Foothill-De Anza Community College District

Annual Financial Report

June 30, 2011

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2011

FINANCIAL SECTION

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Foothill-De Anza Community College District (the District) as of and for the year ended June 30, 2011, and its discretely presented component unit, Foothill-De Anza Community Colleges Foundation as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Foothill-De Anza Community College District and its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and 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 our report November 18, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on as listed on the table of contents and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 18, 2011

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2011

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 2200.101 and GASB Codification Sections 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 Changes in Net Assets
- The Statement of Cash Flows

Each one of these statements will be discussed.

Condensed Statement of Net Assets (in thousands)

ASSETS	2011	2010	Percentage Change	Dollar Change
Current assets				
Cash & cash equivalents	$ 81,887	$ 71,983	13.8%	$ 9,904
Investments	82	81	1.2%	1
Receivables, current portion	30,074	26,155	15.0%	3,919
Inventory and other assets	10,853	8,224	32.0%	2,629
Total current assets	122,896	106,443	15.5%	16,453
Noncurrent assets				
Restricted cash and cash equivalents	360,658	236,314	52.6%	124,344
Receivables, noncurrent portion	1,781	1,905	-6.5%	(124)
Capital assets, net	404,298	370,163	9.2%	34,135
Total noncurrent assets	766,737	608,382	26.0%	158,355
Total assets	889,633	714,825	24.5%	174,808
LIABILITIES				
Current liabilities				
Accounts payable & accrued liabilities	41,714	34,027	22.6%	7,687
Deferred revenue	12,099	11,931	1.4%	168
Amounts held in trust	2,687	3,015	-10.9%	(328)
Long-term debt, current portion	17,743	15,755	12.6%	1,988
Total current liabilities	74,243	64,728	14.7%	9,515
Noncurrent liabilities				
Long-term liabilities, noncurrent portion	7,127	7,060	0.9%	67
Long-term debt, noncurrent portion	709,062	533,960	32.8%	175,102
Total noncurrent liabilities	716,189	541,020	32.4%	175,169
Total liabilities	790,432	605,748	30.5%	184,684
NET ASSETS				
Invested in capital assets, net of related debt	5,395	28,530	-81.1%	(23,135)
Restricted	34,334	52,072	-34.1%	(17,738)
Unrestricted	59,472	28,475	108.9%	30,997
Total net assets	$ 99,201	$ 109,077	-9.1%	$ (9,876)

Statement of Net Assets (Continued)

- Current receivables increased by 15.0%, or approximately $3.9 million, as a result of the increase in general apportionment deferrals from the State, as compared to the previous year.

- Capital assets increased by 9.2%, or approximately $34.1 million, in connection with the completion of numerous Measure C capital projects at both colleges which include installation of photovoltaic arrays; modernization of administration buildings and general classrooms; renovation of a seminar building and multicultural center; and roof repairs. Work in process continues on large capital construction projects including the physical sciences and engineering building and the mediated learning center. Capital equipment acquisitions also contributed to the increase in capital assets across all asset categories including computer equipment, machinery & equipment and software. We anticipate continued growth in capital assets in future years as Measure C projects are completed.

- Restricted cash increased by 52.6%, or approximately $124.3 million, as a result of the issuance of the Election of 2006 General Obligation Bonds, Series C.

- Accounts payables increased by 22.6%, or approximately $7.7 million, due mainly to the increased activities in capital projects.

- The current portion of long-term liabilities increased by 12.6%, or approximately $2.0 million, in alignment with the debt payment schedule. See Note 8 for long-term debt discussion.

- The noncurrent portion of long-term debt increased by 32.8%, or approximately $175.1 million, due to the issuance of the Election of 2006 General Obligation Bonds, Series C.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

	2011	2010	Percentage Change	Dollar Change
Operating revenues				
Net tuition and fees	$ 43,089	$ 42,399	1.6%	$ 690
Grants and contracts, non-capital	41,422	38,666	7.1%	2,756
Auxiliary enterprise, net	13,207	14,356	-8.0%	(1,149)
Other	6,852	10,992	-37.7%	(4,140)
Total operating revenues	104,570	106,413	-1.7%	(1,843)
Operating expenses	269,902	264,866	1.9%	5,036
Loss from operations	(165,332)	(158,453)	4.3%	(6,879)
Non-operating revenues (expenses)				
State apportionment, non-capital	71,275	67,600	5.4%	3,675
Local property taxes	72,210	76,655	-5.8%	(4,445)
State taxes and other revenues	5,193	5,482	-5.3%	(289)
Investment (loss)	(361)	(2,888)	-87.5%	2,527
Interest expense	(28,473)	(27,204)	4.7%	(1,269)
Total non-operating revenues (expenses)	119,844	119,645	0.2%	199
Loss before capital revenues	(45,488)	(38,808)	17.2%	(6,680)
Capital revenues	35,612	34,467	3.3%	1,145
Change in net assets	(9,876)	(4,341)	127.5%	(5,535)
Net assets-beginning of year	109,077	120,975	-9.8%	(11,898)
Restatement		(7,557)	-100.0%	7,557
Net assets-end of year	$ 99,201	$ 109,077	-9.1%	$ (9,876)

Operating revenues decreased by 1.7%, or approximately $1.8 million, resulting from the decrease in sales in the auxiliary enterprise and a decrease in interest income in the other operating revenue. The increase in tuition and fees and grants and contracts are due to the increase in resident and non-resident tuition fees and an increase in Pell grants.

The change in non-operating revenue consists of an increase in State apportionment and an increase in unrealized gain investment. The decrease in local property taxes is due to the suppressed housing market. The increase in interest expense is a result of the issuance of the Election of 2006 General Obligation Bonds, Series C.

Capital revenues increased by 3.3%, or approximately $1.1 million, in alignment with the debt payment schedule.

Operating Expenses (by Natural classification) (in thousands)

	2011	2010	Percentage Change	Dollar Change
Salaries	$ 136,860	$ 137,968	-0.8%	$ (1,108)
Benefits	40,872	44,181	-7.5%	(3,309)
Total salaries and benefits	177,732	182,149	-2.4%	(4,417)
Supplies, materials and other operating expenses and services	41,758	37,310	11.9%	4,448
Student financial aid	22,014	19,484	13.0%	2,530
Utilities	3,433	3,962	-13.4%	(529)
Depreciation	24,965	21,961	13.7%	3,004
TOTAL OPERATING EXPENSES	$ 269,902	$ 264,866	1.9%	$ 5,036

- Salaries decreased by 0.8%, or approximately $1.1 million, resulting from the vacant positions that were not filled.
- Benefits decreased by 7.5%, or approximately $3.3 million, due to the changes to the medical benefit plans.
- Supplies, materials, other operating expenses and services increased by 11.9%, or approximately $4.4 million, due to the increased spending in capital projects.
- Depreciation increased by 13.7%, or approximately $3.0 million, resulting from the increase of fixed asset additions.

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 needs for external financing.

	2011	2010	Percentage Change	Dollar Change
Cash provided by (used in):				
Operating activities	$ (141,117)	$ (145,206)	2.82%	$ 4,089
Non-capital financing activities	144,839	149,185	-2.91%	(4,346)
Capital and related financing activities	125,455	(39,953)	414.01%	165,408
Investing activities	5,070	12,567	-59.66%	(7,497)
Net change in cash	134,247	(23,407)	673.53%	157,654
Cash- beginning of the fiscal year	308,298	331,705	-7.06%	(23,407)
Cash- end of the fiscal year	$ 442,545	$ 308,298	43.54%	$ 134,247

Economic Factors that may affect the Future

<u>2011-12 Fiscal Year</u>

The State of California controls most of the Foothill-De Anza Community College District's operating income through the apportionment process, growth allowances/work-load-reductions, Cost of Living Adjustments (COLA) and categorical allocations. The fiscal year 2010-11 state allocation paralleled prior year funding and provided for a 2.21% enrollment growth factor. However, no COLA was provided and deficit factor funding was projected at approximately .995%. The 2011-12 state allocation imposed a 6.2% workload reduction on apportionment funding and has provisions for additional reductions to apportionment of approximately 2% if state revenues fall below projections.

