



san josé·evergreen
COMMUNITY COLLEGE DISTRICT

SAN JOSE / EVERGREEN
COMMUNITY
COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT
JUNE 30, 2010

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2010

FINANCIAL SECTION

| | |
|--|----|
| Independent Auditors' Report | 2 |
| Management Discussions and Analysis (Required Supplementary Information) | 4 |
| Statements of Net Assets – Primary Government | 13 |
| Statements of Revenues, Expenses, and Changes in Net Assets – Primary Government | 14 |
| Statements of Cash Flows – Primary Government | 15 |
| Fiduciary Funds | |
| Statement of Net Assets | 17 |
| Statement of Changes in Net Assets | 18 |
| Notes to Financial Statements | 19 |

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|----|
| Schedule of Other Postemployment Benefits (OPEB) Funding Progress | 46 |
|---|----|

SUPPLEMENTARY INFORMATION

| | |
|---|----|
| District Organization | 48 |
| Schedule of Expenditures of Federal Awards | 49 |
| Schedule of Expenditures of State Awards | 50 |
| Schedule of Workload Measures for State General Apportionment | 54 |
| Reconciliation of Annual Financial and Budget Report with Fund Financial Statements | 55 |
| Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets | 56 |
| Governmental Funds | |
| Balance Sheets | 57 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance | 59 |
| Proprietary Funds | |
| Balance Sheets | 61 |
| Statements of Revenues, Expenses, and Changes in Retained Earnings | 62 |
| Statements of Cash Flows | 63 |
| Fiduciary Funds | |
| Balance Sheets | 64 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance | 65 |
| Note to Supplementary Information | 66 |

INDEPENDENT AUDITORS' REPORTS

| | |
|---|----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 69 |
| 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 | 71 |
| Report on State Compliance | 73 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

| | |
|--|----|
| Summary of Auditors' Results | 76 |
| Financial Statement Findings and Recommendations | 77 |
| Federal Awards Findings and Questioned Costs | 78 |
| State Awards Findings and Questioned Costs | 80 |
| Summary Schedule of Prior Audit Findings | 81 |

FINANCIAL SECTION



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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
San Jose/Evergreen Community College District
San Jose, California

We have audited the accompanying basic financial statements of the business-type activities of San Jose/Evergreen Community College District (the District) as of and for the years ended June 30, 2010 and 2009, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of San Jose/Evergreen Community College District as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, 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 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, as listed in 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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
December 3, 2010

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established new reporting formats for annual statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applied the new reporting models to public colleges and universities. In its "Accounting Advisory No. 2001-01", the State Chancellor's Office opined that the California Community Colleges would best benefit from, and would "therefore implement", the business-type activities (BTA) reporting model, as outlined in GASB Statements No. 34 and No. 35.

Responsibility for the completeness and accuracy of this information rests with the District management.

The reporting model is in some cases an extreme departure from that used prior to GASB Statements No. 34 and No. 35 implementation and, in some cases, has limited value or may even be detrimental to casual readers attempting to understand the financial health of a governmental entity. Because of this, the District has asked its auditors to also present the District's financial statements using the fund statements format, which continues as the format that the District uses in reporting to the State Chancellor's Office.

As required by generally accepted accounting principles, 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, and the Statement of Cash Flows. These statements are designed to emulate corporate presentation models, whereby all District activities are consolidated into one total. The focus of the Statement of Net Assets is designed to be similar to "bottom line" results for the District. This statement combines and consolidates current financial resources (short-term spendable resources) with capital assets. The Statements of Revenues, Expenses, and Changes in Net Assets focus on both the gross and the net costs of District activities, which are supported mainly by property taxes, State apportionment, and other State revenues. This approach is intended to summarize and simplify the analysis of cost of various District services to students and the public.

The following analysis provides an overview of the District's financial activities. The analysis will include comparisons of current to prior year activity.

Statement of Net Assets

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

Statement of Net Assets

| | 2010 | 2009 | Change | 2008 | Change |
|---|----------------------|----------------------|------------------------|-----------------------|------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 9,193,672 | \$ 14,007,779 | \$ (4,814,107) | \$ 12,985,674 | \$ 1,022,105 |
| Accounts receivable, net | 10,762,040 | 12,110,539 | (1,348,499) | 16,179,055 | (4,068,516) |
| Due from trust funds | 1,448,751 | 801,482 | 647,269 | 1,296,316 | (494,834) |
| Prepaid expenses - current portion | 86,086 | 75,795 | 10,291 | 190,057 | (114,262) |
| Other assets | 355,675 | 601,638 | (245,963) | 512,370 | 89,268 |
| Other current assets - current portion | 166,952 | 86,086 | 80,866 | 63,461 | 22,625 |
| Total Current Assets | 22,013,176 | 27,683,319 | (5,670,143) | 31,226,933 | (3,543,614) |
| NONCURRENT ASSETS | | | | | |
| Restricted cash | 65,487,231 | 83,063,823 | (17,576,592) | 113,596,520 | (30,532,697) |
| Investments - noncurrent portion | - | - | - | 779,353 | (779,353) |
| Other current assets - noncurrent portion | 1,970,599 | 2,056,686 | (86,087) | 1,396,145 | 660,541 |
| Prepaid OPEB contribution | 39,271,509 | 39,352,909 | (81,400) | - | 39,352,909 |
| Capital assets, net of accumulated depreciation | 282,529,871 | 281,283,253 | 1,246,618 | 254,480,449 | 26,802,804 |
| Total Noncurrent Assets | 389,259,210 | 405,756,671 | (16,497,461) | 370,252,467 | 35,504,204 |
| TOTAL ASSETS | 411,272,386 | 433,439,990 | (22,167,604) | 401,479,400 | 31,960,590 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | 11,708,138 | 12,585,945 | (877,807) | 12,750,668 | (164,723) |
| Deferred revenue | 4,537,677 | 5,179,460 | (641,783) | 3,959,978 | 1,219,482 |
| Current portion of long-term obligations | 7,389,301 | 4,984,301 | 2,405,000 | 5,234,301 | (250,000) |
| Total Current Liabilities | 23,635,116 | 22,749,706 | 885,410 | 21,944,947 | 804,759 |
| NONCURRENT LIABILITIES | | | | | |
| Accrued compensated absences payable | 1,783,854 | 1,613,678 | 170,176 | 1,791,404 | (177,726) |
| Long-term obligations | 297,154,568 | 301,866,498 | (4,711,930) | 256,413,812 | 45,452,686 |
| Other long-term liabilities | 4,186,025 | 4,395,326 | (209,301) | 4,604,627 | (209,301) |
| Total Noncurrent Liabilities | 303,124,447 | 307,875,502 | (4,751,055) | 262,809,843 | 45,065,659 |
| TOTAL LIABILITIES | 326,759,563 | 330,625,208 | (3,865,645) | 284,754,790 | 45,870,418 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 66,680,952 | 81,012,193 | (14,331,241) | 93,766,220 | (12,754,027) |
| Restricted for: | | | | | |
| Debt service | 11,973,507 | 13,495,120 | (1,521,613) | 12,960,356 | 534,764 |
| Educational programs | 1,351,838 | 1,148,875 | 202,963 | 1,264,544 | (115,669) |
| Capital projects | 973,131 | 939,576 | 33,555 | 936,445 | 3,131 |
| Unrestricted | 3,533,395 | 6,219,018 | (2,685,623) | 7,797,045 | (1,578,027) |
| Total Net Assets | \$ 84,512,823 | \$102,814,782 | \$ (18,301,959) | \$ 116,724,610 | \$ (13,909,828) |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

Cash and cash equivalents are invested primarily in the Santa Clara County investment pool. The decrease in the cash balances from prior year is primarily a result of continued construction and renovation of our college campuses.

Accounts receivable primarily represents funding owed to the District by the State for capital and non-capital apportionment and grants. The total owed to the District by the Federal and State sources is approximately \$6.8 million.

Other assets primarily represent bookstore merchandise inventory.

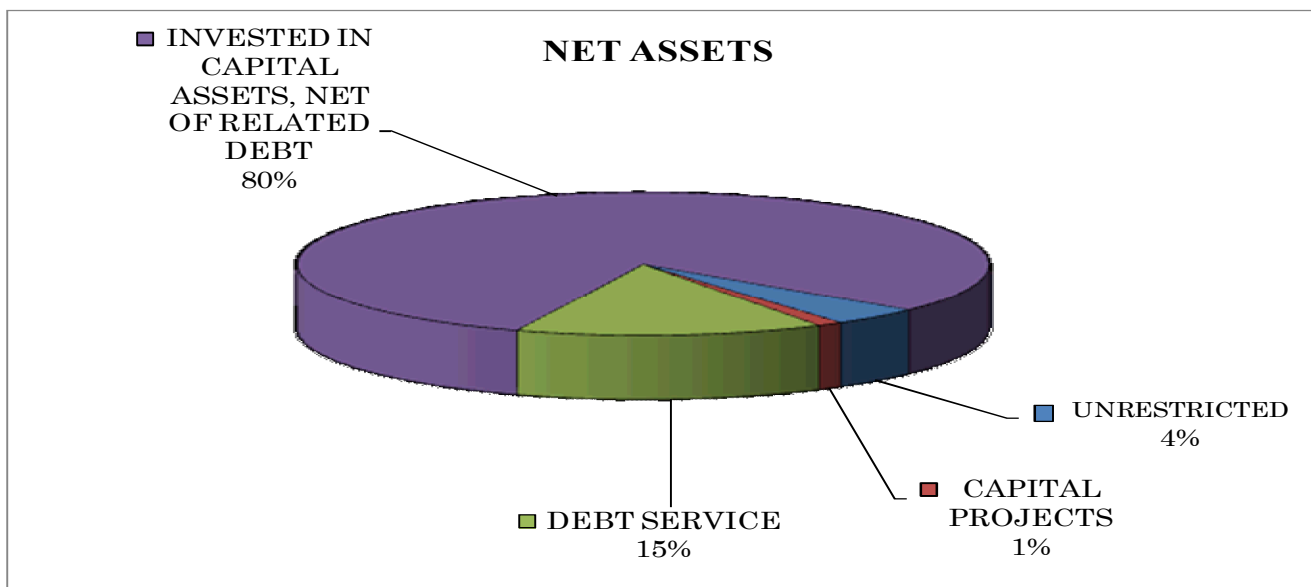
Capital assets represent the District's original investment in land, site improvements, buildings, building improvements, construction in progress, and equipment, less the cost of accumulated depreciation. Capital assets increased by approximately \$28 million over the past two years due to the construction and renovation projects funded by our general obligation bonds and State construction apportionments.

Accounts payable and accrued liabilities represent amounts owed for services and goods received by the District, during Fiscal Year 2009-2010, for which payment would not be made until Fiscal Year 2010-2011. The accounts payable amount primarily represents debt on vendor invoices and amounts owed to employees for services rendered.

Deferred revenues represent prepayments made to the District for which services have yet to be rendered. Approximately \$3.5 million of this amount represents student tuition and registration fees, received during Fiscal Year 2009-2010, for the Fiscal Year 2010-2011 Summer and Fall terms. Approximately \$1.0 million represents funding for grants and contracts whose terms and conditions extend beyond the Fiscal Year 2009-2010.

The District's long-term liabilities consist of the accumulated liability for compensated absence of approximately \$1.7 million and \$258 million in voter approved general obligation bonds, \$46.7 million of OPEB taxable bonds, and \$4.4 million in bond premiums being allocated over the life of the bonds. The general obligation bonds are being repaid through tax assessments on property located within the District boundaries and are not a direct obligation of the District's general fund.

The largest component of the District's "Net Assets" is the investment in capital assets (net of related debt) of approximately \$66.7 million. These funds are not liquid resources that can be used to fund ongoing operations.



SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

Statement of Revenues, Expenses, and Changes in Net Assets

Operating Results

| | <u>2010</u> | <u>2009</u> | <u>Change</u> | <u>2008</u> | <u>Change</u> |
|--|----------------------|-----------------------|------------------------|-----------------------|------------------------|
| OPERATING REVENUES | | | | | |
| Tuition and Fees - net | \$ 6,799,139 | \$ 6,098,111 | \$ 701,028 | \$ 6,060,262 | \$ 37,849 |
| Auxiliary Enterprise Sales and Charges | | | | | |
| Bookstore | 4,307,573 | 4,910,131 | (602,558) | 4,707,192 | 202,939 |
| TOTAL OPERATING REVENUES | <u>11,106,712</u> | <u>11,008,242</u> | <u>98,470</u> | <u>10,767,454</u> | <u>240,788</u> |
| OPERATING EXPENSES | | | | | |
| Salaries | 64,810,405 | 66,931,948 | (2,121,543) | 65,055,409 | 1,876,539 |
| Employee benefits | 25,152,408 | 24,318,514 | 833,894 | 23,067,866 | 1,250,648 |
| Supplies, materials, and other operating expenses and services | 43,941,827 | 38,521,956 | 5,419,871 | 37,381,387 | 1,140,569 |
| Depreciation | 14,342,474 | 13,045,370 | 1,297,104 | 8,744,903 | 4,300,467 |
| TOTAL OPERATING EXPENSES | <u>148,247,114</u> | <u>142,817,788</u> | <u>5,429,326</u> | <u>134,249,565</u> | <u>8,568,223</u> |
| OPERATING LOSS | <u>(137,140,402)</u> | <u>(131,809,546)</u> | <u>(5,330,856)</u> | <u>(123,482,111)</u> | <u>(8,327,435)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State apportionments, noncapital | 4,303,262 | 2,508,063 | 1,795,199 | 2,982,808 | (474,745) |
| Local property taxes | 79,999,385 | 83,381,864 | (3,382,479) | 77,343,177 | 6,038,687 |
| Grants and Contracts, noncapital: | | | | | |
| Federal | 28,397,664 | 19,853,795 | 8,543,869 | 16,968,385 | 2,885,410 |
| State | 10,760,441 | 13,120,705 | (2,360,264) | 13,680,823 | (560,118) |
| Local | 1,376,831 | 1,779,456 | (402,625) | 950,870 | 828,586 |
| State taxes and other revenues | 2,659,994 | 2,963,616 | (303,622) | 3,874,825 | (911,209) |
| Investment income | 149,901 | 213,802 | (63,901) | 284,176 | (70,374) |
| Interest expense on capital related debt | (17,063,427) | (14,802,086) | (2,261,341) | (10,090,238) | (4,711,848) |
| Loss on disposal of capital assets | 38,343 | 56,386 | (18,043) | (52,838) | 109,224 |
| Investment income on capital assets-related debt, net | 758,022 | 2,619,507 | (1,861,485) | 2,928,314 | (308,807) |
| Other nonoperating revenue | 6,483,950 | 5,133,113 | 1,350,837 | 3,256,075 | 1,877,038 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>117,864,366</u> | <u>116,828,221</u> | <u>1,036,145</u> | <u>112,126,377</u> | <u>4,701,844</u> |
| INCOME/LOSS) BEFORE OTHER REVENUES AND EXPENSES | <u>(19,276,036)</u> | <u>(14,981,325)</u> | <u>(4,294,711)</u> | <u>(11,355,734)</u> | <u>(3,625,591)</u> |
| State revenues, capital | 974,077 | 709,628 | 264,449 | 10,692,247 | (9,982,619) |
| CHANGE IN NET ASSETS | <u>(18,301,959)</u> | <u>(14,271,697)</u> | <u>(4,030,262)</u> | <u>(663,487)</u> | <u>(13,608,210)</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>102,814,782</u> | <u>117,086,479</u> | <u>(14,271,697)</u> | <u>117,749,966</u> | <u>(663,487)</u> |
| NET ASSETS, END OF YEAR | <u>\$ 84,512,823</u> | <u>\$ 102,814,782</u> | <u>\$ (18,301,959)</u> | <u>\$ 117,086,479</u> | <u>\$ (14,271,697)</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

