|---|---|---|---|---|
| General Obligation Bonds, Series A | 2000 | 4.30%-6.26% | 2030 | $ 99,995,036 | $ 26,145,036 |
| General Obligation Bonds, Series B | 2004 | 2.00%-5.79% | 2036 | $ 90,100,063 | 60,710,063 |
| General Obligation Bonds, Series C | 2005 | 3.00%-5.03% | 2036 | $ 57,904,900 | 57,677,253 |
| General Obligation, Refunding Bonds, Series A | 2003 | 2.00%-5.00% | 2030 | $ 67,475,000 | 62,745,000 |
| General Obligation Refunding Bonds, Series B | 2005 | 3.00%-5.25% | 2021 | $ 22,165,000 | 22,010,000 |
| 2006 General Obligation Bonds, Series A | 2006 | 4.00%-5.00% | 2036 | $ 149,995,250 | 149,995,250 |
| 2006 General Obligation Bonds, Series B | 2006 | 4.00%-5.00% | 2036 | $ 99,996,686 | 99,996,686 |
| Accreted interest on Capital Appreciation Bonds | | | | | 43,638,153 |
| Financing Corporation Certificates of Participation | 1997 | 3.80%-5.05% | 2012 | $ 12,520,000 | 1,395,000 |
| Refunding Certificates of Participation | 2003 | 1.00%-4.375% | 2021 | $ 18,275,000 | 12,680,000 |
| 2006 Financing COPs | 2006 | 3.50%-4.00% | 2021 | $ 11,335,000 | 9,375,000 |
| Capitalized lease obligations | 1999-2005 | 3.67%-5.978% | 2009-2020 | $ 9,005,573 | 3,348,098 |
| Total long-term debt | | | | | 549,715,539 |
| Total current portion of long-term debt | | | | | (15,755,453) |
| | | | | | 533,960,086 |
| Compensated absences payable - noncurrent | | | | | 1,922,800 |
| Unpaid claims and claim adjustment expenses (Note 8) | | | | | 5,136,857 |
| Total noncurrent liabilities | | | | | $ 541,019,743 |

## 6. LONG-TERM LIABILITIES (Continued)

The capitalized lease obligations are generally collateralized by the leased property. The annual debt service for these leases is paid from the operating revenues of the District.

Changes in general long-term debt (excluding compensated absences and claims payable) are as follows:

| | General Obligation Bonds Series A | General Obligation Bonds Series B | General Obligation Bonds Series C | General Obligation Refunding Bonds Series A | General Obligation Refunding Bonds Series B | General Obligation Refunding Bonds Series A |
|---|---|---|---|---|---|---|
| Balance, July 1, 2009 | $ 28,145,036 | $ 61,460,063 | $ 57,762,253 | $ 62,980,000 | $ 22,010,000 | $ 149,995,250 |
| New issuance | | | | | | |
| Principal payments | 2,000,000 | 750,000 | 85,000 | 235,000 | | |
| Balance, June 30, 2010 | $ 26,145,036 | $ 60,710,063 | $ 57,677,253 | $ 62,745,000 | $ 22,010,000 | $ 149,995,250 |

| | 2006 General Obligation Bonds Series B | Accreted Interest on Capital Appreciation Bonds | Financing COPs | Refunding COPs | 2006 Financing COPs | Capitalized Lease Obligations | Total |
|---|---|---|---|---|---|---|---|
| Balance, July 1, 2009 | $ 99,996,686 | $ 35,262,586 | $ 2,045,000 | $ 13,510,000 | $ 10,050,000 | $ 3,945,183 | $ 547,162,057 |
| New issuance | | 8,375,567 | | | | | 8,375,567 |
| Principal payments | | | 650,000 | 830,000 | 675,000 | 597,085 | 5,822,085 |
| Balance, June 30, 2010 | $ 99,996,686 | $ 43,638,153 | $ 1,395,000 | $ 12,680,000 | $ 9,375,000 | $ 3,348,098 | $ 549,715,539 |

## 6. LONG-TERM LIABILITIES (Continued)

The general long-term debt maturity schedules (excluding compensated absences and claims payable) is as follows:

| 1999 General Obligation Bonds, Series A | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 2,000,000 | $ 194,900 | $ 2,194,900 |
| 2012 | 2,415,000 | 72,450 | 2,487,450 |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016-2020 | 9,418,699 | 16,896,301 | 26,315,000 |
| 2021-2025 | 5,899,454 | 16,610,546 | 22,510,000 |
| 2026-2030 | 5,323,306 | 23,206,694 | 28,530,000 |
| 2031 | 1,088,577 | 5,916,423 | 7,005,000 |
| | $ 26,145,036 | $ 62,897,314 | $ 89,042,350 |

| 1999 General Obligation Bonds, Series B | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 1,150,000 | $ 1,142,145 | $ 2,292,145 |
| 2012 | 1,350,000 | 1,090,458 | 2,440,458 |
| 2013 | 1,575,000 | 1,031,845 | 2,606,845 |
| 2014 | 1,815,000 | 956,545 | 2,771,545 |
| 2015 | 2,095,000 | 869,270 | 2,964,270 |
| 2016-2020 | 2,735,000 | 3,734,805 | 6,469,805 |
| 2021-2025 | 14,062,604 | 7,005,746 | 21,068,350 |
| 2026-2030 | 10,787,080 | 30,947,920 | 41,735,000 |
| 2031-2035 | 17,422,170 | 74,017,830 | 91,440,000 |
| 2036-2037 | 7,718,209 | 41,276,791 | 48,995,000 |
| | $ 60,710,063 | $ 162,073,355 | $ 222,783,418 |