The District has addressed the resulting $7.6 million deficit in our 2011-12 budget through the use of one time funds strategically set aside to offset state reductions. This will allow the district to thoughtfully and strategically develop plans for operational budget cuts and appropriate staffing level contraction during the 2011-12 fiscal year to be implemented as needed in 2012-13. The District ended the 2010-11 year with a planned $42 million ending fund balance. As was the case in 2010-11, the continuing volatile nature of the economy and relatively high likelihood that the Tier 1 and Tier 2 mid year state budget cuts will be triggered, the overall budget strategy for 2011-12 is to maintain and access as needed our dedicated reserves. These dedicated reserves are held in addition to the Chancellor's office recommended minimum. The Board of Trustees approved as a part of the Adopted Budget a $19 million "Stability Fund" in addition to the 5.5% ($10.0 million) General Reserve, and set aside approximately $10.2 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 $156 million. Major accomplishments include excellent progress in all aspects of the program including maintenance, scheduled maintenance, and renovation projects, new construction including a 57,000sf Physical Science and Engineering Center at Foothill and a 67,000sf Mediated Learning Center at De Anza, and technology and instructional equipment acquisition. A third bond issuance (Series C) for $184 million was successfully sold to fund project commitments projected through the spend plan over the next three years.

The most recent actuarial analysis for the District's unfunded retiree medical liability was completed in August 2010. The study listed the Actuarial Accrued Liability (AAL) at $107 million. The District has elected to conduct actuarial analysis studies every other year and uses a "smoothing" calculation for the Annual Required Contribution (ARC) to more evenly average the ARC over each budget year cycle. At the June 6, 2011 meeting the Board of Trustees approved a transfer of $400,000, budgeted for fiscal year 2010-11, into the California Public Employees' Retirement System, Retiree Benefit Trust, an irrevocable trust, to fully fund the ARC. This was in addition to the pay-as-you-go amount of $7.7 million paid in fiscal year 2010-11.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Foothill-De Anza Community College District, Kevin McElroy, Vice Chancellor of Business Services.

Separately issued financial statements for the Foothill-De Anza Community Colleges Foundation component unit may be obtained by contacting Sheryl Alexander at 12345 El Monte Road, Los Altos Hills, CA 94022.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2011

ASSETS	
Current Assets	
Cash and cash equivalents	$ 81,887,224
Investments	81,619
Accounts receivable, net	29,519,348
Student loans receivable - current portion	554,627
Stores inventories	1,415,365
Prepaid expenses	3,341,603
Net OPEB assets	6,096,721
Total Current Assets	122,896,507
Noncurrent Assets	
Restricted cash and cash equivalents	360,657,518
Student loans receivable - noncurrent portion	1,781,423
Capital assets, net of depreciation	404,297,680
Total Noncurrent Assets	766,736,621
TOTAL ASSETS	889,633,128
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	38,039,743
Deferred revenue	12,098,768
Amounts held in trust	2,686,789
Compensated absences payable - current portion	3,674,190
Long term debt - current portion	17,743,025
Total Current Liabilities	74,242,515
Noncurrent Liabilities	
Compensated absences payable - noncurrent portion	1,949,928
Long term debt - noncurrent portion	709,061,594
Unpaid claims and claims adjustment expenses	5,177,573
Total Noncurrent Liabilities	716,189,095
TOTAL LIABILITIES	790,431,610
NET ASSETS	
Invested in capital assets, net of related debt	5,395,222
Restricted for:	
Debt service	16,160,656
Capital projects	3,333,225
Scholarships and loans	2,460,266
Other special purposes	12,380,183
Unrestricted	59,471,966
TOTAL NET ASSETS	$ 99,201,518

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Tuition and fees	$ 50,109,849
Less: Scholarship discounts and allowance	(7,020,454)
Net tuition and fees	43,089,395
Grants and contracts, noncapital	
Federal	26,071,371
State	13,824,642
Local	1,525,796
Auxiliary enterprise sales and charges	13,206,831
Other operating revenues	6,851,857
TOTAL OPERATING REVENUES	104,569,892
OPERATING EXPENSES	
Salaries	136,859,958
Benefits	40,871,710
Supplies, materials, and other operating expenses and services	41,758,337
Student financial aid	22,013,966
Utilities	3,432,666
Depreciation	24,964,864
TOTAL OPERATING EXPENSES	269,901,501
LOSS FROM OPERATIONS	(165,331,609)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	71,274,649
Local property taxes	72,209,653
State taxes and other revenues	5,192,761
Investment loss, noncapital	(54,085)
Interest expense on capital related debt	(28,472,727)
Investment loss, capital	(306,433)
TOTAL NONOPERATING REVENUES (EXPENSES)	119,843,818
LOSS BEFORE CAPITAL REVENUES AND EXPENSES	(45,487,791)
CAPITAL REVENUES	
Local property taxes and revenues	35,612,475
CHANGE IN NET ASSETS	(9,875,316)
NET ASSETS, BEGINNING OF YEAR	109,076,834
NET ASSETS, END OF YEAR	$ 99,201,518

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 42,935,281
Federal grants and contracts	26,365,347
State grants and contracts	13,611,606
Local grants and contracts	1,442,399
Loans to students, net	92,272
Payments to suppliers and financial aid	(38,251,205)
Payments to utilities	(3,466,877)
Payments to employees	(136,692,978)
Payments for benefits	(41,782,432)
Payments to students for scholarships and grants	(22,711,093)
Auxiliary enterprise sales and charges	13,300,537
Other operating receipts (payments)	4,040,057
Net Cash Flows From Operating Activities	(141,117,086)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	68,181,838
Property taxes - nondebt related	71,929,908
State taxes and other apportionments	5,056,125
Scholarship and trust	28,635
Student organization agency receipts	1,435,835
Student organization agency disbursements	(1,792,920)
Net Cash Flows From Noncapital Financing Activities	144,839,421
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(59,099,634)
Proceeds from sale of bonds	184,000,000
State appropriations for capital purposes	42,282
Local revenue for capital purposes	35,669,758
Principal paid on capital debt	(15,755,453)
Interest paid on capital debt	(19,402,040)
Net Cash Flows From Capital Financing Activities	125,454,913
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	5,069,942
NET CHANGE IN CASH AND CASH EQUIVALENTS	134,247,190
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	308,297,552
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 442,544,742

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
FOR THE YEAR ENDED JUNE 30, 2011

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (165,331,609)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation and amortization expense	24,964,864
Interest on investments	(2,795,460)
Changes in Assets and Liabilities:	
Receivables	68,091
Stores inventories	103,407
Prepaid expenses	(425,114)
Net OPEB asset	(2,308,121)
Accounts payable and accrued liabilities	4,390,216
Deferred revenue	(58,946)
Compensated absences	234,870
Claims liability	40,716
Total Adjustments	24,214,523
Net Cash Flows From Operating Activities	$ (141,117,086)

NON CASH TRANSACTIONS	
Accretion of interest	$ 8,844,533

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

DISCRETELY PRESENTED COMPONENT UNIT
FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 3,087,050
Accounts receivable, net	57,039
Pledge receivable	175,426
Prepaid expenses	20,765
Total Current Assets	3,340,280
NONCURRENT ASSETS	
Investments	25,640,058
TOTAL ASSETS	$ 28,980,338
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 894,525
Total Current Liabilities	894,525
NET ASSETS	
Unrestricted	6,329,704
Temporarily restricted	6,912,320
Permanently restricted	14,843,789
Total Net Assets	28,085,813
Total Liabilities and Net Assets	$ 28,980,338

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
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Donations	$ 10,623	$ 2,369,729	$ 506,239	$ 2,886,591
In kind donation revenue	44,103	-	-	44,103
Investment income	1,790,811	2,238,256	-	4,029,067
Event revenue	146,918	-	-	146,918
Other revenue	143,300	-	-	143,300
Assets released from restrictions	4,885,037	(4,585,037)	(300,000)	-
Total Revenues	7,020,792	22,948	206,239	7,249,979
EXPENSES				
Grants and scholarships	3,245,460	-	-	3,245,460
Operating expenses	674,693	-	-	674,693
Fundraising expenses	50,220	-	-	50,220
Donated services and facilities	44,103	-	-	44,103
Total Expenses	4,014,476	-	-	4,014,476
CHANGE IN NET ASSETS	3,006,316	22,948	206,239	3,235,503
NET ASSETS, BEGINNING OF YEAR	3,323,388	6,889,372	14,637,550	24,850,310
NET ASSETS, END OF YEAR	$ 6,329,704	$ 6,912,320	$ 14,843,789	$ 28,085,813