The Statement of Revenues, Expenses, and Changes in Net Assets presents the financial results of the District's operations, as well as its nonoperating activities. The distinction between these two activities involves the concepts of "exchange" and "nonexchange". An operating activity is one in which a "direct payment"/exchange is made (by one party to another) for the receipt of specified goods or services, i.e., the payer is the one receiving benefit. As an example, tuition fees, paid by a student, is an "exchange" for instructional services. The receipt of State apportionments and property taxes, however, do not include this "exchange" relationship between "payment" and the "receipt of benefit". Such revenues are deemed "nonexchange" transactions and are, therefore, treated as "nonoperating" activities.

The primary components of "tuition and fees" are the \$26 per unit enrollment fee that is charged to all students registering for classes and the additional \$191 per unit fee that is charged to all nonresident students. The difference between these fees is due to the fact that resident student instruction is largely subsidized by local property taxes and State apportionment; nonresident students must pay the full cost of instruction. Approximately \$5.3 million of the gross enrollment revenue has been funded by the Board of Governor's (fee) Waivers, which is offset by an equal amount in "scholarship discounts".

The revenue, for auxiliary enterprises, consists primarily of the net revenue from the District's bookstores on the San Jose City College and Evergreen Valley College campuses in the amount of approximately \$4.3 million.

Because the primary sources of funding that support the District's instructional activities comes from State apportionment and local property taxes, which are considered nonoperating, the financial results of the District's "operations" will result in a net operating loss.

The principal components of the District's nonoperating revenue are: noncapital State apportionment, local property taxes, federal and state grants, and other State funding, and interest income. With the exception of interest income and property tax revenue received for the repayment of our bond, all of this revenue is received to support the District's instructional activities. Approximately \$.7 million in interest income was primarily earned on the cash in the County Treasury during the fiscal year in the District's general obligation bond.

The largest component of the District's nonoperating revenues is noncapital grants and contracts. Approximately \$10.8 million is funding received from the State for categorical programs, such as DSP&S, EOP&S, Matriculation, etc., while Federal grants of approximately \$20.6 million provide funding for student financial aid programs.

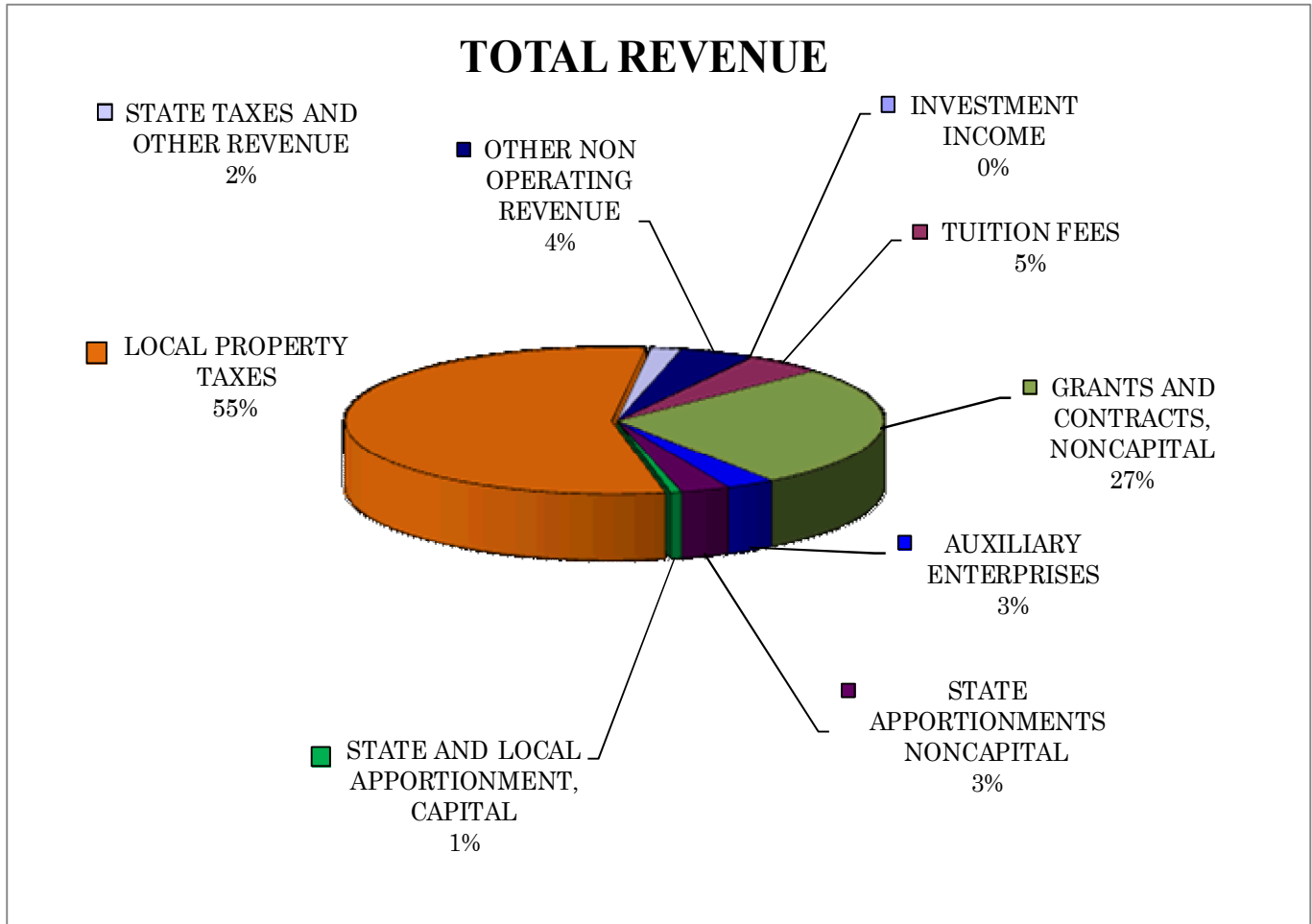
The "State apportionments, capital" revenues principally represent State funding for State approved capital projects and deferred maintenance programs.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

The following chart graphically shows the various components of our revenue for the District as a whole.



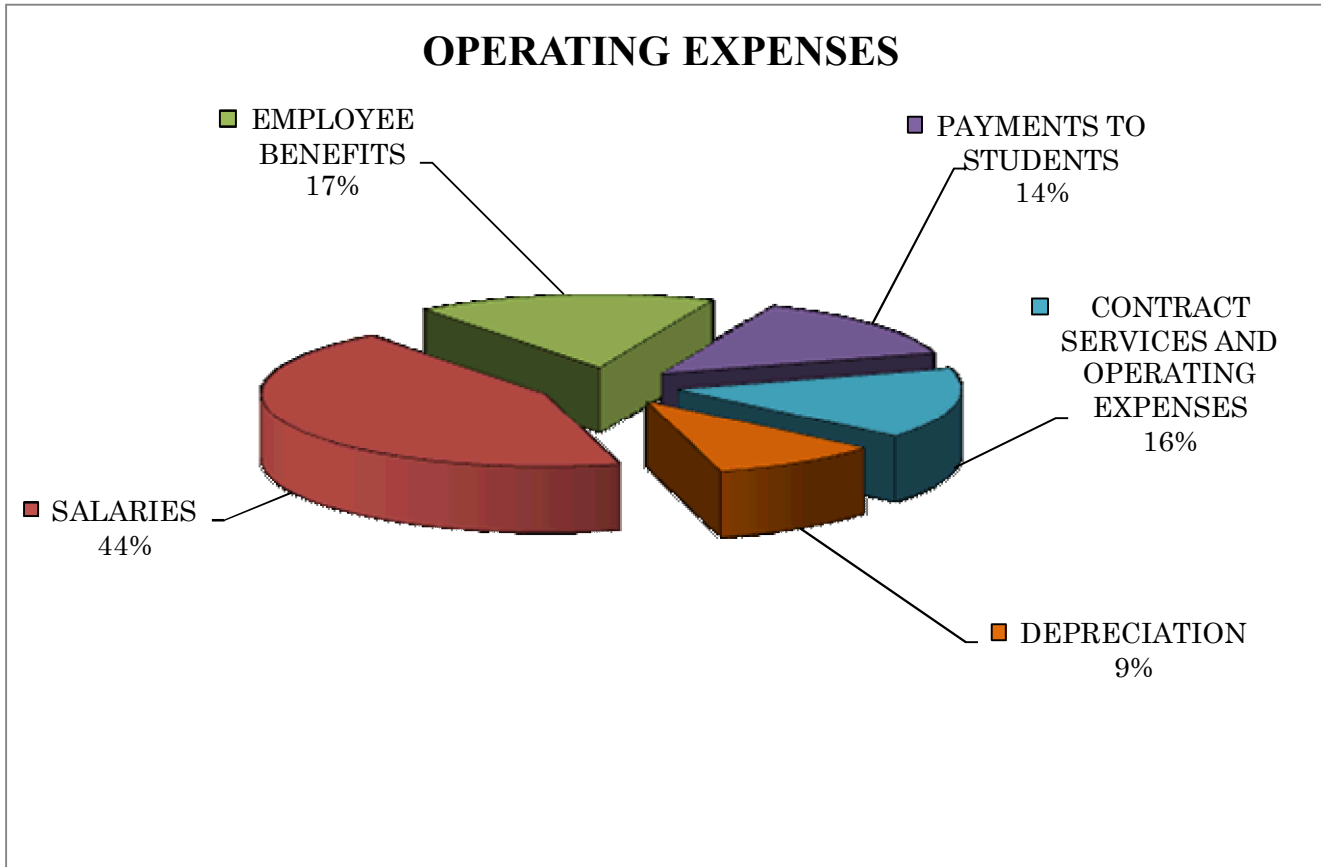
The largest component of the District's operating expense is the cost associated with employee salaries and benefits. Nearly 60 percent of the total expense is spent in this area. "Contract services and other operating expenses" represent ongoing operating costs such as utilities and supplies and account for an additional \$23.3 million. The remainder includes amounts paid to students primarily for financial aid of \$20.6 million and depreciation expense of \$14.3 million.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

The following chart graphically shows the various components of our operating expenses for the District as a whole.



District enrollment in Fiscal Year 2009-2010 reached a record level, with 15,697 FTES reported to the State of California for funding. The District's FTES was not fully funded due to severe funding restrictions at the State level.

The OPEB Trust Fund was established after the sale of OPEB Bonds to fund the GASB 43/45 Actuarial Valuation of Postretirement Employee Benefits originally estimated and \$47 million and updated to \$38 million dollars with the most recent actuarial study. The closing for the District's OPEB Bond was May 14, 2009, with an expense rate fixed at 4.62% and a swap rate the end of the third year at 4.239%. Separate financial statements for the Retiree Benefit Plan Trust are available by contacting the San Jose/Evergreen Community College District office.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the District during the year. The statement is divided into five parts. The first section deals with the operating cash flows and shows the net cash used by the operating activities of the District. The second section reflects cash flows from noncapital financing activities. The third section reflects the cash received from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth section deals with the net cash received from financing activities related to the acquisition of capital and related items. The fifth section (not summarized here) reconciles the net cash activity to the net operation expense on the Statement of Revenue, Expenses, and Changes in Net Asset.

Statement of Cash Flows

| | <u>2010</u> | <u>2009</u> | <u>Change</u> | <u>2008</u> | <u>Change</u> |
|--|----------------------|----------------------|------------------------|-----------------------|------------------------|
| Cash From | | | | | |
| Operating activities | \$ (116,900,155) | \$ (124,732,536) | \$ 7,832,381 | \$ (113,847,727) | \$ (10,884,809) |
| Noncapital financing activities | 113,627,198 | 117,301,241 | (3,674,043) | 110,201,550 | 7,099,691 |
| Capital and related financing activities | (19,479,459) | (24,340,145) | 4,860,686 | 54,364,863 | (78,705,008) |
| Investing activities | 361,717 | 972,703 | (610,986) | 1,994,985 | (1,022,282) |
| Change in Cash | <u>(22,390,699)</u> | <u>(30,798,737)</u> | <u>8,408,038</u> | <u>52,713,671</u> | <u>(83,512,408)</u> |
| Cash - Beginning of Year | 97,071,602 | 127,870,339 | (30,798,737) | 75,156,668 | 52,713,671 |
| Cash - End of Year | <u>\$ 74,680,903</u> | <u>\$ 97,071,602</u> | <u>\$ (22,390,699)</u> | <u>\$ 127,870,339</u> | <u>\$ (30,798,737)</u> |

Economic Factors That May Affect the Future

The Unrestricted General Fund provides the resources necessary to sustain the day-to-day activities of the district and pays for most administrative and operating expenditures. The State budget continues to exhibit its fragile status as Fiscal Year 2010-2011 commences into the second quarter. The State is currently predicting a \$6 billion revenue shortfall for Fiscal Year 2010-2011 and \$19 billion for Fiscal Year 2011-2012; is relying heavily on anticipated Federal funds; is assuming 12 months of expenditure reductions in a 9 month timeframe; and is continuing its deficit spending pattern. The Governor has called a special session beginning December 6, 2010, to address these issues. In addition to the afore-mentioned, there is potential for continued reductions to resources in Fiscal Year 2010-2011 because of the continuing deflation in the market value of personal residences and decreases to personal income. Much of the State's General Apportionment funding for local schools and community colleges is tied to personal income, and leveling of this revenue source does not combat the previous losses and will continue to impact the State's ability to provide cost-of-living adjustments in the next several years without other revenue enhancements.