## 6. LONG-TERM LIABILITIES (Continued)

| 1999 General Obligation Bonds, Series C | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 340,000 | $ 1,804,713 | $ 2,144,713 |
| 2012 | 445,000 | 1,792,381 | 2,237,381 |
| 2013 | 560,000 | 1,775,700 | 2,335,700 |
| 2014 | 685,000 | 1,749,125 | 2,434,125 |
| 2015 | 835,000 | 1,711,125 | 2,546,125 |
| 2016-2020 | 7,275,000 | 7,653,125 | 14,928,125 |
| 2021-2025 | 10,132,953 | 9,119,672 | 19,252,625 |
| 2026-2030 | 7,127,217 | 18,444,033 | 25,571,250 |
| 2031-2035 | 16,192,083 | 35,514,167 | 51,706,250 |
| 2036-2037 | 14,085,000 | 640,125 | 14,725,125 |
| | $ 57,677,253 | $ 80,204,166 | $ 137,881,419 |

| General Obligation Refunding Bonds, Series A | Principal | Interest | Total |
|---|---|---|---|
| 2011 | $ 245,000 | $ 3,111,521 | $ 3,356,521 |
| 2012 | 250,000 | 3,104,219 | 3,354,219 |
| 2013 | 3,140,000 | 3,014,119 | 6,154,119 |
| 2014 | 3,645,000 | 2,832,088 | 6,477,088 |
| 2015 | 4,180,000 | 2,631,906 | 6,811,906 |
| 2016-2020 | 1,180,000 | 12,526,522 | 13,706,522 |
| 2021-2025 | 16,365,000 | 10,828,694 | 27,193,694 |
| 2026-2030 | 27,220,000 | 5,205,250 | 32,425,250 |
| 2031 | 6,520,000 | 163,000 | 6,683,000 |
| | $ 62,745,000 | $ 43,417,319 | $ 106,162,319 |

| General Obligation Refunding Bonds, Series B | Principal | Interest | Total |
|---|---|---|---|
| 2011 | | $ 1,155,525 | $ 1,155,525 |
| 2012 | | 1,155,525 | 1,155,525 |
| 2013 | | 1,155,525 | 1,155,525 |
| 2014 | | 1,155,525 | 1,155,525 |
| 2015 | | 1,155,525 | 1,155,525 |
| 2016-2020 | $ 12,690,000 | 4,456,463 | 17,146,463 |
| 2021-2022 | 9,320,000 | 503,475 | 9,823,475 |
| | $ 22,010,000 | $ 10,737,563 | $ 32,747,563 |

## 6. LONG-TERM LIABILITIES (Continued)

| | Principal | Interest | Total |
|---|---|---|---|
| **2006 General Obligation Bonds, Series A** | | | |
| 2011 | $ 5,395,000 | $ 5,935,225 | $ 11,330,225 |
| 2012 | 6,070,000 | 5,705,925 | 11,775,925 |
| 2013 | 955,000 | 5,560,650 | 6,515,650 |
| 2014 | 1,265,000 | 5,505,150 | 6,770,150 |
| 2015 | 1,600,000 | 5,433,525 | 7,033,525 |
| 2016-2020 | 14,055,000 | 25,431,250 | 39,486,250 |
| 2021-2025 | 27,445,000 | 20,341,750 | 47,786,750 |
| 2026-2030 | 46,460,000 | 11,421,500 | 57,881,500 |
| 2031-2035 | 38,300,102 | 38,810,904 | 77,111,006 |
| 2036-2037 | 8,450,148 | 18,491,308 | 26,941,456 |
| | $ 149,995,250 | $ 142,637,187 | $ 292,632,437 |
| **2006 Obligation Refunding Bonds, Series B** | | | |
| 2011 | $ 3,925,000 | $ 4,005,525 | $ 7,930,525 |
| 2012 | 4,400,000 | 3,839,025 | 8,239,025 |
| 2013 | 630,000 | 3,735,275 | 4,365,275 |
| 2014 | 840,000 | 3,698,525 | 4,538,525 |
| 2015 | 1,065,000 | 3,650,900 | 4,715,900 |
| 2016-2020 | 9,375,000 | 17,097,500 | 26,472,500 |
| 2021-2025 | 18,330,000 | 13,700,125 | 32,030,125 |
| 2026-2030 | 31,100,000 | 7,694,013 | 38,794,013 |
| 2031-2035 | 25,104,837 | 23,659,387 | 48,764,224 |
| 2036-2037 | 5,226,849 | 11,637,877 | 16,864,726 |
| | $ 99,996,686 | $ 92,718,152 | $ 192,714,838 |
| **Financing COPs** | | | |
| 2011 | $ 680,000 | $ 69,070 | $ 749,070 |
| 2012 | 715,000 | 35,750 | 750,750 |
| | $ 1,395,000 | $ 104,820 | $ 1,499,820 |