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
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$	3,235,503
Adjustments to Reconcile Changes in Net Assets to Net Cash From Operating Activities		
Unrealized gain		(3,492,032)
Changes in Assets and Liabilities		
Contributions receivable		978,857
Accounts receivable		(40,034)
Prepaid expenses		(16,471)
Accounts payable		(637,815)
Accrued payroll		119,902
Net Cash Flows From Operating Activities		147,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(640,246)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(492,336)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		3,579,386
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,087,050

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

NOTE 1 - ORGANIZATION

Foothill-De Anza Community College District (the District) was established in 1957 as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected five-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates two colleges located within Santa Clara County, California. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District follows the criteria in GASB Cod Sec 2100.101 as amended be GASB Cod Sec 2100.138 to provide guidance on the determination of whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District, and the following component units:

- Foothill-De Anza Community Colleges Foundation

  The Foothill-De Anza Community Colleges Foundation (the Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation acts primarily as a fundraising organization to provide grants and scholarships to students and support to employees, programs, and departments of the District. The twenty member board of the Foundation consists of community members, alumni, and other supporters of the Foundation. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District with the inclusion of the statements as a discretely presented component unit. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

  The Foundation is a not-for-profit organization under Internal Revenue Code (IRC) Section 501(c)(3) that reports its financial results in accordance with Financial Accounting Standards Codifications. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences; however, significant note disclosures to the Foundation's financial statements have been incorporated into the District's notes to the financial statements.

Financial statements for the Foundation can be obtained from the Foundation's Business Office at 12345 El Monte Road, Los Altos Hills California 94022.

The following entity meets the criterion for inclusion as a "blended" component unit and is consolidated within the financial statements of the District:

- Foothill-De Anza Community College District Financing Corporation

  The Foothill-De Anza Community College District Financing Corporation (the Corporation) is a legally separate organization and a component unit of the District. The Corporation was formed to issue debt specifically for the acquisition and construction of capital assets for the District. The Board of Trustees of the Corporation is the same as the Board of Trustees of the District. The financial activity has been "blended" or consolidated within the financial statements as the District as if the activity was the District's. Certificates of participation issued by the Corporation are included as long-term liabilities of the District. Individually-prepared financial statements are not prepared for the Foothill-De Anza Community College District Financing Corporation.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Cod Sec 2200.101 and Cod Sec Co 5.101, and amended by Cod Sec 2200 and 2300. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. Revenue from Federal and State grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities.

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

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

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

The financial statements are presented in accordance with the reporting model as prescribed for, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended. The business-type activities model followed by the District requires the following components of the District's financial statements:

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at $597,289 for the year ended June 30, 2011.

Prepaid Expenses

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

Inventories

Inventories consist primarily of bookstore merchandise and cafeteria food and supplies held for resale to the students and faculty of the colleges. Except for bookstore inventories, which are valued using the retail method, inventories are stated at cost, using the lower of cost or market method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

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

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; portable buildings, 15 years; land improvements, 10 years; most equipment and vehicles, 8 years; and technology equipment 3 to 5 years.

Accrued Liabilities and Long-Term Obligations

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

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid.

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

Deferred Revenue

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

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, claims payable, capital lease obligations with maturities greater than one year.

Net Assets

"Net Assets" represents the difference between assets and liabilities. Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

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

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

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

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

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

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

State Apportionments

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

Property Taxes

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

The voters of the District passed General Obligation Bonds in 2002 and 2006 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Scholarship Discounts and Allowances

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

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and the related *Compliance Supplement.* During the year ended June 30, 2011, the District distributed $11,914,093 in direct lending through the U.S. Department of Education, Perkins Loans of $171,874, and $478,789 of other lending. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students; however, the amounts are included on the Schedule of Expenditures of Federal Awards.

Estimates

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

Foundation Presentation

The Foothill-De Anza Community Colleges Foundation presents its financial statements in accordance with Statement of Financial Accounting Codifications. Under these reporting requirements, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the codification, the Foundation does not use fund accounting.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Unrestricted Net Assets: Net assets not subject to donor-imposed restrictions.

Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. Revenues are reported as increases in the unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions for in-kind gifts from outside sources are recorded at their fair market value on the date of the donation.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are reported at fair value in accordance with FASB Topic ASC 820, *Fair Value Measurements and Disclosures*.

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Codes.

New Accounting Pronouncements

In November 2010, the GASB issued guidance on, *The Financial Reporting Entity: Omnibus-an amendment of prior guidance*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of *The Financial Reporting Entity*, and the related financial reporting requirements of *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

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

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

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

NOTE 3 – CASH AND INVESTMENTS

Policies and Practices

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

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

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Cash and Investments

Cash and investments of the Primary Government as of June 30, 2011, consist of the following:

Cash on hand and in banks	$ 1,155,335
Cash in revolving accounts	25,000
Investments, short term - county cash	438,628,417
Investments, short term - other	2,735,990
Total Cash and Cash Equivalents	442,544,742
Investments, noncurrent - other	81,619
Total Cash and Investments	$ 442,626,361

Interest Rate Risk

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

Option 3 - Weighted Average Maturity

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

Investment Type	Fair Value	Weighted Average Maturity in Years
U.S. Treasuries	$ 2,735,990	0.10
County Pool	438,628,417	1.24
Total	$ 441,364,407	

Credit Risk

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

Custodial Credit Risk - Deposits

Cash balances held in the bank are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2011, the carrying amount of the District’s cash on hand and in banks (including certificates of deposit) was approximately $1,007,000, and the bank balance was $1,050,000. The bank balance amount insured by FDIC was $250,000.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

Federal Government	
Categorical aid	$ 1,324,175
State Government	
Apportionment	16,343,831
Categorical aid	994,222
Other State sources	1,852,443
Local Sources	
Interest	1,583,820
Other local sources	8,018,146
Less allowance for bad debt	(597,289)
Total	$ 29,519,348

The allowance for doubtful accounts is maintained at an amount which management considers sufficient to fully reserve and provide for the possible uncollectability of other receivable balances. The allowance is calculated based on a sliding scale of student receivable balances and provides for 4% for balances up to 30 days old, 7% for 31-60 days, 20% for 61-90 days, and 50% for amounts over 90 days.

Discretely Presented Component Unit

The Foundation's accounts receivable consist primarily of short-term donations expected to be received within one year, and therefore no discount has been recorded. In the opinion of management, all amounts have been deemed to be fully collectable.

NOTE 5 - CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 2,489,776	$ -	$ -	$ 2,489,776
Construction in progress	78,277,819	57,329,205	50,001,344	85,605,680
Total Capital Assets Not Being Depreciated	80,767,595	57,329,205	50,001,344	88,095,456
Capital Assets Being Depreciated				
Land improvements	46,510,830	29,079,009	-	75,589,839
Building improvements	142,187,350	15,609,876	-	157,797,226
Buildings	251,304,186	-	-	251,304,186
Portable buildings	5,273,060	-	-	5,273,060
Equipment	31,523,718	3,580,695	-	35,104,413
Software	1,897,645	3,502,193	-	5,399,838
Total Capital Assets Being Depreciated	478,696,789	51,771,773	-	530,468,562
Total Capital Assets	559,464,384	109,100,978	50,001,344	618,564,018
Less Accumulated Depreciation				
Land improvements	23,851,855	5,741,587	-	29,593,442
Buildings improvements	85,947,279	11,002,415	-	96,949,694
Buildings	52,334,440	4,971,044	-	57,305,484
Portable buildings	2,881,335	351,537	-	3,232,872
Equipment	22,450,215	2,271,666	-	24,721,881
Software	1,836,350	626,615	-	2,462,965
Total Accumulated Depreciation	189,301,474	24,964,864	-	214,266,338
Net Capital Assets	$ 370,162,910	$ 84,136,114	$ 50,001,344	$ 404,297,680

Depreciation expense for the year was $24,964,864.