As the District monitors events surrounding the State's fiscal condition, planning is moving ahead to control and reduce expenditures in the likely event that the State adopts mid-year spending cuts to education budgets in Fiscal Year 2010-2011. This strategy includes the adoption of a 1% deficit factor with an estimated value of \$696,189, benefit revisions, organizational review and realignments, aggressively pursuing grants, and utility savings from energy efficiency project implementation incorporated in Measure G – 2010.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2010

The District is again experiencing unprecedented demand for its programs and services, which can be expected to continue as the unemployment rate continues at record levels. However, the services that the District offers to the community will be driven by the availability of resources, and if the State reduces its funding to community colleges, this District may take the appropriate action to maintain its service level within the budget allocations provided by the State. Of note, there will be sufficient enrollment that will be reported in Fiscal Year 2010-11 to permit the District to receive the maximum funded growth permissible within available State resources.

Progress on Capital Projects

The District continues to make progress in implementing its capital projects master plan associated with Measure G – 2004, including the Multi-disciplinary Complex at SJCC as well as renovations to the Cedro and PE Buildings at EVC.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact the District at: San Jose/Evergreen Community College District, 4750 San Felipe Road, San Jose, California 95135.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF NET ASSETS – PRIMARY GOVERNMENT
JUNE 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 9,193,672 | \$ 14,007,779 |
| Accounts receivable, net of allowance | 10,762,040 | 12,110,539 |
| Due from trust funds | 1,448,751 | 801,482 |
| Deferred charges | 86,086 | 86,086 |
| Prepaid expenses | 166,952 | 75,795 |
| Stores inventories | 355,675 | 601,638 |
| Total Current Assets | <u>22,013,176</u> | <u>27,683,319</u> |
| NONCURRENT ASSETS | | |
| Restricted cash and cash equivalents | 65,487,231 | 83,063,823 |
| Deferred charges | 1,970,599 | 2,056,686 |
| Prepaid OPEB contribution | 39,271,509 | 39,352,909 |
| Nondepreciable capital assets | 28,030,570 | 64,979,885 |
| Depreciable capital assets, net of accumulated depreciation | 254,499,301 | 216,303,368 |
| Total Noncurrent Assets | <u>389,259,210</u> | <u>405,756,671</u> |
| TOTAL ASSETS | <u>411,272,386</u> | <u>433,439,990</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 6,377,706 | 7,871,987 |
| Accrued interest payable | 5,330,432 | 4,713,958 |
| Deferred revenue | 4,537,677 | 5,179,460 |
| Bonds and notes payable | 7,180,000 | 4,775,000 |
| Other long-term liabilities | 209,301 | 209,301 |
| Total Current Liabilities | <u>23,635,116</u> | <u>22,749,706</u> |
| NONCURRENT LIABILITIES | | |
| Accrued compensated absences payable | 1,783,854 | 1,613,678 |
| Bonds and notes payable | 297,154,568 | 301,866,498 |
| Other long-term liabilities | 4,186,025 | 4,395,326 |
| Total Noncurrent Liabilities | <u>303,124,447</u> | <u>307,875,502</u> |
| TOTAL LIABILITIES | <u>326,759,563</u> | <u>330,625,208</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 66,680,952 | 81,012,193 |
| Restricted for: | | |
| Debt service | 11,973,507 | 13,495,120 |
| Educational programs | 1,351,838 | 1,148,875 |
| Capital projects | 973,131 | 939,576 |
| Unrestricted | 3,533,395 | 6,219,018 |
| TOTAL NET ASSETS | <u>\$ 84,512,823</u> | <u>\$ 102,814,782</u> |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS – PRIMARY GOVERNMENT
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

| | 2010 | 2009 |
|--|----------------------|-----------------------|
| OPERATING REVENUES | | |
| Student Tuition and Fees | \$ 12,043,369 | \$ 8,602,272 |
| Less: Scholarship discount and allowance | (5,244,230) | (2,504,161) |
| Net tuition and fees | <u>6,799,139</u> | <u>6,098,111</u> |
| Auxiliary Enterprise Sales and Charges | | |
| Bookstore | 4,307,573 | 4,910,131 |
| TOTAL OPERATING REVENUES | <u>11,106,712</u> | <u>11,008,242</u> |
| OPERATING EXPENSES | | |
| Salaries | 64,810,405 | 66,931,948 |
| Employee benefits | 25,152,408 | 24,318,514 |
| Supplies, materials, and other operating expenses and services | 43,945,727 | 38,521,956 |
| Depreciation | 14,342,474 | 13,045,370 |
| TOTAL OPERATING EXPENSES | <u>148,247,114</u> | <u>142,817,788</u> |
| OPERATING LOSS | <u>(137,140,402)</u> | <u>(131,809,546)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State apportionments, noncapital | 4,303,262 | 2,508,063 |
| Local property taxes | 79,999,385 | 83,381,864 |
| Federal grants | 28,397,664 | 19,853,795 |
| State grants | 10,760,441 | 13,120,705 |
| Local grants | 1,376,831 | 1,779,456 |
| State taxes and other revenues | 2,659,994 | 2,963,616 |
| Investment income, net | 149,901 | 213,802 |
| Interest expense on capital related debt | (17,063,427) | (14,802,086) |
| Investment income on capital asset-related debt, net | 758,022 | 2,619,507 |
| Gain (loss) on disposal of capital assets | 38,343 | 56,386 |
| Transfer from agency fund | 3,088,097 | 402,945 |
| Other nonoperating revenue | 3,395,853 | 4,730,168 |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>117,864,366</u> | <u>116,828,221</u> |
| INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES | <u>(19,276,036)</u> | <u>(14,981,325)</u> |
| OTHER REVENUES (EXPENSES) | | |
| State revenues, capital | 974,077 | 709,628 |
| TOTAL OTHER REVENUES AND EXPENSES | <u>974,077</u> | <u>709,628</u> |
| CHANGE IN NET ASSETS | (18,301,959) | (14,271,697) |
| NET ASSETS, BEGINNING OF YEAR | <u>102,814,782</u> | <u>117,086,479</u> |
| NET ASSETS, END OF YEAR | <u>\$ 84,512,823</u> | <u>\$ 102,814,782</u> |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS – PRIMARY GOVERNMENT
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

| | 2010 | 2009 |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 7,241,042 | \$ 4,513,716 |
| Payments to vendors for supplies and services | (39,216,147) | (40,112,991) |
| Payments to or on behalf of employees | (89,646,145) | (93,764,669) |
| Auxiliary enterprise sales and charges | 3,871,361 | 4,642,022 |
| Other operating receipts (payments) | 849,734 | (10,614) |
| Net Cash Flows from Operating Activities | (116,900,155) | (124,732,536) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State apportionments | 6,210,186 | 2,431,198 |
| Property taxes | 64,410,015 | 68,547,743 |
| Grants and contracts | 38,206,075 | 35,369,837 |
| State taxes and other apportionments | 2,945,362 | 2,963,616 |
| Proceeds from OPEB debt | - | 46,775,000 |
| Payment to OPEB irrevocable trust | - | (39,957,516) |
| Other nonoperating | 1,855,560 | 1,171,363 |
| Net Cash Flows from Noncapital Financing Activities | 113,627,198 | 117,301,241 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| State apportionments capital projects | 974,077 | 8,032,681 |
| Purchase of capital assets | (18,047,045) | (39,848,176) |
| Deferred charges | - | (22,655) |
| Proceeds from capital debt | 3,665,136 | 4,319,736 |
| Property taxes for capital debt | 15,589,370 | 14,834,121 |
| Principal paid on capital debt | (5,972,066) | (5,025,000) |
| Interest paid on capital debt | (16,446,953) | (9,250,359) |
| Interest received on capital asset-related debt | 758,022 | 2,619,507 |
| Net Cash Flows from Capital Financing Activities | (19,479,459) | (24,340,145) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received from investments | 361,717 | 972,703 |
| Net Cash Flows from Investing Activities | 361,717 | 972,703 |
| CHANGE IN CASH AND CASH EQUIVALENTS | (22,390,699) | (30,798,737) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 97,071,602 | 127,870,339 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 74,680,903 | \$ 97,071,602 |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CASH FLOWS – PRIMARY GOVERNMENT CONTINUED
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|--|--------------------------------|--------------------------------|
| RECONCILIATION OF NET OPERATING REVENUES TO NET CASH FROM OPERATING ACTUALS | | |
| Operating loss | \$ (137,140,402) | \$ (131,809,546) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation expense | 14,342,474 | 13,045,370 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net (operating portion) | 3,324,945 | (6,121,938) |
| Stores inventories | 245,963 | (89,268) |
| Prepaid expenses | (91,157) | 114,262 |
| Accounts payable and accrued liabilities (operating portion) | (877,807) | (131,341) |
| Deferred revenue | (641,783) | 211,736 |
| Funds held for others | 3,937,612 | 48,189 |
| Total Adjustments | <u>20,240,247</u> | <u>7,077,010</u> |
| Net Cash Flows From Operating Activities | <u><u>\$ (116,900,155)</u></u> | <u><u>\$ (124,732,536)</u></u> |
| CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING | | |
| Cash in banks | \$ 1,284,158 | \$ 1,145,857 |
| Cash equivalents - U.S. Bank | 2,142,740 | 4,319,736 |
| Cash in County Treasury | 71,254,005 | 91,606,009 |
| Total Cash and Cash Equivalents | <u><u>\$ 74,680,903</u></u> | <u><u>\$ 97,071,602</u></u> |
| NONCASH TRANSACTIONS | | |
| On behalf payments for benefits | <u><u>\$ 1,360,672</u></u> | <u><u>\$ 1,498,187</u></u> |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF FIDUCIARY NET ASSETS
JUNE 30, 2010 AND 2009**

| | 2010 | | 2009 | |
|---------------------------|----------------------|-------------------|---------------------|---------------------|
| | Trust | Agency Funds | Trust | Agency Funds |
| ASSETS | | | | |
| Cash and cash equivalents | \$ - | \$ 643,131 | \$ 1,553,627 | \$ 974,574 |
| Investments | 44,282,116 | - | 39,607,205 | - |
| Accounts receivable, net | 1,461,788 | - | 835,980 | - |
| Other current assets | - | - | - | 59,779 |
| Total Assets | 45,743,904 | \$ 643,131 | 41,996,812 | \$ 1,034,353 |
| LIABILITIES | | | | |
| Accounts payable | 295,100 | \$ 170 | 194,440 | \$ 976 |
| Due to other funds | 1,448,751 | - | 801,482 | - |
| Deferred revenue | 30 | - | 611 | - |
| Due to others | - | 642,961 | - | 1,033,377 |
| Total Liabilities | 1,743,881 | \$ 643,131 | 996,533 | \$ 1,034,353 |
| NET ASSETS | | | | |
| Reserved | 44,000,023 | | 41,000,279 | |
| Total Net Assets | \$ 44,000,023 | | \$41,000,279 | |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010 AND 2009**

| | <u>2010</u> | <u>2009</u> |
|---|----------------------|----------------------|
| | <u>Trust</u> | <u>Trust</u> |
| ADDITIONS | | |
| Federal revenues | \$ 19,778,415 | \$ 13,620,860 |
| State revenues | 859,716 | 1,251,419 |
| Local revenues | 6,314,431 | 41,265,842 |
| Total Additions | <u>26,952,562</u> | <u>56,138,121</u> |
| DEDUCTIONS | | |
| Classified salaries | 46,875 | 44,141 |
| Employee benefits | - | 207,071 |
| Services and operating expenditures | 20,817,846 | 14,845,555 |
| Total Deductions | <u>20,864,721</u> | <u>15,096,767</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Operating transfers out | (3,088,097) | (402,945) |
| Total Other Financing Sources (Uses) | <u>(3,088,097)</u> | <u>(402,945)</u> |
| Change in Net Assets | 2,999,744 | 40,638,409 |
| Net Assets - Beginning | 41,000,279 | 361,870 |
| Net Assets - Ending | <u>\$ 44,000,023</u> | <u>\$ 41,000,279</u> |

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The San Jose/Evergreen Community College District (the District) was established on July 1, 1964 as a political subdivision of the State of California and provides post secondary educational services to residents of Santa Clara County. The District operates under a locally elected seven-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, San Jose City College and Evergreen Valley College, located within Santa Clara County. While the District is a political subdivision of the State of California, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

The following entities do not meet the above criteria for inclusion as component units of the District. Additional information is included in Note 14 to the financial statements.

- **Joint Powers Agencies and Public Entity Risk Pools**

The District is associated with three joint powers agencies (JPAs). These organizations do not meet the criteria for inclusion as component units of the District. The JPAs are the Northern California Community College Pool, the Bay Area Community College Districts Joint Power Agency, and the South Bay Regional Public Safety Training Consortium.

- **San Jose / Evergreen Community College District Foundation**

The San Jose / Evergreen Community College District Foundation does not meet the criteria under GASB 39 for inclusion as a component unit of the District. Separate financial statements are typically available from the Foundation.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements 34 and 35, as amended by GASB Statement 37. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency and intra-fund transactions have been eliminated. The bookstore operates on an April 30 year end.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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

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

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

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

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

The following is a summary of the more significant policies:

Cash and Cash Equivalents

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Investments

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

Accounts Receivable

Accounts receivable include amounts due from the Federal, State, and/or local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis. The allowance was estimated at \$2,125,468 and \$947,061 for the years ended June 30, 2010 and 2009, respectively.