## 6. LONG-TERM LIABILITIES (Continued)

| | Principal | Interest | Total |
|---|---|---|---|
| **Refunding COPs** | | | |
| 2011 | $ 850,000 | $ 496,377 | $ 1,346,377 |
| 2012 | 880,000 | 468,902 | 1,348,902 |
| 2013 | 910,000 | 439,133 | 1,349,133 |
| 2014 | 940,000 | 407,213 | 1,347,213 |
| 2015 | 975,000 | 372,725 | 1,347,725 |
| 2016-2020 | 5,540,000 | 1,205,000 | 6,745,000 |
| 2021 | 2,585,000 | 113,506 | 2,698,506 |
| | $ 12,680,000 | $ 3,502,856 | $ 16,182,856 |
| **2006 Financing COPs** | | | |
| 2011 | $ 705,000 | $ 354,223 | $ 1,059,223 |
| 2012 | 730,000 | 329,256 | 1,059,256 |
| 2013 | 755,000 | 302,739 | 1,057,739 |
| 2014 | 785,000 | 273,306 | 1,058,306 |
| 2015 | 815,000 | 242,173 | 1,057,173 |
| 2016-2020 | 4,565,000 | 693,782 | 5,258,782 |
| 2021 | 1,020,000 | 27,200 | 1,047,200 |
| | $ 9,375,000 | $ 2,222,679 | $ 11,597,679 |
| **Capitalized Lease Obligations** | | | |
| 2011 | $ 465,453 | $ 141,204 | $ 606,657 |
| 2012 | 488,025 | 118,632 | 606,657 |
| 2013 | 511,706 | 94,951 | 606,657 |
| 2014 | 399,963 | 71,280 | 471,243 |
| 2015 | 222,547 | 59,114 | 281,661 |
| 2016-2020 | 1,260,404 | 147,884 | 1,408,288 |
| | $ 3,348,098 | $ 633,065 | $ 3,981,163 |

### Certificates of Participation

On October 1, 1997, the Financing Corporation issued Certificates of Participation (COPs) in the amount of $12,520,000 to provide proceeds for the acquisition, construction and installation of certain electrical, technology and air conditioning equipment, to make repairs and improvements to existing buildings and to defease an existing COPs. The COPs bear effective interest rates ranging from 3.8% to 5.05% and mature through 2012.

## 6. LONG-TERM LIABILITIES (Continued)

Certificates of Participation (Continued)

In June 2003, the Financing Corporation issued $18,275,000 of Certificates of Participation with effective interest rates ranging from 1% to 4.375% and mature through 2021. The Certificate proceeds are being used to advance refunds to the outstanding Advanced Refunding COPs and certain debt issue costs and interest.

On November 1, 2006, the Financing Corporation issued Certificates of Participation (COPs) in the amount of $11,335,000 for the construction and renovation of certain District facilities and the acquisition and installation of equipment, pay capitalized interest with respect to the Certificates through approximately June 30, 2008 and pay costs related to the execution and delivery of the Certificates. The COPs bear effective interest rates ranging from 3.5% to 4.0% and mature through 2021.

General Obligation Bonds

The District, Santa Clara County, California, Election of 1999 General Obligation Bonds, Series A (the "Bonds") were authorized at an election of registered voters held on November 2, 1999, at which two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of $248,000,000 in principal amount of general obligation bonds of the District. The Bonds are being issued to construct and repair college educational facilities. Accordingly, the District sold bonds totaling $99,995,036 on May 2, 2000.

In October 2002, the District issued General Obligation Bonds in the amount of $67,475,000 for the purpose of refunding a portion of the 1999 Series A General Obligation Bonds.

In September 2003, the District issued Series B, 1999 General Obligation Bonds aggregating $90,100,063. The bonds mature through 2036 and bear interest at rates ranging from 2% to 5.79%. The proceeds from the issuance will be used to construct and modernize education facilities.

In September 2005, the District issued Series C, 1999 General Obligation Bonds aggregating $57,904,900. The bonds mature through 2036 and bear interest rates from 3.00% to 5.03%. The proceeds from the issuance will be used to construct and modernize college educational facilities. The District also issued General Obligation Refunding Bonds in the amount of $22,165,000 for the purpose of refunding a portion of the aggregate amount outstanding of the Series B 1999 General Obligation Bonds.

The District, Santa Clara County, California, Election of 2006 General Obligation Bonds, Series A (the "Bonds") were authorized at an election of registered voters held on June 6, 2006 at which more than fifty-five percent of the persons voting on the proposition voted to authorize the issuance and sale of $490,800,000 principal amount of general obligation bonds of the District. The Bonds are being issued to finance the acquisition, construction, modernization and renovation of certain District facilities approved by the District's registered voters and to pay costs of issuance associated with the Bonds. Accordingly, the District sold bonds totaling $149,995,250 and $99,996,686 on May 10, 2007.

## 7. PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessor of the County of Santa Clara and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

## 8. SELF-INSURANCE PROGRAM

Effective March 1, 2003, the District is self-insured for certain risks and employee benefits. Workers' compensation claims are self-insured to $250,000. Excess insurance has been purchased which covers workers' compensation claims between $250,000 and $10,000,000. The estimate of incurred but not reported and reported claims was actuarially determined based upon historical experience and actuarial assumptions. The current and long-term portions of the liability for the unpaid claims for workers' compensation losses as of June 30, 2010 were $1,251,960 and $5,053,192, respectively.

The District is also self-insured for health care claims of employees participating in the District's health care plans. The District carries stop loss insurance to limit its aggregate liability to 125% of the expected paid claims and its individual claim liability limit to $100,000 per care year. The current and long-term portions of the liability for health care claims at June 30, 2010 were $1,942,036 and $83,665, respectively.