Assets consisting of the De Anza Campus Center, Advance Technology Center, and Student Center in the amount of $42.6 million have been pledged as collateral for notes payable described in Note 8.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

Accounts payable	$ 15,681,716
Workers compensation and medical claims reserves	3,483,032
Payroll	2,550,044
Other	5,744,163
Interest payable from restricted funds	10,580,788
Total	$ 38,039,743

NOTE 7 - DEFERRED REVENUE

Deferred revenue consisted of the following:

Federal financial assistance	$ 121,031
State categorical aid	3,761,507
State apportionment	211,157
Enrollment fees	5,880,222
Other local	2,124,851
Total	$ 12,098,768

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General obligation bonds	$ 522,917,442	$ 192,844,533	$ 13,055,000	$ 702,706,975	$ 14,930,000
Certificates of participation	23,450,000	-	2,235,000	21,215,000	2,325,000
Total Bonds and Notes Payable	546,367,442	192,844,533	15,290,000	723,921,975	17,255,000
Other Liabilities					
Compensated absences	1,922,800	27,128	-	1,949,928	-
Capital leases	3,348,097	-	465,453	2,882,644	488,025
Claims liability	5,136,857	91,644	50,928	5,177,573	-
Total Other Liabilities	10,407,754	118,772	516,381	10,010,145	488,025
Total Long-Term Debt	$ 556,775,196	$ 192,963,305	$ 15,806,381	$ 733,932,120	$ 17,743,025

	Measure E, General Obligation Bond, Series A	General Obligation Bond, Refunding Bond, Series A	Measure E, General Obligation Bond, Series B	Measure E, General Obligation Bond, Series C	General Obligation, Refunding Bond, Series B	Measure C, General Obligation Bond, Series A	Measure C, General Obligation Bond, Series B	Measure C, General Obligation Bond, Series C
Balance July 1, 2010	$ 26,145,036	$ 60,710,063	$ 57,677,253	$ 62,745,000	$ 22,010,000	$ 149,995,250	$ 99,996,686	$ -
New issuances	-	-	-	-	-	-	-	184,000,000
Principal payments	(2,000,000)	(340,000)	(1,150,000)	(245,000)	-	(5,395,000)	(3,925,000)	-
Balance June 30, 2011	$ 24,145,036	$ 60,370,063	$ 56,527,253	$ 62,500,000	$ 22,010,000	$ 144,600,250	$ 96,071,686	$ 184,000,000

	Accreted Interest on Capital Appreciation Bonds	Financing COPs	Refunding COPs	2006 Financing COP	Capital Lease Obligations	Claims Liabilities	Compensated Absences	Total
Balance July 1, 2010	$ 43,638,154	$ 1,395,000	$ 12,680,000	$ 9,375,000	$ 3,348,097	$ 5,136,857	$ 1,922,800	$ 556,775,196
New issuances	8,844,533	-	-	-	-	91,644	27,128	192,963,305
Principal payments	-	(680,000)	(850,000)	(705,000)	(465,453)	(50,928)	-	(15,806,381)
Balance June 30, 2011	$ 52,482,687	$ 715,000	$ 11,830,000	$ 8,670,000	$ 2,882,644	$ 5,177,573	$ 1,949,928	$ 733,932,120

Description of Debt

Payments on the certificates of participation are paid by the Debt Service Fund. Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. Payments on the capital leases are paid by the capital projects or general funds. The accrued vacation will be paid by the fund for which the employee worked. Payments on the claims liabilities will be paid by the self insurance funds.

Certificate 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 existing COPs. The COPs bear effective interest rates ranging from 3.8% to 5.05 % and mature through 2012.

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 matures 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

Measure E

The District, Santa Clara County, California, Election of 1999 General Obligation Bonds, (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.

Series A was sold on May 3, 2000 for a total of $99,995,036.

Series B was sold on September 9, 2003, for a total of $90,100,063.

Series C was sold on September 20, 2005 for a total of $57,904,900.

On October 2, 2002, the District issued General Obligation Refunding Bonds in the amount of $67,475,000 for the purpose of refunding a portion of the Measure E, Series A General Obligations Bonds.

On September 20, 2005, the District issued General Obligation Refunding Bonds in the amount of $22,165,000 for the purpose of refunding a portion of the Measure E, Series B General Obligation Bonds.

Measure C

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.

Series A was sold on May 10, 2007 for a total of $149,995,250.

Series B was sold on May 10, 2007, for a total of $99,996,686.

Series C was sold on May 19, 2011 for a total of $184,000,000.

Debt Maturity

General Obligation Bonds

Description	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2010	New Issuances	Accreted	Principal Payments	Bonds Outstanding June 30, 2011
Measure E, General Obligation Bond, Series A	5/3/2000	8/1/2030	4.30%-6.26%	$ 99,995,036	$ 43,470,235	$ -	$ 2,432,804	$ 2,000,000	$ 43,903,039
General Obligation Bond, Refunding Bond, Series A	10/02/2002	8/1/2030	2.00%-5.00%	67,475,000	62,745,000	-	-	245,000	62,500,000
Measure E, General Obligation Bond, Series B	9/9/2003	8/1/2036	2.00%-5.79%	90,100,063	77,292,764	-	3,198,655	1,150,000	79,341,419
Measure E, General Obligation Bond, Series C	9/20/2005	8/1/2036	3.00%-5.03%	57,904,900	62,644,840	-	1,306,631	340,000	63,611,471
General Obligation, Refunding Bond, Series B	9/20/2005	8/1/2021	3.00%-5.25%	22,165,000	22,010,000	-	-	-	22,010,000
Measure C, General Obligation Bond, Series A	4/18/2007	8/1/2036	4.00%-5.00%	149,995,250	152,937,526	-	1,177,995	5,395,000	148,720,521
Measure C, General Obligation Bond, Series B	5/3/2007	8/1/2036	4.00%-5.00%	99,996,686	101,817,077	-	728,448	3,925,000	98,620,525
Measure C, General Obligation Bond, Series C	5/19/2011	8/1/2040	4.73%-4.78%	184,000,000	-	184,000,000	-	-	184,000,000
					$ 522,917,442	$ 184,000,000	$ 8,844,533	$ 13,055,000	$ 702,706,975

The bonds mature through 2041 as follows:

Measure E, General Obligation Bond, Series A	Principal	Interest to Maturity	Total
2012	$ 2,415,000	$ 3,605,850	$ 6,020,850
2016	1,861,833	2,658,167	4,520,000
2017-2021	9,450,314	18,769,686	28,220,000
2022-2026	5,048,515	15,941,485	20,990,000
2027-2031	5,369,374	25,260,626	30,630,000
Total	24,145,036	$ 66,235,814	$ 90,380,850
Accreted Interest	19,758,003		
	$ 43,903,039		

Measure E, General Obligation Bond, Series B	Principal	Interest to Maturity	Total
2012	$ 1,350,000	$ 1,119,144	$ 2,469,144
2013	1,575,000	1,061,770	2,636,770
2014	1,815,000	1,001,920	2,816,920
2015	2,095,000	911,170	3,006,170
2016	-	827,370	827,370
2017-2021	2,735,000	3,619,935	6,354,935
2022-2026	16,234,739	11,556,111	27,790,850
2027-2031	10,756,046	33,408,954	44,165,000
2032-2036	19,015,011	85,564,989	104,580,000
2037-2041	3,984,267	22,005,733	25,990,000
Total	59,560,063	$ 161,077,096	$ 220,637,159
Accreted Interest	19,781,356		
	$ 79,341,419		

Measure E, General Obligation Bond, Series C	Principal	Interest to Maturity	Total
2012	$ 445,000	$ 1,792,381	$ 2,237,381
2013	560,000	883,125	1,443,125
2014	685,000	866,000	1,551,000
2015	835,000	845,125	1,680,125
2016	1,055,000	818,750	1,873,750
2017-2021	8,415,000	3,525,250	11,940,250
2022-2026	9,315,580	9,860,295	19,175,875
2027-2031	7,252,800	19,838,450	27,091,250
2032-2036	23,013,874	31,449,251	54,463,125
2037-2041	5,760,000	144,000	5,904,000
Total	57,337,254	$ 70,022,627	$ 127,359,881
Accreted Interest	6,274,217		
	$ 63,611,471		