Prepaid Expenses

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

Stores Inventories

Stores inventories consist primarily of bookstore merchandise and supplies held for resale to the students and faculty of the colleges. Stores inventories are stated at the lower of cost or market using first-in, first-out (FIFO) 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 \$150,000 for buildings and a unit cost of \$5,000 or more for equipment, except land and building improvements, and estimated useful life of greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

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; improvements, 10 years; equipment, 3 to 8 years.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

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

Compensated Absences

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

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

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenue includes (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.

Net Assets

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

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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. Restricted net assets resulting from enabling legislation was \$1,351,838 at June 30, 2010.

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.

Operating Revenues and Expenses

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

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

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

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

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

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

State Apportionments

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California. The amounts of on-behalf payments were \$1,360,672 and \$1,498,187 for CalSTRS for the years ended June 30, 2010, and 2009, respectively. There were no on-behalf payments made for CalPERS in the years ended June 30, 2010, and 2009.

Estimates

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

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of 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 1998 and 2004 for the acquisition, construction, and remodeling of District capital assets. As a result of the passage of the Bonds, 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, Expenditures, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

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 years ended June 30, 2010 and 2009, the District distributed \$2,730,391 and \$1,973,177 in direct lending through the U.S. Department of Education.

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.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Interfund Activity

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

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Classifications*. The objectives of this Statements is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District does not anticipate a significant impact in reporting.

Comparative Financial Information

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; 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 accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

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 |

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, consist of the following:

| | Entitywide | Fiduciary |
|--------------------------------|----------------------|----------------------|
| Cash on hand and in banks | \$ 1,259,075 | \$ 643,131 |
| Cash in revolving | 25,083 | - |
| Subtotal Deposits | <u>1,284,158</u> | <u>643,131</u> |
| Cash equivalents, county cash | 71,254,005 | - |
| Cash equivalents, U.S. Bank | 2,142,740 | |
| Investments, BenefitTrust | - | 44,282,116 |
| Subtotal Investments | <u>73,396,745</u> | <u>44,282,116</u> |
| Total Deposits and Investments | <u>\$ 74,680,903</u> | <u>\$ 44,925,247</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Interest Rate Risk

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

Specific Identification

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

| Investment Type | Fair Value | Maturity Date in Years |
|----------------------------|----------------------|------------------------|
| U.S. Treasury Cash Reserve | \$ 2,142,740 | 0.09 |
| County Pool - Santa Clara | 71,254,005 | 0.89 |
| Total | <u>\$ 73,396,745</u> | |

*Weighted average days to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

| Investment Type | Fair Value | Minimum Legal Rating | Rating June 30, 2010 |
|----------------------------|----------------------|----------------------|----------------------|
| U.S. Treasury Cash Reserve | \$ 2,142,740 | Not Required | Aaa |
| County Pool - Santa Clara | 71,254,005 | Not Required | Not rated |
| Total | <u>\$ 73,396,745</u> | | |

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District's bank balance of approximately \$500,000 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. Included in student receivables are \$3,475,168 and \$2,597,948, as of June 30, 2010 and 2009, respectively, of registration fees for students registering for future terms. These amounts are recorded as accounts receivable and deferred revenue in the accompanying financial statements. Excluding registration fees for future terms and allowance estimates, student receivables were \$2,334,471 and \$1,498,377 for the years ended June 30, 2010, and 2009.

The District has determined \$2,125,468 of accounts receivable at June 30, 2010 and \$947,061 at 2009, may be uncollectable and has set up a corresponding allowance for doubtful accounts.

| | 2010 | | 2009 |
|---------------------------------------|----------------------|---------------------|----------------------|
| | Entitywide | Fiduciary | Total |
| Federal Government | | | |
| Categorical aid | \$ 2,808,787 | \$ 1,449,871 | \$ 3,448,770 |
| State Government | | | |
| Apportionment | 897,561 | - | 2,804,485 |
| Categorical aid | 781,208 | 11,917 | 641,533 |
| Lottery | 759,948 | - | 970,667 |
| Other State sources | 95,322 | - | 321,563 |
| Local Sources | | | |
| Interest | 177,480 | - | 389,296 |
| Student receivables, net of allowance | 3,684,171 | - | 3,248,854 |
| Other local sources | 1,557,563 | - | 1,121,351 |
| Total | <u>\$ 10,762,040</u> | <u>\$ 1,461,788</u> | <u>\$ 12,946,519</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2010, was as follows:

| | Balance Beginning of Year | Additions / Adjustments | Deductions | Balance End of Year |
|---|---------------------------------|----------------------------|----------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 3,441,983 | \$ - | \$ - | \$ 3,441,983 |
| Construction in progress | 61,537,901 | 21,908,220 | 58,857,534 | 24,588,587 |
| Total Capital Assets Not Being Depreciated | <u>64,979,884</u> | <u>21,908,220</u> | <u>58,857,534</u> | <u>28,030,570</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 36,213,082 | 5,302,334 | - | 41,515,416 |
| Buildings and improvements | 254,616,412 | 43,805,860 | 314,942 | 298,107,330 |
| Furniture and equipment | 11,695,346 | 3,490,666 | 1,157,169 | 14,028,843 |
| Total Capital Assets Being Depreciated | <u>302,524,840</u> | <u>52,598,860</u> | <u>1,472,111</u> | <u>353,651,589</u> |
| Total Capital Assets | <u>367,504,724</u> | <u>74,507,080</u> | <u>60,329,645</u> | <u>381,682,159</u> |
| Less Accumulated Depreciation | | | | |
| Land improvements | 19,322,347 | 3,310,394 | - | 22,632,741 |
| Buildings and improvements | 57,745,689 | 9,759,492 | 289,747 | 67,215,434 |
| Furniture and equipment | 9,153,435 | 1,272,588 | 1,121,910 | 9,304,113 |
| Total Accumulated Depreciation | <u>86,221,471</u> | <u>14,342,474</u> | <u>1,411,657</u> | <u>99,152,288</u> |
| Net Capital Assets Being Depreciated | <u>216,303,369</u> | <u>38,256,386</u> | <u>60,454</u> | <u>254,499,301</u> |
| Net Capital Assets | <u>\$ 281,283,253</u> | <u>\$ 60,164,606</u> | <u>\$ 58,917,988</u> | <u>\$ 282,529,871</u> |

Depreciation expense for the year was \$14,342,474.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Capital asset activity for the District for the fiscal year ended June 30, 2009, was as follows:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---------------------------------|----------------------|----------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 3,441,983 | \$ - | \$ - | \$ 3,441,983 |
| Construction in progress | 57,964,410 | 39,077,109 | 35,503,618 | 61,537,901 |
| Total Capital Assets Not Being Depreciated | <u>61,406,393</u> | <u>39,077,109</u> | <u>35,503,618</u> | <u>64,979,884</u> |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 31,312,041 | 4,901,041 | - | 36,213,082 |
| Buildings and improvements | 223,984,295 | 30,632,117 | - | 254,616,412 |
| Furniture and equipment | 10,953,819 | 741,527 | - | 11,695,346 |
| Total Capital Assets Being Depreciated | <u>266,250,155</u> | <u>36,274,685</u> | <u>-</u> | <u>302,524,840</u> |
| Total Capital Assets | <u>327,656,548</u> | <u>75,351,794</u> | <u>35,503,618</u> | <u>367,504,724</u> |
| Less Accumulated Depreciation | | | | |
| Land improvements | 16,542,187 | 2,780,160 | - | 19,322,347 |
| Buildings and improvements | 48,404,155 | 9,341,534 | - | 57,745,689 |
| Furniture and equipment | 8,229,757 | 923,678 | - | 9,153,435 |
| Total Accumulated Depreciation | <u>73,176,099</u> | <u>13,045,372</u> | <u>-</u> | <u>86,221,471</u> |
| Net Capital Assets | <u>\$ 254,480,449</u> | <u>\$ 62,306,422</u> | <u>\$ 35,503,618</u> | <u>\$ 281,283,253</u> |

Depreciation expense for the year was \$13,045,372.

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Operating Transfers

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

| Transfers To | Transfers From | | | | Total |
|-----------------------------------|---------------------------|-------------------------|------------------------------|-----------------------|---------------------|
| | General Unrestricted Fund | General Restricted Fund | Student Body Center Fee Fund | Investment Trust Fund | |
| General Unrestricted Fund | \$ - | \$ 347,108 | \$ 219 | \$ - | \$ 347,327 |
| General Restricted Fund | 484,258 | - | - | - | 484,258 |
| Bond Interest and Redemption Fund | 4,650 | - | - | - | 4,650 |
| Child Development Fund | 159,234 | - | - | - | 159,234 |
| Capital Outlay Projects Fund | 27,518 | - | - | - | 27,518 |
| Other Debt Service Fund | - | - | - | 3,087,878 | 3,087,878 |
| Total | \$ 675,660 | \$ 347,108 | \$ 219 | \$ 3,087,878 | \$ 4,110,865 |

| | |
|---|---------------------|
| The General Unrestricted Fund transferred to the General Restricted Fund to supplement operations supporting the categorical programs. | \$ 484,258 |
| The General Unrestricted Fund transferred to the Bond Interest and Redemption Fund to clear the due to/from. | 4,650 |
| The General Unrestricted Fund transferred to the Child Development Fund to supplement operations supporting the Child Development Center. | 159,234 |
| The General Unrestricted Fund transferred to the Capital Outlay Projects Fund to clear the due to/from for arbitrage payable, which was moved to the General Unrestricted Fund in Fiscal Year 2008-2009. | 27,518 |
| The General Restricted Fund transferred to the General Unrestricted Fund to partially offset the cost of the space occupied by the Workforce Institute, District overhead costs, and the ITSS Application Analyst supported by revenues associated with BOG Administration. | 347,108 |
| The Student Center Fee Fund transferred to the General Unrestricted Fund to pass through to the ASB Funds. | 219 |
| The OPEB Trust Fund transferred to the Other Debt Service Fund to offset the cost of retiree benefits. | 3,087,878 |
| Total | \$ 4,110,865 |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

| | 2010 | | 2009 |
|------------------------------|---------------------|-------------------|---------------------|
| | Entitywide | Fiduciary | Total |
| Accrued payroll and benefits | \$ 1,608,570 | \$ 13,445 | \$ 1,568,143 |
| Construction | 688,705 | - | 3,086,160 |
| Banked overload | 392,109 | - | 318,022 |
| Compensated absences | 130,365 | - | 259,267 |
| Other | 3,557,957 | 281,825 | 2,675,869 |
| Total | <u>\$ 6,377,706</u> | <u>\$ 295,270</u> | <u>\$ 7,907,461</u> |

NOTE 8 - DEFERRED REVENUE

Deferred revenue for the District consisted of the following:

| | 2010 | | 2009 |
|------------------------------|---------------------|--------------|---------------------|
| | Entitywide | Fiduciary | Total |
| Federal financial assistance | \$ 1,081 | \$ - | \$ 1,534 |
| State categorical aid | 899,806 | - | 2,387,485 |
| Enrollment fees | 3,475,168 | - | 2,597,948 |
| Other local | 161,622 | 30 | 192,493 |
| Total | <u>\$ 4,537,677</u> | <u>\$ 30</u> | <u>\$ 5,179,460</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 9 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

The changes in the District's long-term obligations during the 2009-2010 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year | Due in One Year |
|---|---------------------------------|---------------------|---------------------|---------------------------|---------------------|
| Bonds and Notes Payable | | | | | |
| 1998 General Obligation bonds, Series C | \$ 3,994,256 | \$ 159,892 | \$ 1,197,066 | \$ 2,957,082 | \$ 2,200,000 |
| 1998 General Obligation bonds, Series D | 7,100,000 | - | 950,000 | 6,150,000 | 1,200,000 |
| 2004 General obligation refunding bonds | 90,570,203 | 823,034 | 3,825,000 | 87,568,237 | 3,780,000 |
| 2004 General obligation bonds, Series A | 59,145,459 | 1,536,234 | - | 60,681,693 | - |
| 2004 General obligation bonds, Series B | 99,056,580 | 1,145,976 | - | 100,202,556 | - |
| 2009 OPEB taxable bond | 46,775,000 | - | - | 46,775,000 | - |
| Total Bonds and Notes Payable | 306,641,498 | 3,665,136 | 5,972,066 | 304,334,568 | 7,180,000 |
| Other Liabilities | | | | | |
| Bond Premiums | 4,604,627 | - | 209,301 | 4,395,326 | 209,301 |
| Compensated absences | 1,613,678 | 170,176 | - | 1,783,854 | - |
| Total Other Liabilities | 6,218,305 | 170,176 | 209,301 | 6,179,180 | 209,301 |
| Total Long-Term Obligations | \$ 312,859,803 | \$ 3,835,312 | \$ 6,181,367 | \$ 310,513,748 | \$ 7,389,301 |

The changes in the District's long-term obligations during the 2008-2009 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year | Due in One Year |
|---|---------------------------------|----------------------|---------------------|---------------------------|---------------------|
| Bonds and Notes Payable | | | | | |
| 1998 General Obligation bonds, Series B | \$ 200,000 | \$ - | \$ 200,000 | \$ - | \$ - |
| 1998 General Obligation bonds, Series C | 3,789,001 | 205,255 | - | 3,994,256 | - |
| 1998 General Obligation bonds, Series D | 9,800,000 | - | 2,700,000 | 7,100,000 | 950,000 |
| 2004 General obligation refunding bonds | 91,963,609 | 731,594 | 2,125,000 | 90,570,203 | 3,825,000 |
| 2004 General obligation bonds, Series A | 57,686,256 | 1,459,203 | - | 59,145,459 | - |
| 2004 General obligation bonds, Series B | 97,999,946 | 1,056,634 | - | 99,056,580 | - |
| 2009 OPEB taxable bond | - | 46,775,000 | - | 46,775,000 | - |
| Total Bonds and Notes Payable | 261,438,812 | 50,227,686 | 5,025,000 | 306,641,498 | 4,775,000 |
| Other Liabilities | | | | | |
| Bond Premiums | 4,813,928 | - | 209,301 | 4,604,627 | 209,301 |
| Compensated absences | 1,791,404 | - | 177,726 | 1,613,678 | - |
| Total Other Liabilities | 6,605,332 | - | 387,027 | 6,218,305 | 209,301 |
| Total Long-Term Obligations | \$ 268,044,144 | \$ 50,227,686 | \$ 5,412,027 | \$ 312,859,803 | \$ 4,984,301 |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Description of Debt

Payments of the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local tax collections. The compensated absences will be paid by the fund for which the employee worked.