## 8. SELF-INSURANCE PROGRAM (Continued)

The claims reserve activity for the years ended June 30, 2010 and 2009 is as follows:

| | 2010 | 2009 |
|---|---|---|
| Unpaid claims and claim adjustment expenses, beginning of year | $ 9,082,835 | $ 11,377,128 |
| Incurred claims and claim adjustment expenses: | | |
| Provision for covered events of the current year | 20,773,305 | 16,618,627 |
| Provision for covered events of prior years | (751,982) | (2,294,293) |
| Total incurred claims and claims adjustment expenses | 20,021,323 | 14,324,334 |
| Payments: | | |
| Claims and claim adjustment expenses | 20,773,305 | 16,618,827 |
| Total unpaid claims and claim adjustment expenses, end of year | 8,330,853 | 9,082,835 |
| Less current portion included in accounts and claims payable | 3,193,996 | 3,298,365 |
| Total non-current unpaid claims and claim adjustment expenses, end of year | $ 5,136,857 | $ 5,784,470 |

## 9. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 100 Waterfront Place, West Sacramento, California 95605.

## 9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Plan Description (Continued)

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

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

## 9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2010, 2009, and 2008 were $5,428,107, $5,556,997 and $5,541,987, respectively, and equals 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2008, the independent actuaries for STRS determined that, at June 30, 2008, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by $22.5 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of $22.5 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Plan as of June 30, 2008, the independent actuaries for STRS determined that, at June 30, 2008, the actuarial value of the CB program's actuarial value of assets exceeded the program's accrued liabilities by $861,000. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Descriptions

All full-time classified employees participate in CalPERS, a multiple employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

## 9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7% of their salary and the district is required to contribute an actuarially determined rate. The District's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ended in July 2003. The required employer contribution rate for fiscal year 2009-2010 was 9.709% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, 2008 were $5,008,652, $4,896,890 and $4,794,665, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

## 10. OTHER POSTEMPLOYMENT BENEFITS

The District established an Other Post-Employment Benefits (OPEB) plan in fiscal year ended June 30, 2007 including joining as a member of the Community College League Retiree Health Benefit Program Joint Powers Authority (JPA), a non-profit organization. The JPA serves as an irrevocable trust, ensuring that funds contributed into its Investment Trust are dedicated to serving the needs of member districts and their employees and retirees.

The District provides post-employment health care benefits for retired employees through a single employer plan. The benefits, employee and employer contributions are governed by the District's collective bargaining agreements.

The District provides retirees, hired before July 1, 1997, their dependents, and domestic partners with health and hospital benefits, prescription drug benefits, vision care benefits, and dental care benefits, subject to certain eligibility requirements. Employees hired on or after July 1, 1997 are eligible for a health benefits bridge program to cover the period of time between retirement eligibility for Medicare coverage.

## 10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

| | |
|---|---|
| Annual required contribution | $ 8,235,063 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | (954,468) |
| Annual OPEB cost | 7,280,595 |
| Contributions made | (9,188,716) |
| Increase in net OPEB asset | (1,908,121) |
| Net OPEB asset - beginning of year | (1,880,479) |
| Net OPEB asset - end of year | $ (3,788,600) |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2010 and the preceding two years were as follows (dollar amounts in thousands):

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Asset |
|---|---|---|---|
| June 30, 2008 | $ 8,388,089 | 100% | $ 1,638,140 |
| June 30, 2009 | $ 8,235,063 | 100% | $ 1,880,479 |
| June 30, 2010 | $ 7,280,595 | 100% | $ 3,778,600 |

As of November 1, 2009, the most recent actuarial valuation date, the plan was 3.3 percent funded. The actuarial accrued liability for benefits was $107 million, the actuarial value of assets was $4.7 million, resulting in an unfunded actuarial accrued liability (UAAL) of $144.4 million. The covered payroll (annual payroll of active employees covered by the Plan) was $83.9 million, and the ratio of the UAAL to the covered payroll was 172 percent.

**10. OTHER POSTEMPLOYMENT BENEFITS** (Continued)

Actuarial valuations 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 contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 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 value of assets, consistent with the long-term perspective of the calculations.

In the November 1, 2009 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4.0 percent. Both rates included a 3.0 percent salary increase assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a fifteen-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010, was 26 years.

## 11. ENDOWMENT NET ASSETS - FOUNDATION

Changes in endowment net assets for the fiscal year ended June 30, 2010, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year, as previously stated | $ (2,056,271) | $ 635,041 | $ 16,241,870 | $ 14,820,640 |
| Restatement [1] | 1,795,343 | (21,210) | (1,774,133) | |
| Endowment net assets, beginning of year, as restated | (260,928) | 613,831 | 14,467,737 | 14,820,640 |
| Allocation of interest and dividend income | 289,509 | 154,942 | | 444,451 |
| Change in fair value of investments | 339,858 | 179,545 | | 519,403 |
| Contributions | 135,655 | | 188,603 | 324,258 |
| Board designated transfers | 132,719 | (4,509) | (18,790) | 109,420 |
| Appropriation of endowment assets for expenditure | (293,373) | (277,866) | | (571,239) |
| Endowment net assets, end of year | $ 343,440 | $ 665,943 | $ 14,637,550 | $ 15,646,933 |

[1] During 2010 it was determined that board-restricted endowment funds and any residual earnings should be reported as unrestricted net assets. The funds were reported as temporarily and permanently restricted net assets in 2009.