General Obligation Bond, Refunding Bond, Series A	Principal	Interest to Maturity	Total
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	220,000	2,523,281	2,743,281
2017-2021	1,225,000	12,478,497	13,703,497
2022-2026	20,865,000	9,921,313	30,786,313
2027-2031	28,975,000	3,800,375	32,775,375
Total	$ 62,500,000	$ 40,305,798	$ 102,805,798

General Obligation, Refunding Bond, Series B	Principal	Interest to Maturity	Total
2012	$ -	$ 1,155,525	$ 1,155,525
2013	-	1,155,525	1,155,525
2014	-	1,155,525	1,155,525
2015	-	2,320,525	2,320,525
2016	2,330,000	2,259,363	4,589,363
2017-2021	14,750,000	20,951,163	35,701,163
2022-2026	4,930,000	2,594,413	7,524,413
Total	22,010,000	$ 31,592,039	$ 53,602,039

Measure C, General Obligation Bond, Series A	Principal	Interest to Maturity	Total
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	1,960,000	5,344,525	7,304,525
2017-2021	16,355,000	24,671,000	41,026,000
2022-2026	30,755,000	18,886,750	49,641,750
2027-2031	51,000,000	9,158,025	60,158,025
2032-2036	30,438,015	43,878,648	74,316,663
2037-2041	4,202,235	12,557,765	16,760,000
Total	144,600,250	$ 136,701,963	$ 281,302,213
Accreted Interest	4,120,271		
	$ 148,720,521		

Measure C, General Obligation Bond, Series B	Principal	Interest to Maturity	Total
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	1,305,000	3,591,650	4,896,650
2017-2021	10,910,000	16,590,375	27,500,375
2022-2026	20,550,000	12,728,125	33,278,125
2027-2031	34,155,000	6,161,650	40,316,650
2032-2036	19,359,289	26,339,499	45,698,788
2037-2041	2,857,398	8,377,602	11,235,000
Total	96,071,687	$ 88,712,626	$ 184,784,313
Accreted Interest	2,548,838		
	$ 98,620,525		

Measure C, General Obligation Bond, Series C	Principal	Interest to Maturity	Total
2012	$ -	$ 5,264,445	$ 5,264,445
2013	-	9,864,445	9,864,445
2014	-	9,200,000	9,200,000
2015	-	9,200,000	9,200,000
2016	-	9,200,000	9,200,000
2017-2021	-	46,000,000	46,000,000
2022-2026	-	46,000,000	46,000,000
2027-2031	2,415,000	45,865,375	48,280,375
2032-2036	18,355,000	43,623,375	61,978,375
2037-2041	163,230,000	24,784,250	188,014,250
Total	$ 184,000,000	$ 249,001,890	$ 433,001,890

Certificates of Participation

Fiscal Year	Principal	Interest to Maturity	Total
2012	$ 2,325,000	$ 842,425	$ 3,167,425
2013	1,665,000	751,355	2,416,355
2014	1,725,000	690,985	2,415,985
2015	1,790,000	625,097	2,415,097
2016	1,855,000	557,429	2,412,429
2017-2021	10,535,000	1,527,110	12,062,110
2022-2026	1,320,000	28,875	1,348,875
Total	$ 21,215,000	$ 5,023,276	$ 26,238,276

The District's liability on lease agreements with option to purchase is summarized below:

Year Ending June 30,	Lease Payment
2012	$ 488,025
2013	511,706
2014	399,962
2015	222,547
2016	231,856
2017-2021	1,028,548
Total	$ 2,882,644

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

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

Plan Description

The District established an Other Post Employment Benefit Plan (the Plan) which is a single-employer defined benefit healthcare plan administered by the California Employers Retirement Benefit Trust (CERBT). CERBT 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 Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 726 retirees and beneficiaries currently receiving benefits, and 1,027 active plan members. Separate financial statements are not prepared for the Trust.

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 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 and Medicare coverage.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2010-2011, the District contributed $9,588,716 to the Plan, of which was $7,280,595 was used for current premiums (approximately 100 percent of total premiums).

Annual OPEB Cost and Net OPEB Asset/Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the requirements of *Other Post Employment Benefits* guidance. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB asset based on the most recent actuary study prepared in August 2010 and dated November 2009:

Annual required contribution	$ 8,128,772
Adjustment to annual required contribution	(848,177)
Annual OPEB cost (expense)	7,280,595
Contributions made	(9,588,716)
Increase in net OPEB asset	(2,308,121)
Net OPEB asset, July 1, 2010	(3,788,600)
Net OPEB asset, June 30, 2011	$ (6,096,721)

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Asset
2009	$ 8,235,063	$ 8,477,402	103%	$ 1,880,479
2010	$ 7,280,595	$ 9,188,716	126%	$ 3,788,600
2011	$ 7,280,595	$ 9,588,716	132%	$ 6,096,721

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2011, is as follows:

Actuarial Accrued Liability (AAL)	$ 107,000,000
Value of Plan Assets	(6,305,002)
Unfunded Actuarial Accrued Liability (UAAL)	$ 100,694,998
Funded Ratio (Value of Plan Assets/AAL)	6%
Covered Payroll	95,902,636
UAAL as Percentage of Covered Payroll	105.00%

The above noted actuarial accrued asset was based on the November 1, 2009, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the 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), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rate of 4 percent. Both rates included a 3 percent salary increase assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2011, was 25 years. The actuarial value of assets was determined using actuarial techniques that spread the effects of short-term volatility in the market value of investments over a fifteen-year period. At June 30, 2011, the Trust held net assets in the amount of $6,305,002, which consisted of amounts on deposit with CERBT.

NOTE 10 - RISK MANAGEMENT

Property and Liability

During fiscal year ending June 30, 2011, the District contracted with commercial insurers for property coverage and the Schools Excess Liability Fund Joint Powers Authority (SELF) for excess liability insurance coverage.

Workers' Compensation

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 worker's 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, 2011 were $1,326,944, and $5,144,836, respectively.

Health Care

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, 2011 were $2,156,088, and $32,737, respectively.

Insurance Coverages

Insurance Program / Company Name	Type of Coverage	Limits
Arthur J. Gallagher & Co	Property Insurance	$25,000-$50,000,000
Arthur J. Gallagher & Co	Excess Liability	$5,000,000-$10,000,000
Schools Excess Liability Fund (SELF)	Excess Liability	$5,000,000-$20,000,000

Claims Liabilities

The District establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2011.

Liability Balance, July 1, 2009	$ 9,082,835
Claims and changes in estimates	20,021,323
Claims payments	(20,773,305)
Liability Balance, June 30, 2010	8,330,853
Claims and changes in estimates	24,194,125
Claims payments	(23,864,373)
Liability Balance, June 30, 2011	8,660,605
Less current portion in accounts payable	3,483,032
Total noncurrent, end of year	$ 5,177,573

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries who are eligible and employed more than 50 percent or more of a full time equivalent position participate in the Defined Benefit Plan (DB Plan). Part time educators hired under contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Benefit Balance Program (CB Benefit Program). Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

The State Teachers Retirement Plan (STRP), a defined benefit plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years 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 years of consecutive service. The plan permits early retirement options at age 55, or as early as age 50, with at least 30 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 program 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.

CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California, 95826.

Funding Policy

Active members are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative for 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 percent, with the sum of the District and employee contribution always being equal or greater to 8 percent.

The District's total contributions to CalSTRS for the fiscal years ended June 30, 2011, 2010, and 2009, were \$5,433,697, \$5,428,107, and \$5,556,997, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2010-2011 was 10.707 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2011, 2010, and 2009, were $5,442,173, $5,008,642, and $4,896,890, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to $2,803,573 (4.267 percent) of salaries subject to CalSTRS. These amounts have not been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees two Deferred Compensation Programs administered by Valic and Tax Deferred Solutions (the Programs). The Programs are available to all permanent employees and permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency.