In July 2000, the District issued \$7,999,708 of the General Obligation Bonds as Series C under the \$135,750,000 bond measure approved by voters on November 3, 1998. In April 2004, the District issued \$96,790,995 of the General Obligation Refunding Bonds and the proceeds were used to refund a portion of the outstanding principal amount of the District's election of the 1998 General Obligation Bonds, Series C. At June 30, 2010 and 2009, the amounts outstanding were \$2,957,082 and \$3,994,256, respectively. The bonds mature through 2011 with interest rates ranging from two to five percent.

In June 2002, the District issued \$80,750,000 of the General Obligation Bonds as Series D under the \$135,750,000 bond measure approved by voters on November 3, 1998. In April 2004, the District issued \$96,790,995 of the General Obligation Refunding Bonds and the proceeds were used to refund a portion of the outstanding principal amount of the District's election of the 1998 General Obligation Bonds, Series D. At June 30, 2010 and 2009, the amounts outstanding were \$6,150,000 and \$7,100,000, respectively. The bonds mature through 2014 with interest rates ranging from three to five percent.

The 2004 General Obligation Refunding Bonds were issued in April 2004 in three series and the proceeds were used to refund a portion of the outstanding principal amount of the District's election of the 1998 General Obligation Bonds, Series A, B, C, and D (collectively, the "Refunded Bonds") and to pay the cost of issuance associated with the Refunding Bonds. At June 30, 2010 and 2009, the amounts outstanding were \$87,568,237 and \$90,570,203, respectively. The bonds mature through 2023 with interest rates ranging from two to five percent. At June 30, 2010 and 2009, the balance of the escrow account was \$95,890,706, and \$96,093,373, respectively.

In May 2005, the District issued \$55,391,474 of the General Obligation Bonds as Series A under the \$185,000,000 bond measure approved by voters on November 2, 2004. The proceeds from the sale of the bonds will be used by the District to finance the acquisition, construction, and modernization of certain District property and facilities, to advance refund the 1999 A and 2000 C lease revenue bonds, and to pay certain cost of issuance of the bonds. At June 30, 2010 and 2009, the amounts outstanding were \$60,681,693 and \$59,145,459, respectively. The bonds mature through 2030 with interest rates ranging from three to five percent.

In February 2008, the District issued \$97,999,946 of the General Obligation Bonds as Series B under the \$185,000,000 bond measure approved by voters on November 2, 2004. The proceeds from the sale of the bonds will be used by the District to finance the acquisition, construction, and modernization of certain District property and facilities, to advance refund the 1999 A and 2000 C lease revenue bonds, and to pay certain cost of issuance of the bonds. At June 30, 2010 and 2009, the amounts outstanding were \$100,202,556 and \$99,056,580, respectively. The bonds mature through 2032 with interest rates ranging from three to seven percent.

In May 2009, the District issued \$46,775,000 of the OPEB Taxable Bonds. The proceeds from the sale of the bonds will be used by the District to fund an irrevocable trust for payment of other post employment benefits and to pay certain cost of issuance of the bonds. At June 30, 2010 and 2009, the amounts outstanding were \$46,775,000. The bonds mature through 2044 with variable interest rate at 4.62% through 2012, and then at a swap rate of 4.239% plus a spread of 30 basis points, and a letter of credit and remarketing fee of 140 basis points.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Lease revenue bonds were issued during the 2000-2001 fiscal year in the amount of \$4,065,000 to finance site improvements for both San Jose City College and Evergreen Valley Community College. In May 2005, the District issued \$55,391,474 of the General Obligation Bonds as Series A under the \$185,000,000 bond measure approved by voters on November 2, 2004. The proceeds from the sale of the bonds were used to fund an escrow account in an amount sufficient to pay the redemption prices of the 2000 C lease revenue bonds and the debt service due on the 2000 C lease revenue bonds. As a result of the deposit and the application of funds as described in the escrow agreement, the 2000 C lease revenue bonds were defeased. At June 30, 2010 and 2009, the balance of the escrow account was \$1,972,143 and \$2,263,640, respectively.

Debt Maturity

General Obligation Bonds

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2009 | Accreted Interest Addition | Redeemed | Bonds Outstanding June 30, 2010 |
|------------|---------------|---------------|----------------|--------------------------------|----------------------------|---------------------|---------------------------------|
| 7/1/2000 | 9/1/2010 | 2.0-5.25% | 7,999,708 | \$ 3,994,256 | \$ 159,892 | \$ 1,197,066 | \$ 2,957,082 |
| 6/1/2002 | 9/1/2013 | 2.0-5.25% | 80,750,000 | 7,100,000 | - | 950,000 | 6,150,000 |
| 4/1/2004 | 9/1/2021 | 2.0-5.25% | 96,790,995 | 90,570,203 | 823,034 | 3,825,000 | 87,568,237 |
| 5/26/2005 | 9/1/2029 | 3.0-5.00% | 55,391,474 | 59,145,459 | 1,536,234 | - | 60,681,693 |
| 2/21/2008 | 9/1/2032 | 2.69-7.436% | 97,999,946 | 99,056,580 | 1,145,976 | - | 100,202,556 |
| 5/1/2009 | 7/1/2043 | 4.62% | 46,775,000 | 46,775,000 | - | - | 46,775,000 |
| | | | | <u>\$ 306,641,498</u> | <u>\$ 3,665,136</u> | <u>\$ 5,972,066</u> | <u>\$ 304,334,568</u> |

Outstanding Election of 1998 General Obligation Bonds, Series B

The general obligation bonds mature through 2011 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|-----------|----------------------|------------|
| 2011 | \$ - | \$ 718,575 | \$ 718,575 |

Outstanding Election of 1998 General Obligation Bonds, Series C

The general obligation bonds mature through 2012 as follows:

| Fiscal Year | Principal | Accreted Interest | Total |
|-------------|---------------------|---------------------|---------------------|
| 2011 | \$ 1,320,286 | \$ 879,714 | \$ 2,200,000 |
| 2012 | - | 757,082 | 757,082 |
| Total | <u>\$ 1,320,286</u> | <u>\$ 1,636,796</u> | <u>\$ 2,957,082</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Outstanding Election of 1998 General Obligation Bonds, Series D

The general obligation bonds mature through 2014 as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest to Maturity</u> | <u>Total</u> |
|--------------------|---------------------|---------------------------------|---------------------|
| 2011 | \$ 1,200,000 | \$ 239,600 | \$ 1,439,600 |
| 2012 | 1,400,000 | 188,300 | 1,588,300 |
| 2013 | 1,650,000 | 128,000 | 1,778,000 |
| 2014 | 1,900,000 | 47,500 | 1,947,500 |
| Total | <u>\$ 6,150,000</u> | <u>\$ 603,400</u> | <u>\$ 6,753,400</u> |

2004 General Obligation Refunding Bonds

The general obligation bonds mature through 2022 as follows:

| <u>Fiscal Year</u> | <u>Principal Including Accreted Interest to Date</u> | <u>Accreted Interest</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|--|------------------------------|---|-----------------------|
| 2011 | \$ 3,780,000 | \$ - | \$ 3,979,613 | \$ 7,759,613 |
| 2012 | 4,785,000 | - | 3,774,113 | 8,559,113 |
| 2013 | 5,330,000 | - | 3,529,863 | 8,859,863 |
| 2014 | 5,750,000 | - | 3,252,863 | 9,002,863 |
| 2015 | 8,040,000 | - | 2,908,112 | 10,948,112 |
| 2016-2020 | 54,227,806 | 3,682,195 | 6,937,431 | 64,847,432 |
| 2021-2022 | 5,655,431 | 14,030,569 | - | 19,686,000 |
| Total | <u>\$ 87,568,237</u> | <u>\$ 17,712,764</u> | <u>\$ 24,381,995</u> | <u>\$ 129,662,996</u> |

2004 General Obligation Bonds, Series A

The general obligation bonds mature through 2030 as follows:

| <u>Fiscal Year</u> | <u>Principal Including Accreted Interest to Date</u> | <u>Accreted Interest</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|--|------------------------------|---|-----------------------|
| 2011 | \$ - | \$ - | \$ 1,497,250 | \$ 1,497,250 |
| 2012 | - | - | 1,497,250 | 1,497,250 |
| 2013 | - | - | 1,497,250 | 1,497,250 |
| 2014 | - | - | 1,497,250 | 1,497,250 |
| 2015 | - | - | 1,497,250 | 1,497,250 |
| 2016-2020 | - | - | 7,486,250 | 7,486,250 |
| 2021-2025 | 18,004,512 | 17,065,888 | 7,486,250 | 42,556,650 |
| 2026-2030 | 42,677,181 | 20,767,864 | 2,583,125 | 66,028,170 |
| Total | <u>\$ 60,681,693</u> | <u>\$ 37,833,752</u> | <u>\$ 25,041,875</u> | <u>\$ 123,557,320</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

2004 General Obligation Bonds, Series B

The general obligation bonds mature through 2033 as follows:

| Fiscal Year | Principal Including Accreted Interest to Date | Accreted Interest | Current Interest to Maturity | Total |
|-------------|---|----------------------|------------------------------------|-----------------------|
| 2011 | \$ 93,469 | \$ 1,327 | \$ 3,718,250 | \$ 3,813,046 |
| 2012 | 1,739,720 | 183,372 | 3,718,250 | 5,641,342 |
| 2013 | 1,414,739 | 120,261 | 3,718,250 | 5,253,250 |
| 2014 | 1,783,208 | 226,762 | 3,718,250 | 5,728,220 |
| 2015 | 2,297,648 | 407,352 | 3,718,250 | 6,423,250 |
| 2016-2020 | 13,400,002 | 2,044,498 | 18,267,625 | 33,712,125 |
| 2021-2025 | 47,070,000 | - | 11,652,750 | 58,722,750 |
| 2026-2030 | 25,390,786 | 8,509,214 | 1,310,750 | 35,210,750 |
| 2030-2033 | 7,012,984 | 17,977,222 | - | 24,990,206 |
| Total | <u>\$ 100,202,556</u> | <u>\$ 29,470,008</u> | <u>\$ 49,822,375</u> | <u>\$ 179,494,939</u> |

2009 Taxable OPEB Bonds

The general obligation bonds mature through 2044 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|----------------------|-------------------------|-----------------------|
| 2011 | \$ - | \$ 2,161,004 | \$ 2,161,004 |
| 2012 | - | 3,092,271 | 3,092,271 |
| 2013 | - | 2,772,870 | 2,772,870 |
| 2014 | - | 2,777,967 | 2,777,967 |
| 2015 | - | 2,777,967 | 2,777,967 |
| 2016-2020 | - | 13,894,926 | 13,894,926 |
| 2021-2025 | 605,000 | 13,828,629 | 14,433,629 |
| 2026-2030 | 3,610,000 | 13,173,771 | 16,783,771 |
| 2031-2035 | 8,275,000 | 11,338,611 | 19,613,611 |
| 2036-2040 | 15,160,000 | 7,752,210 | 22,912,210 |
| 2041-2044 | 19,125,000 | 1,931,575 | 21,056,575 |
| Total | <u>\$ 46,775,000</u> | <u>\$ 75,501,801</u> | <u>\$ 122,276,801</u> |

NOTE 10 – FUND BALANCE

As Of June 30, 2010, the Student Center Fee Fund ended the year with a deficit in fund balance of \$438.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the San Jose / Evergreen Community College District. The Plan provides medical insurance benefits to eligible retirees and their spouses. The District implemented a Bridge plan for faculty (certificated) and administrative retirees hired on/after the retiree health determination dates, as noted in the July 2009 actuarial study, and retiring on/after July 1, 2009. Membership in the Plans consists of 322 retirees and beneficiaries currently receiving benefits, 71 plan members entitled to but not yet receiving benefits, and 281 active plan members not yet fully eligible for benefits. Separate financial statements are prepared for the Plan and may be obtained by contacting the San Jose Evergreen Community College District.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Faculty Association, Chapter 6157, (AFT), the local California Service Employees Association, Chapter 363, (CSEA), and unrepresented groups. The District's required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, AFT, CSEA and the unrepresented groups. In May 2009, The District issued an OPEB Taxable Bond of \$46,775,000 for the purposes of financing the District's obligation to pay certain healthcare retiree costs. During the fiscal year, 2008-09 the District transferred \$39,957,416 to the Retiree Benefit Fund irrevocable trust, \$2,524,693 to the General Fund to reimburse it for current year pay as you go amounts paid, \$3,523,639 to the required debt service reserve, and \$769,252 to the issuance costs fund. Premiums paid during 2009-10 were funded from the contribution and interest earnings.