Endowment net asset composition by type of fund for the fiscal year ended June 30, 2010, consisted of the following:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (1,357,333) | $ 665,943 | $ 14,637,550 | $ 13,946,160 |
| Board-restricted endowment funds | 1,700,773 | | | 1,700,773 |
| Total | $ 343,440 | $ 665,943 | $ 14,637,550 | $ 15,646,933 |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were 42 individual endowment funds with such deficiencies as of June 30, 2010.

## 12. COMMITMENTS AND CONTINGENCIES

State Controller's Office Audit

During 2004, the California State Controller's Office completed an audit of certain mandated costs claimed for reimbursement. The audit, which covered the period from July 1, 1999 through June 30, 2002, concluded that the State had overpaid the District by approximately $1,225,000.

District management is aggressively pursuing the appeals process. However, there can be no assurance that management will be successful in their appeal. The District estimated its ultimate liability to be $1,128,589. The State has offset mandated costs claims for years subsequent to June 30, 2002 in the amount of $654,857. As a result, the potential outstanding liability is $473,732 at June 30, 2010.

Contingent Liabilities

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received Federal and State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the District's financial position.

Operating Leases

Future minimum rental payments under all noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2010, are as follows:

| Years Ending June 30, | |
|---|---|
| 2011 | $ 1,461,015 |
| 2012 | 1,722,259 |
| 2013 | 2,043,588 |
| 2014 | 2,438,824 |
| | $ 7,665,686 |

Construction Commitments

As of June 30, 2010, the District has approximately $26.8 million in outstanding commitments on construction contracts.

## 13. JOINT POWERS AGREEMENTS

Schools Excess Liability Fund

The District is a participant in the Schools Excess Liability Fund (SELF), a statewide Joint Powers Agency established as a program to pool excess liability and workers' compensation coverage for participating California public educational agencies.

The Agency is governed by an Executive Board consisting of representatives from member districts. The Executive Board controls the operations of SELF, including selections of management and approval of operating budgets. The following is a summary of financial information for SELF at June 30, 2010 (in thousands):

| | | |
|---|---|---|
| Total assets | $ | 196,974 |
| Total liabilities | $ | 160,464 |
| Net assets | $ | 36,510 |
| Total revenues | $ | 19,384 |
| Total expenses | $ | 30,536 |
| Change in net asset | $ | (11,152) |

The relationship between Foothill-De Anza Community College District and the Joint Powers Authority is such that SELF is not a component unit of the District for financial reporting purposes.

South Bay Regional Public Safety Training Consortium

The District is a participant in the South Bay Regional Public Safety Training Consortium (SBRPSTC) established as a program to provide training and educational programs that will be responsive to the needs of the participating California Community College District public safety agencies.

The consortium is governed by a Board of Directors consisting of one representative and one alternate representative from each Community College District. The representatives shall be appointed by the Governing Board of the member Community College District.

The Board of Directors controls the operations of SBRPSTC and is authorized to make and enter into contracts: to employ personnel; to incur debts, liabilities or obligations; to acquire, hold or dispose of property; to receive gifts, contributions, and donations of property, fund services, and other forms of assistance from persons, firms, corporations and governmental agencies; and to sue and be sued in its own name.

The following is a summary of financial information for SBRPSTC at June 30, 2010 (in thousands):

| | | |
|---|---|---|
| Total assets | $ | 4,394 |
| Total liabilities | $ | 1,487 |
| Net assets | $ | 2,907 |
| Total revenues | $ | 7,224 |
| Total expenses | $ | 8,252 |
| Change in net asset | $ | (1,028) |

## 13. JOINT POWERS AGREEMENTS (Continued)

South Bay Regional Public Safety Training Consortium (Continued)

The relationship between Foothill-De Anza Community College District and the Joint Powers Authority is such that SBRPSTC is not a component unit of the District for financial reporting purposes.

## 14. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2010.

| Functional Classifications | Salaries | Benefits | Supplies, Materials and Other Operating Expenses | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|
| Instruction | $ 76,567,589 | $ 20,562,816 | $ 652,644 | $ 17,122 | | $ 97,800,171 |
| Academic Support | 11,872,208 | 3,929,532 | 1,228,268 | 14,709 | | 17,044,717 |
| Student Services | 13,098,843 | 4,580,178 | 1,904,533 | 22,935 | | 19,606,489 |
| Operations and Maintenance of Plant | 6,770,647 | 2,719,523 | 1,857,427 | 3,620,860 | | 14,968,457 |
| Institution Support | 17,467,382 | 9,472,551 | 15,199,922 | 95,459 | | 42,235,314 |
| Community Services & Economic Development | 1,729,845 | 468,882 | 2,758,880 | 6,081 | | 4,963,688 |
| Auxiliary Operations | 10,011,165 | 2,446,921 | 13,708,226 | 185,286 | | 26,351,598 |
| Student Aid | 450,505 | 279 | 19,483,658 | | | 19,934,442 |
| Depreciation (Note 4) | | | | | $ 21,960,667 | 21,960,667 |
| | $ 137,968,184 | $ 44,180,682 | $ 56,793,558 | $ 3,962,452 | $ 21,960,667 | $ 264,865,543 |

## 15. DONATED SERVICES AND FACILITIES

Donated services and facilities to the Foothill-De Anza Community Colleges Foundation totaling $81,862 for the year ended June 30, 2010 consisted of accounting and management support, comprehensive insurance, office space, and other miscellaneous internal services as provided by the District.

The valuation of such services and facilities is determined based upon various factors including employee salaries and benefits, office rent, and certain other operating expenses. All significant donated services and facilities and related costs are recognized and reported annually.