NOTE 12 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Schools Excess Liability Fund (SELF) Joint Powers Authority (JPA), a statewide JPA established as a program to pool excess liability and workers' compensation coverage for participating California agencies, and the South Bay Regional Public Safety Training Consortium Joint Powers Authority (JPA) established as a program to provide training and educational programs that will be responsive to the needs of the participating California Community College Districts.

The relationship between the District and the JPAs is such that they are not component units of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2011, the District made payments of $73,950 and $378,857 to SELF and the South Bay Regional Public Safety Training Consortium, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

Operating Leases

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

Year Ending June 30,	Lease Payment
2012	$ 1,722,259
2013	2,043,588
2014	2,438,824
Total	$ 6,204,671

Construction Commitments

As of June 30, 2011, the District had the approximately $95,000,000 of commitments with respect to the unfinished capital projects: The projects are funded through a combination of general obligation bonds and capital project apportionments from the California State Chancellor's Office.

NOTE 14 – OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes net assets for the year ended June 30, 2011.

	Salaries	Employee Benefits	Supplies Material, and Other Expenses	Financial Aid	Utilities	Depreciation	Total
Instruction	$ 76,812,518	$ 16,918,025	$ 1,392,007	$ -	$ 4,609	$ -	$ 95,127,158
Academic Support	12,093,903	3,895,346	1,119,013	-	14,874	-	17,123,135
Student Services	12,575,569	4,242,526	2,465,722	-	23,873	-	19,307,690
Operation and Maintenance of Plant	6,379,065	2,598,039	2,252,199	-	3,176,860	-	14,406,163
Institution support	17,349,126	10,402,580	19,024,593	-	97,116	-	46,873,415
Community Services & Economic Development	1,695,011	429,689	2,917,272	-	4,791	-	5,046,764
Auxiliary Operations	9,414,801	2,384,954	12,587,531	-	110,542	-	24,497,829
Student Aid	539,965	551	-	22,013,966	-	-	22,554,482
Depreciation	-	-	-	-	-	24,964,864	24,964,864
	$ 136,859,958	$ 40,871,710	$ 41,758,337	$ 22,013,966	$ 3,432,666	$ 24,964,864	$ 269,901,501

NOTE 15 – DONATED SERVICES AND FACILITIES

Donated services and facilities to the Foothill-De Anza Community Colleges Foundation totaling $36,828, for the year ended June 30, 2011, consisted of accounting and management support, comprehensive insurance, office space, and other miscellaneous internal services 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.

REQUIRED SUPPLEMENTARY INFORMATION

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011

Fiscal Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method Used (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
6/30/2009	$ 2,200,000	$ 127,000,000	$ 124,800,000	1.7%	$ 83,300,000	150%
6/30/2010	4,700,000	107,000,000	102,300,000	4.4%	83,900,000	122%
6/30/2011	6,305,002	107,000,000	100,694,998	5.9%	95,902,636	105%

SUPPLEMENTARY INFORMATION

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2011

Foothill-De Anza Community College District was established on January 15, 1957, and is comprised of an area of approximately 105 square miles located in Santa Clara County. There were no changes in the boundaries of the District during the current year. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Pearl Cheng	President	November 2014
Joan Barram	Vice President	November 2012
Betsy Bechtel	Member	November 2012
Laura Casas Frier	Member	November 2012
Bruce Swenson	Member	November 2014
Stephanie McGee	Student Trustee	May 2012
Emily Kinner	Student Trustee	May 2012

ADMINISTRATION

Linda M. Thor, Ed. D.	Chancellor
Judy C. Miner, Ed. D.	President, Foothill College
M. Brian Murphy, Ph. D.	President, De Anza College

FISCAL ADMINISTRATION

Kevin McElroy	Vice Chancellor, Business Services
Hector Quinonez	District Controller
Bernata Slater	Director, Budget Operations

See accompanying note to supplementary information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
U.S. DEPARTMENT OF EDUCATION			
STUDENT FINANCIAL AID CLUSTER			
Federal Pell Grant Programs (PELL)	84.063	[1]	$19,936,159
Federal Pell Administrative Allowance	84.063	[1]	27,148
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	[1]	392,224
Federal Direct Student Loans	84.268	[1]	12,392,882
Federal College Work Study (FWS)	84.033	[1]	387,134
Perkins Loans	84.038	[1]	171,874
Academic Competitiveness Grants (ACG)	84.375	[1]	405,311
Total Student Financial Aid Cluster			33,712,732
Strenthening Minority Serving Institutions - Asian American	84.382S	[1]	384,614
Higher Educational Institutional Aid	84.031	[1]	638,879
PASS THROUGH FUNDS			
ARRA- State Fiscal Stabilization Fund	84.394	25008	99,364
Career Technical Education Act - Basic Grants To States (Perkins IV)	84.048	03303	772,457
Education Research, Development, Dissemination - SRI domain specific	84.305A	[2]	2,322
Total U.S. Department of Education			35,610,368
NATIONAL SCIENCE FOUNDATION			
PASS THROUGH FUNDS			
Education and Human Resources - NSF	47.076	03797	873,995
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
AmeriCorps State and National	94.006	[1]	62,305
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
NASA BIN-RDI	43.000	[1]	70,980
NASA Ames Internship Program	43.007	[1]	919,826
Trade Adjustment Assistance (TAA)/ North American Free Trade Agreement (NAFTA)	43.007	[1]	68,925
Total National Aeronautics and Space Administration			1,059,731

[1] Pass-Through Entity Identifying Number not applicable, direct funded

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
PASS THROUGH FUNDS			
EMERGENCY CONTINGENCIES FUNDS FOR TEMPORARY ASSISTANCE TO NEEDY FAMILIES CLUSTER			
Temporary Assistance for Needy Families (TANF)	93.558	[2]	66,357
ARRA - TANF Supplemental Grants	93.714	[2]	599,578
Total Emergency Contingencies Funds for Temporary Assitance to Needy Families Cluster			665,935
Medical Assistance Program (MAA)	93.778	10011	175,735
Total U.S. Department of Health and Human Services			841,670
U.S. DEPARTMENT OF LABOR			
PASS THROUGH FUNDS			
WORKFORCE INVESTMENT ACT CLUSTER			
WIA Adult Program	17.258	03573	132,431
Program of Competitive Grants for Worker Training	17.275	03239	21,673
Veterans' Administrative Reporting Fee	17.802	[2]	1,295
Total U.S. Department of Labor			155,399
U.S. DEPARTMENT OF AGRICULTURE			
PASS THROUGH FUNDS			
Child and Adult Care Food Program	10.558	03628	32,659
Total Expenditures of Federal Awards			$38,636,127

See accompanying note to supplementary information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