Annual OPEB Cost and Net OPEB Obligation

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

| | |
|--|----------------------|
| Annual required contribution | \$ 175,400 |
| Interest on net OPEB obligation | 3,101,000 |
| Amortization of net OPEB obligation | (3,357,800) |
| Annual OPEB cost (expense) | (81,400) |
| Contributions made | - |
| Benefits paid outside of Trust | - |
| Increase in net OPEB obligation | (81,400) |
| Net OPEB prepaid (obligation), beginning of year | 39,352,900 |
| Net OPEB prepaid (obligation), end of year | <u>\$ 39,271,500</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Prepayment |
|------------------------|---------------------|------------------------|---------------------------|------------------------|
| 2009 | \$ 2,524,693 | \$ 39,957,416 | 1583% | \$ 39,352,900 |
| 2010 | (81,400) | - | 0% | 39,271,500 |

Funded Status and Funding Progress

| Schedule of Funding Progress | | | | | | |
|--------------------------------|----------------------------------|--|--------------------------------------|-------------------------|------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
| July 1, 2009 | \$ 41,000,300 | \$ 38,044,800 | \$ (2,955,500) | 108% | \$ 64,732,200 | -5% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial 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 plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a 7.88 percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates were estimated at 5 percent for all years. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2009, was 29 years. The actuarial value of assets was \$41,000,300 as of this actuarial valuation. At June 30, 2010, the Trust held net assets in the amount of \$44,000,461, which consisted of amounts on deposit with the Trust.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year ending June 30, 2010, the District contracted with the Bay Area Community College Districts Joint Powers Authority for property and liability insurance coverage. Coverage limits for property and liability claims are \$250,000,000, and \$25,000,000, respectively. Bay Area Community College Districts Joint Powers Authority reinsured amounts exceeding \$250,000 and \$1,000,000, respectively with SAFER. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For workers' compensation claims incurred prior to January 1, 1996, the District was self-insured through the Northern California Community College Pool Joint Powers Authority (JPA) up to \$250,000 per occurrence, the limitation of \$250,000 per occurrence was backed up by excess coverage, purchased by the Pool, that provided coverage to statutory limits.

Effective January 1, 1996, the Northern California Community College Pool (Pool) obtained commercial workers' compensation insurance which provided statutory coverage, which by definition has no limit of liability. In the subsequent years, the Pool secured Workers' Compensation through various commercial carriers. As of 7/1/03, the Pool became a member of the Protected Insurance Program for Schools (PIPS). PIPS is a self-insured program that chooses to reinsure their liability for loss to first dollar. While the PIPS program operates much like a commercial insurance program, it is important to distinguish that it is not a commercial insurance program, rather it is reinsured to first dollar and has no deductible. The limit of liability for the PIPS program is \$150,000,000 per occurrence.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (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 and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

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 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2010, 2009, and 2008, were \$2,692,632, \$2,744,369, and \$2,700,604, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2009-2010 was 9.709 percent of annual payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2010, 2009, and 2008, were \$2,224,642, \$2,260,721, and \$2,090,224, respectively, and equaled 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use social security as its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.25 percent of an employee's gross earnings. An employee is required to contribute 6.25 percent of his or her gross earnings to the social security plan.

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 \$1,360,672, \$1,498,187, and \$1,475,531 (4.267 percent) of salaries subject to CalSTRS, respectively for the years ended June 30, 2010, 2009, and 2008. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Bay Area Community College Districts Joint Powers Authority and the Northern California Community College Pool (Pool) Joint Powers Authority (JPA). The District pays annual premiums for its property liability, health, and workers' compensation coverage. 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, 2010, the District made payments of \$491,449 and \$1,377,926 to Bay Area Community College Districts Joint Powers Authority and Northern California Community College Pool Joint Powers Authority, respectively.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

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, 2010.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

Operating Leases

The District has entered into a long term operating leases for land on which the San Jose City Technology Center is located, with a 60 year lease expiring in 2061, and contains provisions for exercising two options for an additional 19 and 20 years, if desired. This agreement does not contain a purchase option. The agreement contains a termination clause providing for cancellation by the landlord after a specified number of days written notice. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payment |
|-------------------------|-----------------------------|
| 2011 | \$ 353,784 |
| 2012 | 353,784 |
| 2013 | 353,784 |
| 2014 | 353,784 |
| 2015 | 353,784 |
| 2016-2020 | 2,034,240 |
| 2021-2025 | 2,339,280 |
| 2026-2030 | 2,690,220 |
| 2031-2035 | 2,690,220 |
| 2036-2040 | 2,690,220 |
| 2041-2045 | 2,690,220 |
| 2046-2050 | 2,690,220 |
| 2051-2055 | 2,690,220 |
| 2056-2060 | 2,690,220 |
| Total | <u><u>\$ 24,973,980</u></u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

| | Remaining Construction Commitment | Expected Date of Completion |
|-------------------------------------|---|-----------------------------------|
| CAPITAL PROJECT | | |
| San Jose City College | | |
| Facility master plan | \$ 150,000 | Jun-12 |
| Humanities/Arts/Math buildings | 25,564,650 | Jan-13 |
| Multi-use/athletic softball field | 1,546,709 | Dec-10 |
| | | |
| Evergreen Valley College | | |
| Facility master plan | 150,000 | Jun-12 |
| Health/Physical Ed (Fitness Center) | 213,750 | Sep-12 |
| | | |
| District-wide | | |
| Legal fees | 75,091 | Dec-11 |
| Project administration | 875,412 | Jan-14 |
| Safety/security improvements | 399,934 | Jun-12 |
| | \$ 28,975,546 | |

The projects are funded through the general obligation bonds and State bond funds.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$17,630,000 of Tax and Revenue Anticipation Notes dated August 11, 2010. The notes mature on June 30, 2011, and yield 2.0 percent interest. The notes were sold to supplement cash flow due to the deferral of state apportionment. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January , 2011, until 100 percent of principal and interest due is on account in June, 2011.

The District passed a new general obligation bond known as Measure G 2010 on November 2, 2010 that authorizes a new bond in the amount of \$268,000,000.

***REQUIRED SUPPLEMENTARY
INFORMATION***

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010**

| Schedule of Funding Progress | | | | | | |
|---|--|--|--|---------------------------------|--------------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a) / c) |
| June 30, 2007 | \$ - | \$ 47,719,500 | \$ 47,719,500 | 0% | \$ 63,192,700 | 76% |
| July 1, 2009 | \$ 41,000,300 | \$ 38,044,800 | \$ (2,955,500) | 108% | \$ 64,732,200 | -5% |

SUPPLEMENTARY INFORMATION

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2010

The San Jose/Evergreen Community College District was established on July 1, 1964, and is comprised of an area of approximately 303 square miles located in Santa Clara County. There were no changes in the boundaries of the District during the current year. The District's two colleges are each accredited by the Western Association of Schools and Junior Colleges.

BOARD OF TRUSTEES

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|-----------------------|----------------|---------------------|
| Mr. Balbir Dhillon | President | December 2010 |
| Mr. Richard Hobbs | Vice President | December 2010 |
| Mr. Ron Lind | Member | December 2012 |
| Mr. Richard K. Tanaka | Member | December 2012 |
| Ms. Maria Fuentes | Member | December 2010 |
| Mr. Randy Okamura | Member | December 2012 |
| Ms. Mayra Cruz | Member | December 2012 |

ADMINISTRATION

| | |
|---------------------|--|
| Ms. Rosa Perez | Chancellor |
| Ms. Jeanine Hawk | Vice Chancellor, Administrative Services |
| Ms. Sandy Dillon | Interim Vice Chancellor, Human Resources |
| Dr. Doug Treadway | Interim President, San Jose City College |
| Dr. David Wain Coon | President, Evergreen Valley College |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Total Expenditures |
|---|---------------------------|---|-----------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Title V, Higher Education - Institutional Aid | 84.031 | [1] | \$ 1,111,793 |
| Student Support Services | 84.042 | [1] | 306,091 |
| STUDENT FINANCIAL AID CLUSTER | | | |
| Federal Pell Grant Programs (PELL) | 84.063 | [1] | 19,210,137 |
| Federal Pell Grant Program - Administrative Allowance | 84.063 | [1] | 27,635 |
| Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 | [1] | 320,061 |
| Federal College Work Study Program (FWS) | 84.033 | [1] | 243,424 |
| Federal College Work Study Program (FWS) - ARRA | 84.033 | [1] | 57,119 |
| Federal Family Education Loans (FFEL) | 84.032 | [1] | 2,728,393 |
| Academic Competitiveness Grants (ACG) | 84.375 | [1] | 162,675 |
| Passed through California State Chancellors Office | | | |
| State Fiscal Stabilization Funds - ARRA | 84.394 | 25008 | 497,403 |
| Career and Technical Education - Basic Grants to States | 84.048 | 03303 | 521,283 |
| Career and Technical Education - Tech Prep Education | 84.049 | 03207 | 135,500 |
| Total U.S. Department of Education | | | <u>25,321,514</u> |
| NATIONAL SCIENCE FOUNDATION | | | |
| Incorporating 2D Laser Scanning Curriculum - Education and Human Resource | 47.076 | [1] | 158,734 |
| Passed through Michigan State University | | | |
| Physical Science SJCC IACPT | 47.049 | 03797 | 9,256 |
| Total National Science Foundation | | | <u>167,990</u> |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through Santa Clara County | | | |
| Medi-Cal Administration Activities (MAA) | 93.778 | 10011 | 178,234 |
| Passed through Yosemite Community College | | | |
| Child Care and Development Improvement/Yosemite | 93.575 | [2] | 11,825 |
| TEMPORARY ASSISTANCE FOR NEEDY FAMILIES CLUSTER | | | |
| Passed through California State Chancellors Office | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | [2] | 135,211 |
| TANF Supplemental Grants - Work Study & Job Development - ARRA | 93.716 | [2] | 71,919 |
| Passed through County of Santa Clara | | | |
| Emergency Contingency Fund TANF State Programs -Work Study - ARRA | 93.714 | [2] | 831,075 |
| Total U.S. Department of Health and Human Services | | | <u>1,228,264</u> |
| U.S. DEPARTMENT OF LABOR | | | |
| WORKFORCE INVESTMENT ACT CLUSTER | | | |
| Passed through California State Chancellors Office | | | |
| WIA Adult Programs - Green Jobs -ARRA | 17.258 | [1] | 327,573 |
| Passed through City of San Jose | | | |
| WIA Adult Programs | 17.258 | 03573 | 1,898,447 |
| WIA Youth Activities | 17.259 | 03239 | 570,702 |
| WIA Dislocated Workers - Workshops | 17.260 | 03239 | 1,610,593 |
| Veterans' Administrative Reporting Fee | 17.802 | [1] | 974 |
| Total U.S. Department of Labor | | | <u>4,408,289</u> |
| Total Expenditures of Federal Awards | | | <u>\$31,126,057</u> |

[1] Pass through number not applicable.

[2] Pass through number not available.

See accompanying note to supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

| Program | Program Entitlements | | |
|---|----------------------|------------|-------------------|
| | Current Year | Prior Year | Total Entitlement |
| CARE | \$ 101 | \$ 142,412 | \$ 142,513 |
| Extended Opportunity Programs and Services (EOP&S) | 58,964 | 1,188,874 | 1,247,838 |
| California Student Aid Commission / Cal Grant | 823,286 | 12,485 | 835,771 |
| Instructional Equipment 08-09 | - | 139,035 | 139,035 |
| Instructional Equipment 07-08 | - | 29,229 | 29,229 |
| Telecom Tech. Infrastructure 08-09 | - | 66 | 66 |
| Telecom Tech. Infrastructure 07-08 | - | 1,144 | 1,144 |
| Transcript Project | 5,000 | - | 5,000 |
| CalWorks Program / Santa Clara County | 273,127 | - | 273,127 |
| CalWorks Program / State | 426,828 | - | 426,828 |
| CDC/TANF | 77,523 | - | 77,523 |
| Financial Aid Administration Allowance (BFAP) | 680,604 | 65,475 | 746,079 |
| Econ/Leadership SJCC 09-10 | 85,552 | - | 85,552 |
| Econ/Leadership SJCC 08-09 | - | 43,808 | 43,808 |
| Econ/Job Development Incentive | 148,787 | - | 148,787 |
| Econ/Linking After School Employment 09-10 | 123,988 | - | 123,988 |
| Econ/Linking After School Employment 08-09 | - | 163,745 | 163,745 |
| Econ/Responsive Training Fund 09-10 | 435,697 | - | 435,697 |
| Econ/Responsive Training Fund 08-09 | - | 878,503 | 878,503 |
| Econ/California Energy Commission | 60,000 | - | 60,000 |
| Nursing/Faculty and Recruitment 06-07 | - | 44,016 | 44,016 |
| Nursing/Career Tech Education 07-08 | - | 6,828 | 6,828 |
| Nursing Enrollment Growth Grant 09-10 | 62,496 | - | 62,496 |
| Nursing Enrollment Growth Grant 08-09 | - | 14,699 | 14,699 |
| Nursing/AND/BSN | 136,429 | - | 136,429 |
| Career Technical Education/Construction Industry/Career | 359,802 | - | 359,802 |
| Career Technical Education/Stepping Stone, SJCC MOU - | 42,540 | - | 42,540 |
| Career Technical Education/Stepping Stone, EVC MOU - | 19,437 | - | 19,437 |
| Career Technical Education/Construction, SJCC MOU - | 12,415 | - | 12,415 |
| Enrollment Fee Administration 2% | 72,108 | - | 72,108 |
| 4 C @ O.N.E. 09-10 | 650,000 | - | 650,000 |
| 4 C @ O.N.E. 08-09 | - | 123,885 | 123,885 |
| Foster Care Education | 137,693 | - | 137,693 |
| Staff Diversity | 7,522 | 26,623 | 34,145 |
| Disabled Students Program | 909,299 | - | 909,299 |

See accompanying note to supplementary information.