## 16. RESTATEMENT

It was determined that accrued interest payable on General Obligation Bonds at the District's fiscal year-end was not recorded in prior periods resulting in an overstatement of the District's net assets. The beginning net assets have been adjusted $7,556,752 to account for the actual interest expense incurred related to prior periods.

## 17. SUBSEQUENT EVENTS

The Foundation has reviewed all events occurring from June 30, 2010 through November 18, 2010, the date the financial statements were issued. No subsequent events occurred requiring accrual or disclosure.

# REQUIRED SUPPLEMENTARY INFORMATION

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)**
**FUNDING PROGRESS**

**For the Year Ended June 30, 2010**

**Schedule of Funding Progress**

| Fiscal Year Ended | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|---|
| 6/30/2008 | December 1, 2007 | $ 2,200,000 | $144,200,000 | $142,000,000 | 1.5% | $ 83,300,000 | 170% |
| 6/30/2009 | December 1, 2007 | $ 2,200,000 | $127,000,000 | $124,800,000 | 1.7% | $ 83,300,000 | 150% |
| 6/30/2010 | November 1, 2009 | $ 4,700,000 | $107,000,000 | $102,300,000 | 3.3% | $ 83,900,000 | 122% |

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

# SUPPLEMENTAL INFORMATION

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## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial and statistical information is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Foothill-De Anza Community College District and includes the following schedules:

- Organization
- Schedule of Expenditure of Federal Awards
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Basic Financial Statements
- Notes to Supplemental Information

The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
November 18, 2010

## ORGANIZATION

**June 30, 2010**

Foothill-De Anza Community College District was established on January 15, 1957, and comprises an area of approximately 105 square miles in Santa Clara County, California. There were no changes in the boundaries of the District during the current year. The District operates two community colleges, Foothill and De Anza.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2010 were composed of the following members:

### BOARD OF TRUSTEES

| Members | Office | Term Expires |
|---|---|---|
| Bruce Swenson | President | November 2013 |
| Pearl Cheng | Vice President | November 2013 |
| Betsy Bechtel | Trustee | November 2011 |
| Joan Barram | Trustee | November 2011 |
| Laura Casas Frier | Trustee | November 2011 |
| Etienne Bowie | Student Trustee | May 2011 |
| Thomasina Countess Russaw | Student Trustee | May 2011 |

### DISTRICT ADMINISTRATION

Linda M. Thor, Ed.D.
Chancellor

Judy C. Miner, Ed.D.
President, Foothill College

M. Brian Murphy, Ph.D.
President, De Anza College

### DISTRICT FISCAL ADMINISTRATION

Andy Dunn*
Vice Chancellor, Business Services

Hector Quinonez
District Controller

Bernata Slater
Director, Budget Operations

*Effective August 2010, Kevin McElroy

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2010**

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| U.S. Department of Education | | |
| Direct Programs: | | |
| Student Financial Aid Cluster: | | |
| Federal College Work Study (FWS) | 84.033 | $ 342,805 |
| Federal Pell Grant Program - Grants | 84.063 | 17,402,875 |
| Federal Pell Grant Program - Administration | 84.063 | 25,485 |
| Federal Supplemental Educational Opportunity Program | 84.007 | 396,385 |
| Academic Competitiveness Grant | 84.375 | 300,103 |
| Subtotal Financial Aid Cluster | | 18,467,653 |
| Passed through California Community College Chancellor's Office: | | |
| Vocational Education | 84.048 | 704,245 |
| ARRA: State Fiscal Stabilization Fund | 84.394 | 851,401 |
| Direct Programs: | | |
| Title III | 84.031A | 353,496 |
| Asian American - Strength, Minority | 84.382B | 583,492 |
| Passed through Stanford Research Institute: | | |
| SRI Domain Specific | 84.305A | 98,495 |
| Total U.S. Department of Education | | 21,058,782 |
| U.S. National Science Foundation | | |
| Direct Programs: | | |
| National Science Foundation - Web Based GIS | 47.076 | 91,976 |
| National Science Foundation - Scen-Based Learning | 47.076 | 92,697 |
| National Science Foundation - Destination | 47.076 | 186,553 |
| National Science Foundation - Comptechs | 47.076 | 247,548 |
| National Science Foundation - Nanotechnology | 47.076 | 93,057 |
| National Science Foundation - CCB - FEST | 47.076 | 6,069 |
| National Science Foundation - Animation | 47.076 | 19,983 |
| Total U.S. National Science Foundation | | 737,883 |
| U.S. Department of Agriculture | | |
| Passed through County of Santa Clara: | | |
| Child Care Program | 10.558 | 31,278 |
| FSET (Cal Success) | 10.561 | 108,010 |
| Total U.S. Department of Agriculture | | 139,288 |

(Continued)

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
**For the Year Ended June 30, 2010**