	Program Entitlements			Program Revenues				
Program	Current Year	Prior Year	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
GENERAL FUND								
Extended Opportunity Programs & Services	$ 1,291,015	$ 45,710	$ 1,336,725	$ 1,336,925	$ -	$ -	$ 1,336,925	$ 1,336,925
Cooperative Agencies Resources for Education	109,312	24,010	133,322	133,322	-	-	133,322	133,322
Disabled Student Programs & Services	1,844,148	215,956	2,060,104	1,839,931	-	-	1,839,931	1,974,219
Deferred Maintenance Costs(FND 47)	-	146,892	146,892	-	-	-	-	295,100
Matriculation	1,206,308	47,263	1,253,571	1,253,571	-	-	1,253,571	1,253,571
Matriculation Non-Credit	56,564	-	56,564	56,564	-	-	56,564	56,564
AB 1725 Staff Development	-	58,288	58,288	54,009	-	51,108	2,901	2,901
AB 1725 Staff Diversity	12,937	45,439	58,376	58,376	-	54,346	4,030	4,030
Economic Development	922,098	186,103	1,108,201	576,396	152,586	12,925	716,058	716,058
Basic Skills	384,542	722,388	1,106,930	1,105,545	-	720,664	384,881	384,881
Career Tech Education	475,845	356,749	832,594	756,745	75,849	505,868	326,725	326,725
Child Development Center	285,254	-	285,254	228,581	50,765	-	279,346	279,346
Child Care Instructional Materials	109	-	109	27	82	-	109	109
Child Dev Tax Bailout	405,503	-	405,503	405,503	-	-	405,503	405,503
Child Care Food Program	1,179	-	1,179	1,033	146	-	1,179	1,179
High Tech Center Training Unit	1,000,000	1,159	1,001,159	1,001,159	-	27,270	973,889	973,889
BFAP Administration	843,500	110,614	954,114	954,114	-	120,863	833,251	833,251
TANF	66,359	-	66,359	61,914	4,483	39	66,359	66,359
Transfer-Ed and Articulation	-	2,433	2,433	2,433	-	-	2,433	2,433
TTIP Telecom & Technology	-	146,042	146,042	146,042	-	146,042	-	-
Instructional Equipment	-	2,363,699	2,363,699	2,363,699	-	2,060,794	302,905	302,905
Lottery Instructional Materials	645,450	595,052	1,240,502	33,840	611,610	-	645,450	431,338
Mandated Cost Reimbursement	1,678,466	-	1,678,466	1,678,466	-	-	1,678,466	114,101
NOVA SWIC Solar Tech	290,790	-	290,790	219,984	70,806	-	290,790	290,790
CalGrant B & C	1,240,593	-	1,240,593	1,236,535	4,509	451	1,240,593	1,240,593
Calworks	302,886	-	302,886	302,200	-	-	302,200	302,200
Miscellaneous State Assistance	139,805	102,394	242,198	219,385	22,813	61,139	181,060	173,564
Subtotal	$ 13,202,662	$ 5,170,190	$ 18,372,852	$ 16,026,299	$ 993,649	$ 3,761,507	$ 13,258,441	$ 11,901,857

See accompanying note to supplementary information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT AS OF JUNE 30, 2011

CATEGORIES	Annual Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession			
1. Noncredit	31.07	-	31.07
2. Credit	3,960.72	-	3,960.72
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	18.41	-	18.41
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	20,396.29	(13.76)	20,382.53
(b) Daily Census Contact Hours	408.62	(1.99)	406.63
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	169.53	-	169.53
(b) Credit	1,257.24	(0.47)	1,256.77
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	4,326.11	-	4,326.11
(b) Daily Census Contact Hours	84.71	-	84.71
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	30,652.70	(16.22)	30,636.48
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	13.33	-	13.33
2. Credit	2,999.82	-	2,999.82
	3,013.15	-	3,013.15

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government and the related expenditures reported on the Schedule of Federal Awards. The reconciling amounts consist primarily of funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the Statement of Net Assets - Primary Government.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenditures, and Changes in Fund Balance:		$ 26,071,371
Federal Direct Student Loans	84.268	12,392,882
Perkins Loans	84.038	171,874
Total Expenditures of Federal Awards		$ 38,636,127

Schedule of Expenditures of State Awards

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

Schedule of Workload Measures for State General Apportionment

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

INDEPENDENT AUDITORS' REPORTS

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

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

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

We have audited the basic financial statements and the discretely presented component unit of Foothill-De Anza Community College District (the District) for the year ended June 30, 2011, and have issued our report thereon November 18, 2011. 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

The management of Foothill-De Anza Community College District is responsible for establishing and maintaining effective 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 opinions 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 a 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.

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Compliance and Other Matters

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

We noted certain matters that we reported to management of Foothill-De Anza Community College District in a separate letter dated November 18, 2011.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 18, 2011

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

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

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

Compliance

We have audited Foothill-De Anza Community College District's (the District's) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Foothill-De Anza Community College District's major Federal programs for the year ended June 30, 2011. Foothill-De Anza Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of 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 contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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 of 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 compliance requirements referred to above could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as item 2011-1.

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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 the 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 the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Foothill-De Anza Community College District's internal control over compliance.

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

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

Foothill-De Anza Community College District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Foothill-De Anza Community College District's response and, accordingly, we express no opinion on the response.

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 18, 2011

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

VALUE THE DIFFERENCE

REPORT ON STATE COMPLIANCE

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 (the District), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 18, 2011.

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

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Foothill-De Anza Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Foothill-De Anza Community College District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Required Data Elements
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 432	Enrollment Fee
Section 433	CalWORKS – Use of State and Federal TANF Funding
Section 435	Open Enrollment
Section 437	Student Fee – Instructional Materials and Health Fees
Section 473	Economic and Workforce Development (EWD)
Section 474	Extended Opportunity Programs and Services (EOPS)
Section 475	Disabled Student Programs and Services (DSPS)

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Section 477 Cooperative Agencies Resources for Education (CARE)
Section 478 Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
Section 479 to Be Arranged Hours (TBA)

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

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

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

Vavrinek, Trine, Day & Co LLP

Pleasanton, California
November 18, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Unqualified for all major programs except for the following program which was qualified:

CFDA Number	Name of Federal Program
84.063	Student Financial Aid - Pell grants

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
84.033, 84.375, 84.063, 84.007, 84.268	Student Financial Aid Cluster
93.714 (ARRA), 93.558	Emergency Contingencies Funds for Temporary Assistance to Needy Families - Cluster
84.031A	Title III, Part A Strengthening Institutions

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

STATE AWARDS

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

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2011

None noted.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2011-1 Finding – Student Financial Aid Cluster, Pell Grants - CFDA #84.063

Significant Deficiency, Internal Control Over Compliance

Criteria or Specific Requirement

OMB A133 compliance supplement guidelines in Part 5, Cluster Programs for Student Financial Aid includes requirements that a District calculate funds not earned by students receiving financial aid and submit a report to a centralized reporting system within prescribed timelines. The critical timelines for this process are as follows: 1) determine the student's withdrawal date within 30 days after the student withdrew, 2) return the unearned Title IV funds within 45 days after the date the District determined the student withdrew, and 3) report the student to NSLDS (national system database), within 45 days from the date the student is notified of overpayment.

Condition

We noted that the calculations of funds not earned by students receiving financial aid were not consistently completed within 30 days of the students' withdrawal, and the funds were not returned within 45 days after the student withdrew at one college.

Questioned Costs

None, as the actions under criteria #1, and #2 above were completed accurately, but were not timely.

Context

We reviewed the reporting of 8 of 127 Return to Title IV students and noted four that were not notified within the required 30 day timeline, and three with funds not returned within the 45 day timeline.

Effect

The District did not comply with the required timelines for the calculations of funds not earned by students receiving financial aid as prescribed by Title IV.

Cause

It was noted by Student Financial Aid department personnel that the automated system performing the Return to Title IV calculations was implemented during the current year and staff was not familiar with how to run the necessary reports. This resulted in one of the Colleges missing the required timelines.

Recommendation

The Financial Aid Departments should be proactive in monitoring progress on meeting timelines.

District Response

The district converted to a new student administrative system in fiscal year 2010-11. The new system incorporates new and complex business processes. The colleges' primary focus was to ensure that we correctly assessed eligibility and disbursed aid to our students. The Return to Title IV (R2T4) process is complicated and introduced additional system implementation and process functionality challenges in relation to the installation of the new student administrative system. We have successfully implemented the requirements of Return to Title IV as of the spring quarter of fiscal year 2010-11. The district will be fully compliant in fiscal year 2011-12, and forward, as we have been in past years.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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

2011-2 Finding - Concurrent Enrollment
Significant Deficiency – Compliance

Criteria or Specific Requirement

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under the concurrent enrollment arrangement only if it complies with specific conditions.

- Per Education Code Section 48800(a), for summer session, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the recommendation.
- Education Code 48800.5 requires that High School Principals certify that all concurrent enrollment students will benefit from attending college courses.
- Per Education Code Section 76001(d), special part time students may enroll in up to 11 units per semester.
- Education Code 760029(a) states that concurrent enrollment courses offered at High School locations must be either in the schedule, or must be advertised for a 30 day period prior to the first meeting of the course.