| Program Revenues | | | | | |
|------------------|------------------------|---------------------|---------------------|------------------|-------------------------|
| Cash Received | Accounts Receivable | Accounts Payable | Deferred Revenue | Total Revenue | Program Expenditures |
| \$ 142,513 | \$ - | \$ - | \$ - | \$ 142,513 | \$ 142,513 |
| 1,247,678 | - | - | 14,731 | 1,232,947 | 1,313,282 |
| 847,799 | 11,917 | - | - | 859,716 | 859,716 |
| 139,035 | - | - | 43,367 | 95,668 | 95,668 |
| 29,228 | - | - | - | 29,228 | 29,229 |
| 66 | - | - | - | 66 | 66 |
| 1,144 | - | - | - | 1,144 | 1,144 |
| 5,000 | - | - | 5,000 | - | - |
| 225,261 | 47,451 | - | - | 272,712 | 272,712 |
| 426,828 | - | - | - | 426,828 | 426,828 |
| 36,890 | 34,311 | - | - | 71,201 | 71,201 |
| 746,079 | - | - | 71,534 | 674,545 | 674,545 |
| 71,864 | - | - | 43,352 | 28,512 | 28,512 |
| 43,808 | - | - | - | 43,808 | 43,808 |
| 124,981 | - | - | 17,549 | 107,432 | 107,432 |
| 104,150 | - | - | 51,688 | 52,462 | 52,462 |
| 162,184 | - | - | - | 162,184 | 162,184 |
| - | 136,757 | - | - | 136,757 | 136,757 |
| 878,216 | 290 | - | - | 878,506 | 878,506 |
| - | - | - | - | - | - |
| 44,014 | - | - | 26,563 | 17,451 | 17,541 |
| 6,828 | - | - | - | 6,828 | 6,828 |
| 52,497 | 9,999 | - | - | 62,496 | 62,496 |
| 14,699 | - | - | - | 14,699 | 14,698 |
| 136,429 | - | - | 108,220 | 28,209 | 28,209 |
| 359,801 | - | - | - | 359,801 | 359,801 |
| 3,679 | 4,286 | - | - | 7,965 | 7,965 |
| 9,191 | 12,422 | - | - | 21,613 | 21,613 |
| 12,415 | - | - | - | 12,415 | 12,415 |
| 72,108 | - | - | - | 72,108 | 72,108 |
| 585,000 | - | - | 80,504 | 504,496 | 504,496 |
| 123,885 | - | - | 18,867 | 105,018 | 105,018 |
| 102,810 | 34,883 | - | - | 137,693 | 137,693 |
| 34,145 | - | - | 29,514 | 4,631 | 4,631 |
| 909,299 | - | - | - | 909,299 | 1,211,829 |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2010**

| Program | Program Entitlements | | |
|--|----------------------|---------------------|----------------------|
| | Current Year | Prior Year | Total Entitlement |
| Matriculation | \$ 854,238 | \$ - | \$ 854,238 |
| Basic Skills 09-10 | 198,694 | - | 198,694 |
| Basic Skills 08-09 | - | 352,603 | 352,603 |
| Basic Skills 07-08 | - | 166,808 | 166,808 |
| Basic Skills Initiative Professional Development | 119,000 | - | 119,000 |
| Transfer and Articulation | 8,253 | - | 8,253 |
| Restricted Lottery | 205,086 | - | 205,086 |
| West Ed | 46,174 | - | 46,174 |
| CACFP-Child & Adult Care Food Prog. | 23,480 | - | 23,480 |
| Gen. Child Care & Dev Prog. (CCTR 9330) | 211,442 | - | 211,442 |
| Cal State Preschool (CSPP 9598) | 174,906 | - | 174,906 |
| Instructional Materials (CIMS 9657) | 688 | - | 688 |
| Instructional Material 06-07 one-time | - | 29,230 | 29,230 |
| Childcare Tax Bailout Apportionment | 34,308 | - | 34,308 |
| EVC Arts Complex: Equipment | - | 1,759,196 | 1,759,196 |
| Scheduled Maintenance: ongoing 08-09 | - | 101,405 | 101,405 |
| Total State Programs | <u>\$ 7,485,467</u> | <u>\$ 5,290,069</u> | <u>\$ 12,775,536</u> |

See accompanying note to supplementary information.

| Program Revenues | | | | | |
|----------------------|------------------------|---------------------|---------------------|----------------------|-------------------------|
| Cash Received | Accounts Receivable | Accounts Payable | Deferred Revenue | Total Revenue | Program Expenditures |
| \$ 854,238 | \$ - | \$ - | \$ - | \$ 854,238 | \$ 946,203 |
| 198,694 | - | - | 141,479 | 57,215 | 57,215 |
| 355,152 | - | - | 205,647 | 149,505 | 149,505 |
| 166,808 | - | - | - | 166,808 | 166,808 |
| 29,750 | - | - | 13,989 | 15,761 | 15,761 |
| 8,253 | - | - | 5,542 | 2,711 | 2,711 |
| 33,715 | 171,371 | - | - | 205,086 | 205,086 |
| 20,712 | 12,409 | - | - | 33,121 | 33,121 |
| 30,273 | - | - | - | 30,273 | 30,237 |
| 78,107 | 7,062 | - | - | 85,169 | 85,169 |
| 84,324 | 60,897 | - | - | 145,221 | 145,221 |
| 688 | - | - | - | 688 | 688 |
| 29,230 | - | - | 339 | 28,891 | 28,891 |
| 34,308 | - | - | - | 34,308 | 34,308 |
| 777,350 | 95,322 | - | - | 872,672 | 872,972 |
| 101,405 | - | - | - | 101,405 | 101,405 |
| <u>\$ 10,502,531</u> | <u>\$ 639,377</u> | <u>\$ -</u> | <u>\$ 877,885</u> | <u>\$ 10,264,023</u> | <u>\$ 10,739,207</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT- ANNUAL/ACTUAL ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2010**

| CATEGORIES | <u>Reported Data</u> | <u>Audit Adjustments</u> | <u>Audited Data</u> |
|---|--------------------------|------------------------------|-------------------------|
| A. Summer Intersession (Summer 2009 only) | | | |
| 1. Noncredit | 3 | - | 3 |
| 2. Credit | 978 | - | 978 |
| B. Summer Intersession (Summer 2010 - prior to July 1, 2010) | | | |
| 1. Noncredit | - | - | - |
| 2. Credit | 137 | - | 137 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 12,799 | - | 12,799 |
| (b) Daily Census Contact Hours | 536 | - | 536 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit | 68 | - | 68 |
| (b) Credit | 722 | - | 722 |
| 3. Alternative Attendance | | | |
| (a) Weekly Census Contact Hours | 454 | - | 454 |
| (b) Daily Census Contact Hours | - | - | - |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| D. Total FTES | <u>15,697</u> | <u>-</u> | <u>15,697</u> |
| Supplemental Information (subset of above information) | | | |
| E. In Service Training Courses (FTES) | <u>490</u> | <u>-</u> | <u>490</u> |
| H. Basis Skills Courses and Immigrant Education | | | |
| (a) Noncredit | 72 | - | 72 |
| (b) Credit | <u>2,115</u> | <u>-</u> | <u>2,115</u> |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2010.

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

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

| | | | |
|--|--------------------|-----------|--------------------------|
| Total Fund Balance and Retained Earnings: | | | |
| General Funds | \$ 6,386,736 | | |
| Special Revenue Funds | 81,737 | | |
| Capital Project Funds | 50,352,853 | | |
| Debt Service Funds | 15,354,720 | | |
| Enterprise Funds | <u>1,160,297</u> | | |
| | | \$ | 73,336,343 |
| Prepaid OPEB obligation | | | 39,271,509 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | | | |
| The cost of capital assets is | 381,680,966 | | |
| Accumulated depreciation is | (99,151,095) | | |
| Less fixed assets already recorded in the enterprise funds | <u>(172,930)</u> | | 282,356,941 |
| Due from trust funds | | | 1,448,751 |
| In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred. | | | (3,443,658) |
| Issue costs, net of amortization | | | 2,056,685 |
| Long-term liabilities at year end consist of: | | | |
| Bonds and notes payable | (304,334,568) | | |
| Compensated absences | (1,783,854) | | |
| Premiums, net of amortization | <u>(4,395,326)</u> | | |
| | | | (310,513,748) |
| Total Net Assets | | \$ | <u>84,512,823</u> |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEETS
JUNE 30, 2010**

| | <u>General Funds</u> | | <u>Special Revenue Funds</u> | |
|--|-----------------------------|---------------------------|------------------------------|--------------------------|
| | <u>General Unrestricted</u> | <u>General Restricted</u> | <u>Cafeteria</u> | <u>Child Development</u> |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 59,813,178 | \$ - | \$ - | \$ - |
| Accounts receivable | 6,401,103 | 3,921,934 | - | 70,827 |
| Due from other funds | - | - | 81,699 | - |
| Prepaid expenses | 166,952 | - | - | - |
| Total Assets | \$ 66,381,233 | \$ 3,921,934 | \$ 81,699 | \$ 70,827 |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 5,872,641 | \$ 226,518 | \$ - | \$ - |
| Cash overdraft | - | - | - | - |
| Due to other funds | 51,991,711 | 1,288,605 | - | 70,789 |
| Deferred revenue | 3,481,983 | 1,054,973 | - | - |
| Total Liabilities | 61,346,335 | 2,570,096 | - | 70,789 |
| FUND EQUITY | | | | |
| Fund Balances | | | | |
| Reserved | 67,589 | - | - | - |
| Unreserved | | | | |
| Designated | | 1,351,838 | 81,699 | 38 |
| Undesignated | 4,967,309 | - | - | - |
| Total Fund Equity | 5,034,898 | 1,351,838 | 81,699 | 38 |
| Total Liabilities and Fund Equity | \$ 66,381,233 | \$ 3,921,934 | \$ 81,699 | \$ 70,827 |

See accompanying note to additional supplementary information.

| Debt Service Funds | | | Capital Project Funds | | Total |
|-------------------------------------|---|---------------------------|--------------------------------|--------------------------------|--|
| Bond Interest and Redemption | Revenue Bond Interest and Redemption | Other Debt Service | Capital Outlay Projects | General Obligation Bond | Governmental Fund (Memorandum Only) |
| \$ 11,962,580 | \$ - | \$ - | \$ - | \$ - | \$ 71,775,758 |
| 10,927 | - | - | 95,322 | 114,093 | 10,614,206 |
| - | - | 3,381,213 | 877,809 | 49,265,629 | 53,606,350 |
| - | - | - | - | - | 166,952 |
| <u>\$ 11,973,507</u> | <u>\$ -</u> | <u>\$ 3,381,213</u> | <u>\$ 973,131</u> | <u>\$ 49,379,722</u> | <u>\$ 136,163,266</u> |
| | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,099,159 |
| - | - | - | - | - | - |
| - | - | - | - | - | 53,351,105 |
| - | - | - | - | - | 4,536,956 |
| - | - | - | - | - | 63,987,220 |
| | | | | | |
| - | - | - | - | - | 67,589 |
| 11,973,507 | - | 3,381,213 | - | 49,379,722 | 66,168,017 |
| - | - | - | 973,131 | - | 5,940,440 |
| <u>11,973,507</u> | <u>-</u> | <u>3,381,213</u> | <u>973,131</u> | <u>49,379,722</u> | <u>72,176,046</u> |
| | | | | | |
| <u>\$ 11,973,507</u> | <u>\$ -</u> | <u>\$ 3,381,213</u> | <u>\$ 973,131</u> | <u>\$ 49,379,722</u> | <u>\$ 136,163,266</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

| | <u>General Funds</u> | | <u>Special Revenue Funds</u> | |
|--|-----------------------------|---------------------------|------------------------------|--------------------------|
| | <u>General Unrestricted</u> | <u>General Restricted</u> | <u>Cafeteria</u> | <u>Child Development</u> |
| REVENUES | | | | |
| Federal revenues | \$ - | \$ 8,619,249 | \$ - | \$ - |
| State revenues | 7,058,707 | 8,148,943 | - | 295,659 |
| Local revenues | 71,235,589 | 2,776,877 | 52,095 | 120,367 |
| Total Revenues | <u>78,294,296</u> | <u>19,545,069</u> | <u>52,095</u> | <u>416,026</u> |
| EXPENDITURES | | | | |
| Current Expenditures | | | | |
| Academic salaries | 36,231,491 | 3,322,330 | - | - |
| Classified salaries | 15,889,177 | 7,317,860 | 23,931 | 320,866 |
| Employee benefits | 16,768,399 | 3,451,556 | 16,337 | 216,211 |
| Books and supplies | 259,804 | 685,641 | - | 35,127 |
| Services and operating expenditures | 9,494,785 | 3,739,493 | 14,995 | 35,136 |
| Capital outlay | 86,896 | 802,412 | - | 278 |
| Debt service - principal | - | - | - | - |
| Debt service - interest and other | 322,809 | - | - | - |
| Total Expenditures | <u>79,053,361</u> | <u>19,319,292</u> | <u>55,263</u> | <u>607,618</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | <u>(759,065)</u> | <u>225,777</u> | <u>(3,168)</u> | <u>(191,592)</u> |
| OTHER SOURCES (USES) | | | | |
| Operating transfers in | 72,327 | 484,258 | - | 159,234 |
| Operating transfers out | (675,660) | (347,108) | - | - |
| Other sources | 19,414 | 18,929 | - | - |
| Other uses | (84,099) | (178,893) | - | 32,396 |
| Total Other Sources (Uses) | <u>(668,018)</u> | <u>(22,814)</u> | <u>-</u> | <u>191,630</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | <u>(1,427,083)</u> | <u>202,963</u> | <u>(3,168)</u> | <u>38</u> |
| FUND BALANCE, BEGINNING OF YEAR | 6,461,981 | 1,148,875 | 84,867 | - |
| FUND BALANCE, END OF YEAR | <u>\$ 5,034,898</u> | <u>\$ 1,351,838</u> | <u>\$ 81,699</u> | <u>\$ 38</u> |

See accompanying note to additional supplementary information.