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| U.S. Department of Health and Human Services | | |
| Passed through California Community College Chancellor's Office: | | |
| Temporary Assistant to Needy Families (TANF) | 93.558 | $ 49,281 |
| Passed through County of Santa Clara: | | |
| Temporary Assistant to Needy Families (TANF) | 93.558 | 15,614 |
| ARRA: Emergency Contingency Fund for TANF State Programs | 93.714 | 1,128,411 |
| Passed through County of Santa Cruz: | | |
| Medical Assistance Program (MAA) | 93.778 | 71,498 |
| Total U.S. Department of Health and Human Services | | 1,264,804 |
| U.S. Corporation for National and Community Service | | |
| Direct Program: | | |
| Americorps | 94.006 | 75,106 |
| U.S. Department of Labor | | |
| Passed through City of San Jose: | | |
| Workforce Investment Act | 17.258 | 37,184 |
| Passed through City of Sunnyvale: | | |
| Workforce Investment Act | 17.258 | 95,376 |
| Passed through County of Monterey: | | |
| Workforce Investment Act | 17.258 | 4,474 |
| Passed through County of Santa Cruz: | | |
| Workforce Investment Act | 17.258 | 881 |
| Total U.S. Department of Agriculture | | 137,915 |
| Direct Programs: | | |
| NASA/Ames Internship Program | NGT2-1001 | 1,071,076 |
| NASA/BIN-RDI | NGT2-1001 | 17,265 |
| Passed through California Department of Employment Development: | | |
| TAA/NAFTA | NGT2-1001 | 48,508 |
| Total Federal Categorical Awards and Allowances | | $ 24,550,627 |

See accompanying notes to supplemental information.

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF STATE FINANCIAL AWARDS**

**For the Year Ended June 30, 2010**

| | Program Entitlements | | | Program Revenues | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Prior Year Carry-forward** | **Current Entitlement** | **Total Entitlement** | **Cash Received** | **Accounts Receivable** | **Deferred Revenue/ Accounts Payable** | **Total** | **Program Expend-itures** |
| Extended Opportunity Programs and Services | $ 56,583 | $ 1,155,685 | $ 1,212,268 | $ 1,212,268 | | $ 45,910 | $ 1,166,358 | $ 1,166,358 |
| Cooperative Agencies Resources for Education | 17,396 | 113,840 | 131,236 | 131,236 | | 24,010 | 107,226 | 107,226 |
| Disabled Student Programs & Services | 209,009 | 1,858,089 | 2,067,098 | 1,858,089 | | | 1,858,089 | 1,851,142 |
| Deferred Maintenance Costs | 622,730 | | 622,730 | 353,163 | | | 353,163 | 501,371 |
| Matriculation | 364,217 | 1,208,705 | 1,572,922 | 1,572,922 | | 47,263 | 1,525,659 | 1,525,659 |
| Matriculation (non-credit) | 12,905 | 56,561 | 69,466 | 69,466 | | | 69,466 | 69,466 |
| AB 1725 Staff Development | 70,083 | | 70,083 | 65,804 | | 54,009 | 11,795 | 11,795 |
| AB 1725 Staff Diversity | 40,469 | 12,937 | 53,406 | 53,406 | | 45,439 | 7,967 | 7,967 |
| Economic Development | 392,176 | 923,657 | 1,315,833 | 1,081,191 | $ 140,026 | 186,103 | 1,035,114 | 1,035,114 |
| Child Development Tax Bailout | | 405,503 | 405,503 | 405,503 | | | 405,503 | 405,503 |
| Child Development Center | | 282,517 | 282,517 | 156,137 | 126,380 | | 282,517 | 282,517 |
| High Tech Center Training Unit | 113,338 | 885,888 | 999,226 | 999,226 | | 1,159 | 998,067 | 998,067 |
| Child Care Food Program | | 1,233 | 1,233 | 873 | 360 | | 1,233 | 1,233 |
| Child Care Instructional Materials | | 500 | 500 | 500 | | | 500 | 500 |
| BFAP Administration | 240,336 | 849,320 | 1,089,656 | 1,089,656 | | 110,614 | 979,042 | 979,042 |
| TANF | | 64,895 | 64,895 | 54,007 | 11,298 | 410 | 64,895 | 64,895 |
| Transfer Ed and Articulation | 4,432 | | 4,432 | 4,432 | | 2,433 | 1,999 | 1,999 |
| TTIP Telecom & Technology | 161,745 | | 161,745 | 161,745 | | 146,042 | 15,703 | 15,703 |
| Instructional Equipment | 2,644,100 | | 2,644,100 | 2,644,100 | | 2,363,699 | 280,401 | 280,401 |
| Lottery Instructional Materials | 721,075 | 685,069 | 1,406,144 | 65,840 | 619,228 | | 685,068 | 330,142 |
| Cal Grant B & C | | 1,346,527 | 1,346,527 | 1,267,830 | 78,697 | | 1,346,527 | 1,346,527 |
| CalWORKs | 11,646 | 454,554 | 466,200 | 466,200 | 5,355 | 106,159 | 365,396 | 365,396 |
| Basic Skills | 390,336 | 433,823 | 824,159 | 824,159 | | 722,388 | 101,771 | 101,771 |
| Career Tech Education | 629,628 | 305,899 | 935,527 | 935,527 | | 356,749 | 578,778 | 578,778 |
| Miscellaneous State Assistance | 182,357 | 250,215 | 432,572 | 383,619 | 38,716 | 102,394 | 319,941 | 321,305 |
| Total State categorical awards and allowances | $ 6,884,561 | $ 11,295,417 | $ 18,179,978 | $ 15,856,899 | $ 1,020,060 | $ 4,314,781 | $ 12,562,178 | $ 12,349,877 |

See accompanying notes to supplemental information.