Condition

During our testing of concurrently enrolled students, we noted the following:

- Authorizations – No evidence was maintained of the High School Principal certifications stating that summertime concurrently enrolled students did not exceed 5% of the students who were recommendation to attend concurrent courses.
- Authorizations – No evidence was maintained of the High School Principal's or Middle School Coordinator recommendation for middle college students to attend concurrent courses.
- Enrollment Fees – We noted some concurrently enrolled students who exceeded the unit enrollment maximum for a special admin student and should have been charged regular enrollment fees.
- High School Campus course offerings – One Physical Education course was held off campus, however, the location was not published in the schedule, or otherwise advertised, prior to the first meeting of the course.

Questioned Costs

Total FTES claimed for summertime students without Principal certification was 0.87 FTES.
Total FTES claimed for 4 students without Principal or Coordinator recommendation was 0.6.
Total Enrollment fees not charged to students exceeding special part time admin status was $1,508.
Total FTES claimed for the Physical Education course was 2.4 FTES.

Context

- We reviewed 15 concurrently enrolled student files for summertime courses and noted at one site none of the files had evidence of certification of the 5 percent summertime limit.
- 8 of 43 concurrently enrolled student files reviewed did not have evidence of the High School Principal or Middle School coordinator's recommendation for the student to attend concurrent courses. All eight students were Middle School students.
- 4 of 20 concurrently enrolled students at one site exceeded the special part time admit status and should have been charged enrollment fees.
- 1 of 45 courses reviewed was a concurrent enrollment course held off campus and the location was not published openly prior to the first meeting of the class.

Effect

The District was not in compliance with some of the State requirements regarding the operations of concurrent enrollment courses and may be subject to removal of some of the associated FTES.

Cause

- One of the sites was not obtaining documentation that the high school principals certified they did not recommend more than 5% of the students for summer courses.
- One site was not obtaining High School Principals or Middle School Coordinator recommendations for Middle School students.
- The sites were not using a consistent formula to convert semester units to quarters when determining what constitutes full time student status. Therefore, conclusions as to which students were under the unit cap for enrollment fee exceptions, was not appropriately applied.
- An additional section of the course was added late in scheduling and the location was not advertised as required.

Recommendation

The District should work with the Colleges to develop procedures to obtain the necessary approvals for the concurrently enrolled students, assess full time student status for purposes of charging enrollment fees, and ensure that off campus courses are in the schedule of advertised course offerings as required.

District Response

Upon review, college administration determined that an older version of the high school permission form that did not include the five percent rule in Education Code Section 48800(a) was still in use and available to the public. In June of 2011, the college revised the form to include the appropriate high school principal certification on the form and posted it to the official college web site.

The college's interpretation of the Education Code Section 76001(d), as reviewed in prior audits, was determined in consideration that the District is on the quarter system and students enrolled in fewer than 18 units constituted part-time status. Upon further review, college administration is in agreement that part-time status is defined by students being enrolled in fewer than 12 units, regardless of the college scheduling on the quarter or semester system. The college has adjusted procedures to charge concurrently enrolled students taking 12 units or more the regular enrollment fees as of the fall quarter 2011.

The audit of college courses found one physical education course that was offered off campus, and was not advertised in the schedule. In response, the college has removed the hours for this class as part of our recalculation and recertification. In addition, the college administration has reviewed and modified its procedures for course scheduling and advertising, and is confident that the current practice of review at the dean and scheduling office levels is sufficient to ensure that all course offerings will be included in the schedule and advertised as required.

2011-3 Finding – State General Apportionment Funding System
Significant Deficiency – Compliance

Criteria or Specific Requirement

Title 5 Section 58003.1 and the Student Attendance Accounting Manual define the characteristics of various classifications of courses used in the Form 320 reporting and the quantification of contact hours for various types of courses.

Condition

During our review of the courses claimed for apportionment on the second period Form 320, we noted three hybrid courses that have both a lecture and online component that were listed as weekly courses that should have been classified as alternative attendance accounting courses. In addition, we noted differences in contact hour calculations.

Questioned Costs

- 11.71 FTES should be removed from weekly courses and added to alternative attendance courses.
- Weekly courses were overstated by 9.67 FTES.
- Daily courses were overstated by 1.99 FTES.
- Positive Attendance courses were overstated by 0.47 FTES.

Context

- We reviewed 80 courses and noted three courses that were inappropriately classified.
- Weekly courses overstatement of 663 contact hours of 73,579 tested, or 0.9 percent.
- Daily courses overstatement of 1,046 contact hours of 32,899 tested, or 3.2 percent.
- Positive Attendance performing arts courses overstatement of 248 contact hours of 4,216 tested, or 6.0 percent. The difference in positive attendance courses appears to have been limited only to the performing arts courses.

Effect

The FTES noted above reported on the second period Form 320 were not supported by available documents, or were misclassified between categories. We understand the District corrected the items we noted on the annual recertification 320 form.

Cause

The errors in FTES reporting appear to be primarily attributable to the implementation of the new ERP system resulting in set-up errors in some course programs.

Recommendation

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

District Response

2010-11 was the District's first year of operation following conversion to a new ERP system. The work involved in setting up hundreds of course sections in a short period of time following training by consultants resulted in errors in the assignment of attendance accounting methods and in the complex calculation of student contact hours of attendance for individual sections. During the year, significant efforts, including retraining, were made to correct these errors consistent with regulations for California community colleges. Every identified attendance method or contact hours error was corrected by the time the 2010-11 CCFS-320 Recalculation report was filed in early November 2011.

2011-4 Finding – To Be Arranged Hours (TBA)
Significant Deficiency – Compliance

Criteria or Specific Requirement

Pursuant to Title 5, Sections 58003.1(b) and (c), the TBA portion of a course uses an alternative method for regularly scheduling a credit course. In addition, Legal Advisory 08-02 To Be Arranged (TBA) Hours Compliance Advice indicates that documentation is required to substantiate that each student has completed the TBA requirements as appropriate for either the Weekly or Daily census attendance accounting procedures.

Title 5, Section 55002(a)(3), 55002(b)(2), 58050(5), and 58051(a)(1) require that specific instructional activities, including those conducted during TBA hours, expected of all students enrolled in the course be included in the official course outline. In addition, Title 5 Section 58102 and 58108 require that a clear description of the course, including the number of TBA hours required be published in the official general catalog or addendum thereto and in the official schedule of classes or addendum thereto.

Condition

- We noted that contact hours for students where documentation of participation for at least 50 minutes of the To Be Arranged time was not available had not been removed from the 320.
- We noted courses where instructional activities to be conducted during the TBA hours were not indicated in the official course outlines.
- We noted courses where the number of TBA hours required was not documented in the catalog or in the official schedule of classes.

Questioned Costs

2,147 contact hours, or 4.09 FTES, should be removed from weekly courses to remove contact hours of students who did not demonstrate TBA activity participation.

Context

- We reviewed 17 TBA weekly courses out of a population of approximately 75 courses. The 75 courses included 487 enrolled students. We noted that TBA contact hours of 2,147 of 45,676 tested, were not supported by documented attendance records. There was no significant level of TBA daily courses noted in the District.
- We noted nine courses where instructional activities to be conducted during the TBA hours were not indicated in the official course outlines.
- We noted 11 courses where the number of TBA hours required was not documented in the catalog or in the official schedule of classes.

Effect

FTES reported on the Form 320 were overstated and the District received apportionment funding for those FTES. In addition, course materials do not concisely and consistently describe the TBA expectations, activities and hours.

Cause

The District was not adjusting Form 320 data for those students who did not participate for a minimum amount of To Be Arranged Hours. In addition, course materials are not consistent with each other.

Recommendation

We recommend the District review participation records for all To Be Arranged courses and remove contact hours for those students who are not participating. We also recommend the District review all TBA course outline, catalogs and course schedule material and verify that TBA is appropriately noticed and described.

District Response

The District has reviewed all of the courses identified in the audit, and removed all TBA hours from the 320 that did not have adequate documentation, and/or lacked the required information in the catalog, course outline, and/or syllabus, and has corrected any discrepancies in contact hour calculations for all courses in the system. The two colleges have also reviewed their scheduling procedures in order to remove TBA hours from most courses, and to ensure that those courses that are scheduled with TBA adhere to the TBA requirements.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

There were no audit findings reported in the prior year's schedules of Financial Statement Findings and Recommendations, Federal Award Findings and Questioned Costs, or State Award Findings and Questioned Costs.