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT**

**Annual Attendance as of June 30, 2010**

| Categories | Reported Data | Audit Adjustments | Revised Data |
|---|---|---|---|
| A. Summer Intersession (Summer 2009 only) | | | |
| 1. Noncredit | 83 | | 83 |
| 2. Credit | 4,560 | | 4,560 |
| B. Summer Intersession (Summer 2009 - Prior to July 1, 2010) | | | |
| 1. Noncredit | - | | - |
| 2. Credit | - | | - |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| a. Weekly Census Contact Hours | 24,725 | | 24,725 |
| b. Daily Census Contact Hours | 649 | | 649 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| a. Noncredit | 214 | | 214 |
| b. Credit | 2,531 | | 2,531 |
| 3. Independent Study/Work Experience | | | |
| a. Weekly Census Contact Hours | 93 | | 93 |
| b. Daily Census Contact Hours | 352 | | 352 |
| c. Noncredit Independent Study/ Distance Education Courses | - | | - |
| D. Total FTES | 33,207 | - | 33,207 |
| Supplemental Information: | | | |
| E. In-Service Training Courses (FTES) | - | | - |
| H. Basic Skills Courses and Immigrant Education | | | |
| a. Noncredit | 11 | | 11 |
| b. Credit | 2,788 | | 2,788 |
| CCFS 320 Addendum | | | |
| CDCP | - | | - |
| Centers FTES | | | |
| a. Noncredit | - | | - |
| b. Credit | 1,062 | | 1,062 |

See accompanying notes to supplemental information.

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2010**

There were no adjustments proposed to any funds of the District.

See accompanying notes to supplemental information.

## NOTES TO SUPPLEMENTAL INFORMATION

### 1. PURPOSE OF SCHEDULES

A - 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

B - Schedule of State Financial Awards

The accompanying Schedule State Financial Awards includes 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 basic financial statements. The information in this schedule is presented to comply with reporting requirements of the California State System's Office.

C - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

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

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

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**INDEPENDENT AUDITOR'S REPORT**
**ON STATE COMPLIANCE REQUIREMENTS**

Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010.

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

In connection with our 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 Directives

Management Information System Implementation – State General Apportionment Required Data Elements

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination for Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses
Apportionments – Enrollment Fee
Apportionments – Students Actively Enrolled
Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
Fiscal Operations – Gann Limit Calculation
Open Enrollment
Student Fees – Instructional Materials and Health Fees

Student Services

Uses of Matriculation Funds
CalWORKs – Use of State and Federal TANF Funding

Facilities

Scheduled Maintenance Program

## INDEPENDENT AUDITOR'S REPORT
## ON STATE COMPLIANCE REQUIREMENTS
(Continued)

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, the Foothill-De Anza Community College District complied, in all material respects with the aforementioned requirements for the year ended June 30, 2010.

This report is intended solely for the information and use of the Audit and Finance Committee, District management, the Board of Trustees, and the Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
November 18, 2010

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

Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

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

(Continued)

This report is intended for the information of the Audit and Finance Committee, District management, Board of Trustees, and the Federal and State awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
November 18, 2010

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

Board of Trustees
Foothill-De Anza Community College District
Los Altos Hills, California

Compliance

We have audited the compliance of Foothill-De Anza Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2010. Foothill-De Anza Community College District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit 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 Foothill-De Anza Community College District's management. Our responsibility is to express an opinion on Foothill-De Anza 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 obtained 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 Foothill-De Anza 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 on Foothill-De Anza Community College District's compliance with those requirements.

In our opinion, Foothill-De Anza 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, 2010.

Internal Control Over Compliance

The management of Foothill-De Anza Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Foothill-De Anza Community College District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Foothill-De Anza Community College District's internal control over compliance.

Internal Control Over Compliance (Continued)

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

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

This report is intended for the information of Audit and Finance Committee, District management, the Board of Trustees, and the federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
November 18, 2010

# FINDINGS AND RECOMMENDATIONS

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

**Year Ended June 30, 2010**

## FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ______ Yes __X__ No

Significant deficiency(ies) identified not considered to be material weakness(es)? ______ Yes __X__ None reported

Noncompliance material to financial statements noted? ______ Yes __X__ No

## FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? ______ Yes __X__ No

Significant deficiency(ies) identified not considered to be material weakness(es)? ______ Yes __X__ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ______ Yes __X__ No

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| 84.063, 84.033, 84.007, 84.116, 84.375 | Student Financial Aid Cluster |
| 84.048 | Vocational Education |
| 84.382B | Asian American- Strength, Minority |
| 47.076 | National Science Foundation |
| 84.394 | ARRA: State Fiscal Stabilization Fund |
| NGT2-1001 | NASA/Ames Internship Program |
| 93.714 | ARRA: Emergency Contingency Fund for TANF State Programs |

Dollar threshold used to distinguish between Type A and Type B programs: $ 736,519

Auditee qualified as low-risk auditee? __X__ Yes ______ No

## STATE AWARDS

Internal control over state programs:

Material weakness(es) identified? ______ Yes __X__ No

Significant deficiency(ies) identified not considered to be material weaknesses? ______ Yes __X__ None reported

Type of auditor's report issued on compliance for state programs: Unqualified

## FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### Year Ended June 30, 2010

No matters were reported.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year Ended June 30, 2010**

| Finding/Recommendation | Current Status | District Explanation If Not Fully Implemented |
|---|---|---|
| 1. At Foothill College, sub-receipt books or cash count forms are not consistently used by student groups in the collection of funds.<br><br>Recommendation:<br>All funds submitted by student groups for deposit should be supported by a cash count form detailing items sold and reconciled with the amount of funds presented for deposit. Further, for large fundraising efforts, the use of receipt books should be considered. | Implemented. | |