| Debt Service Funds | | | Capital Project Funds | | Total |
|------------------------------|--------------------------------------|---------------------|-------------------------|-------------------------|-------------------------------------|
| Bond Interest and Redemption | Revenue Bond Interest and Redemption | Other Debt Service | Capital Outlay Projects | General Obligation Bond | Governmental Fund (Memorandum Only) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 8,619,249 |
| - | - | - | 974,077 | - | 16,477,386 |
| 15,646,927 | - | 447,870 | 564,672 | 804,856 | 91,649,253 |
| <u>15,646,927</u> | <u>-</u> | <u>447,870</u> | <u>1,538,749</u> | <u>804,856</u> | <u>116,745,888</u> |
| - | - | - | - | - | 39,553,821 |
| - | - | - | 175,797 | 210,629 | 23,938,260 |
| - | - | 3,083,940 | 91,604 | 82,289 | 23,710,336 |
| - | - | - | 5,662 | - | 986,234 |
| - | - | 3,527,777 | 345,692 | 10,091,975 | 27,249,853 |
| - | - | - | 886,439 | 7,791,492 | 9,567,517 |
| 5,972,066 | - | - | - | - | 5,972,066 |
| 10,405,227 | - | - | - | - | 10,728,036 |
| <u>16,377,293</u> | <u>-</u> | <u>6,611,717</u> | <u>1,505,194</u> | <u>18,176,385</u> | <u>141,706,123</u> |
| (730,366) | - | (6,163,847) | 33,555 | (17,371,529) | (24,960,235) |
| - | 4,650 | 3,087,878 | - | - | 3,808,347 |
| - | - | - | - | - | (1,022,768) |
| - | - | - | - | - | 38,343 |
| - | (795,897) | - | - | - | (1,026,493) |
| - | (791,247) | 3,087,878 | - | - | 1,797,429 |
| (730,366) | (791,247) | (3,075,969) | 33,555 | (17,371,529) | (23,162,806) |
| 12,703,873 | 791,247 | 6,457,182 | 939,576 | 66,751,251 | 95,338,852 |
| <u>\$ 11,973,507</u> | <u>\$ -</u> | <u>\$ 3,381,213</u> | <u>\$ 973,131</u> | <u>\$ 49,379,722</u> | <u>\$ 72,176,046</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
BALANCE SHEETS
JUNE 30, 2010**

| | <u>Enterprise Funds</u> <u>Bookstore</u> | <u>Internal</u> <u>Service Fund</u> |
|--|---|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 762,405 | \$ - |
| Accounts receivable | 147,834 | - |
| Due from other funds | - | 721 |
| Stores inventories | 355,675 | - |
| Furniture and equipment (net) | 172,930 | - |
| Total Assets | <u>\$ 1,438,844</u> | <u>\$ 721</u> |
| LIABILITIES AND FUND EQUITY | | |
| LIABILITIES | | |
| Accounts payable | \$ 278,547 | \$ - |
| Deferred revenue | - | 721 |
| Total Liabilities | <u>278,547</u> | <u>721</u> |
| FUND EQUITY | | |
| Retained earnings | <u>1,160,297</u> | <u>-</u> |
| Total Liabilities and Fund Equity | <u>\$ 1,438,844</u> | <u>\$ 721</u> |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2010**

| | <u>Enterprise Funds</u> <u>Bookstore</u> | <u>Internal Service Fund</u> |
|---|---|--------------------------------------|
| OPERATING REVENUES | | |
| Revenues | \$ 4,327,663 | \$ 809,417 |
| OPERATING EXPENSES | | |
| Classified salaries | 1,101,274 | - |
| Books and supplies | 3,068,520 | - |
| Services and other operating expenditures | 228,766 | 809,417 |
| Depreciation | 65,973 | - |
| Total Operating Expenses | <u>4,464,533</u> | <u>809,417</u> |
| Operating Income (Loss) | <u>(136,870)</u> | <u>-</u> |
| NONOPERATING REVENUES/(EXPENSES) | | |
| Interest income | 371 | - |
| Total Nonoperating Revenues (Expenses) | <u>371</u> | <u>-</u> |
| NET INCOME (LOSS) | (136,499) | - |
| RETAINED EARNINGS, BEGINNING OF YEAR | 1,296,796 | - |
| RETAINED EARNINGS, END OF YEAR | <u>\$ 1,160,297</u> | <u>\$ -</u> |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUNDS
STATEMENTS CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

| | <u>Enterprise Funds</u> <u>Bookstore</u> | <u>Internal Service Fund</u> |
|--|---|--------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from user charges | \$ 4,353,500 | \$ 810,138 |
| Cash payments to employees for services | (1,101,274) | - |
| Cash payments to suppliers for goods and services | (2,804,148) | - |
| Cash payments for other operating expenses | (228,766) | (832,681) |
| Net Cash Flows From Operating Activities | <u>219,312</u> | <u>(22,543)</u> |
| Net change in cash and cash equivalents | 219,312 | (22,543) |
| Cash and cash equivalents - Beginning | 543,093 | 22,543 |
| Cash and cash equivalents - Ending | <u>\$ 762,405</u> | <u>\$ -</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATION ACTIVITIES | | |
| Operating income (loss) | \$ (136,870) | \$ - |
| Adjustments to reconcile operating income (loss) to net cash flows from operating activities: | | |
| Depreciation | 65,973 | - |
| Changes in assets and liabilities: | | |
| Receivables | 25,837 | - |
| Inventories | 245,963 | - |
| Accounts payable | 18,409 | (22,543) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>\$ 219,312</u> | <u>\$ (22,543)</u> |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEETS
JUNE 30, 2010**

| | <u>Associated Students</u> | | <u>Student Center Fund</u> | <u>Student Financial Aid</u> | <u>OPEB Trust Fund</u> | <u>Total</u> |
|--|------------------------------|---------------------------------|----------------------------|------------------------------|------------------------|----------------------|
| | <u>San Jose City College</u> | <u>Evergreen Valley College</u> | | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 303,235 | \$ 339,896 | \$ - | \$ - | \$ - | \$ 643,131 |
| Investments | - | - | - | - | 44,282,116 | 44,282,116 |
| Accounts receivable | - | - | - | 1,461,788 | - | 1,461,788 |
| Total Assets | \$ 303,235 | \$ 339,896 | \$ - | \$ 1,461,788 | \$ 44,282,116 | \$ 46,387,035 |
| LIABILITIES AND FUND EQUITY | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 170 | \$ - | \$ - | \$ 13,445 | \$ 281,655 | \$ 295,270 |
| Deferred income | - | - | - | 30 | - | 30 |
| Due to other funds | - | - | 438 | 1,448,313 | - | 1,448,751 |
| Due to others | 303,065 | 339,896 | - | - | - | 642,961 |
| Total Liabilities | 303,235 | 339,896 | 438 | 1,461,788 | 281,655 | 2,387,012 |
| FUND EQUITY | | | | | | |
| Fund Balances | | | | | | |
| Reserved | - | - | - | - | - | - |
| Unreserved | | | | | | |
| Designated | - | - | - | - | - | - |
| Undesignated | - | - | (438) | - | 44,000,461 | 44,000,023 |
| Total Fund Equity | - | - | (438) | - | 44,000,461 | 44,000,023 |
| Total Liabilities and Fund Equity | \$ 303,235 | \$ 339,896 | \$ - | \$ 1,461,788 | \$ 44,282,116 | \$ 46,387,035 |

See accompanying note to additional supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

| | Student Center Fund | Student Financial Aid | OPEB Trust Fund | Total |
|--|------------------------------------|--------------------------------------|--------------------------------|----------------------|
| REVENUES | | | | |
| Federal revenues | \$ - | \$ 19,778,415 | \$ - | \$ 19,778,415 |
| State revenues | - | 859,716 | - | 859,716 |
| Local revenues | (219) | - | 6,314,650 | 6,314,431 |
| Total Revenues | (219) | 20,638,131 | 6,314,650 | 26,952,562 |
| EXPENDITURES | | | | |
| Current Expenditures | | | | |
| Classified salaries | - | 46,875 | - | 46,875 |
| Services and operating expenditures | - | 20,591,256 | 226,590 | 20,817,846 |
| Total Expenditures | - | 20,638,131 | 226,590 | 20,864,721 |
| EXCESS OF REVENUES OVER | | | | |
| EXPENDITURES | | | | |
| | (219) | - | 6,088,060 | 6,087,841 |
| OTHER USES | | | | |
| Operating transfers out | (219) | - | (3,087,878) | (3,088,097) |
| Other sources | - | - | - | - |
| Total Other Uses | (219) | - | (3,087,878) | (3,088,097) |
| EXCESS OF REVENUES AND OTHER | | | | |
| FINANCING SOURCES OVER | | | | |
| EXPENDITURES AND OTHER USES | | | | |
| | (438) | - | 3,000,182 | 2,999,744 |
| FUND BALANCE, BEGINNING OF YEAR | - | - | 41,000,279 | 41,000,279 |
| FUND BALANCE, END OF YEAR | \$ (438) | \$ - | \$ 44,000,461 | \$ 44,000,023 |

See accompanying note to supplementary information.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Expenditures of State Awards

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

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

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

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

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

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

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

Fund Financial Statements

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

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - CONTINUED
JUNE 30, 2010

NOTE 2 - RECONCILIATION OF EXPENDITURES OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

Federal Family Education Loans are included in the Schedule of Federal Expenditures but are not included in the District's financial statements.

| | |
|---|-----------------------------|
| Federal revenue per financial statements | \$ 28,397,664 |
| Federal Family Education Loans | <u>2,728,393</u> |
| Expenditures per Schedule of Expenditures of Federal Awards | <u><u>\$ 31,126,057</u></u> |

INDEPENDENT AUDITORS' REPORTS



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

VALUE THE DIFFERENCE

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

Board of Trustees
San Jose/Evergreen Community College District
San Jose, California

We have audited the financial statements of the business-type activities of San Jose/Evergreen Community College District (the District) for the years ended June 30, 2010 and 2009, and have issued our report thereon dated December 3, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered San Jose/Evergreen Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Jose/Evergreen Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Jose/Evergreen 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Jose/Evergreen 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.

We noted certain matters that we reported to management of San Jose/Evergreen Community College District in a separate letter dated December 3, 2010.

San Jose/Evergreen Community College District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit San Jose/Evergreen Community College District's responses and, accordingly, express no opinion.

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
December 3, 2010



**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
San Jose/Evergreen Community College District
San Jose, California

Compliance

We have audited the compliance of San Jose/Evergreen Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its San Jose/Evergreen Community College District's major Federal programs for the year ended June 30, 2010. San Jose/Evergreen Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Jose/Evergreen Community College District's management. Our responsibility is to express an opinion on San Jose/Evergreen Community College District's compliance based on our audit.

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

In our opinion, San Jose/Evergreen Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of San Jose/Evergreen Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered San Jose/Evergreen 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 San Jose/Evergreen 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 would not necessarily 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-1. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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
December 3, 2010



REPORT ON STATE COMPLIANCE

Board of Trustees
San Jose/Evergreen Community College District
San Jose, California

We have audited the compliance of San Jose/Evergreen Community College District (the District) with the types of compliance requirements described in Section 400 of the California State Chancellor's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California. The specific requirements are described below.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have occurred. An audit includes examining, on a test basis, evidence about San Jose/Evergreen Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Jose/Evergreen Community College District's compliance with those requirements.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fees - Instructional Materials and Health Fees

Apportionments

Section 423: Apportionment of Instructional Service Agreements/Contracts

Section 425: Residency Determination for Credit Courses

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

Section 432: Enrollment Fee

Section 426: Students Actively Enrolled

Fiscal Operations

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

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

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

Facilities

Section 434: Scheduled Maintenance Program

In our opinion, San Jose/Evergreen Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

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

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
December 3, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

| | |
|--|--------------------|
| Internal control over major programs: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified not considered to be material weaknesses? | <u>Yes</u> |
| Type of auditors' report issued on compliance for major programs: | <u>Unqualified</u> |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) | <u>No</u> |
| Identification of major programs: | |

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| <u>84.063, 84.007, 84.032, 84.033 (ARRA), 84.375</u> | <u>Student Financial Aid Cluster (includes ARRA)</u> |
| <u>84.394 (ARRA)</u> | <u>State Fiscal Stabilization Fund (ARRA)</u> |
| <u>84.031</u> | <u>Title V - Higher Education Institutional Aid</u> |
| <u>17.258 (ARRA), 17.259, 17.260</u> | <u>Workforce Investment Act Cluster (includes ARRA)</u> |
| <u>93.714 (ARRA), 93.716 (ARRA), 93.558</u> | <u>TANF Cluster (includes ARRA)</u> |
| <u>84.042</u> | <u>Student Support Services</u> |

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

STATE AWARDS

| | |
|---|----------------------|
| Internal control over State programs: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified not considered to be material weaknesses? | <u>None reported</u> |
| Type of auditors' report issued on compliance for State programs: | <u>Unqualified</u> |

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

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

2010-1 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 reviewed the transactions related to fourteen students at Evergreen College and noted the following: in eight cases the district did not meet the timeline for requirement #1, in twelve cases the District did not meet the timeline for requirement #2, and in nine cases the District did not meet the timeline for requirement #3. In addition, we reviewed sixteen students at San Jose City College and noted that in thirteen cases the District did not meet the timeline for requirement #1.

Questioned Costs

None, as the report was prepared accurately but was not timely filed.

Context

We reviewed the reporting of withdrawals and other dates between November 2009 and June 2010 for fourteen students from Evergreen College and sixteen students from San Jose City College.

Effect

Information on the NSDL website was not updated timely. As a result, there is a potential risk that the student would be able to obtain a grant from another college without the other institution being aware there is a repayment requirement at another District.

Cause

The Financial Aid Department did not have a tracking system to monitor reporting timelines and ensure that information was gathered in time to meet required due dates.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010

Recommendation

The Financial Aid Department should have a tracking system for monitoring reporting timeliness and be proactive in monitoring progress on meeting timelines and interact with other departments to resolve issues as they occur.

District Response

The District agrees and has revised its internal reporting schedule to allow additional time to ensure reporting timeliness. Additionally, the District will be more proactive in monitoring progress and enhancing communication and interaction between Fiscal Services, Information Technology, and the Financial Aid Departments to ensure reporting timeliness with the recommendation and the financial aid departments will monitor and track report due dates.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None noted.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

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

2009-1 Finding – Segregation of Duties – Human Resources and Payroll
Significant Deficiency

Criteria or Specific Requirement

Management is responsible for establishing and maintaining strong internal controls over the fiscal activities of the district, including optimizing the segregation of duties between processes to the maximum extent reasonably possible. This includes the segregation of duties between processes performed by the human resources department and those performed by the payroll department.

Condition

We noted that both the human resources and payroll department personnel have the ability to modify information entered by the other department.

Questioned Costs

Not applicable.

Context

Both of the departments involved have a need to work closely together and do often require access to data from the other department in order to appropriately manage employment procedures and payroll processing. It appears that users were granted editing rights beyond those that may be necessary.

Effect

The opportunity exists for individuals within one department to override the internal control structure and make changes to transactions that are the responsibility of another department. This situation weakens the optimal segregation of duties that were designed and based on a key element of separating the significant processes related to employment into differing departments.

Cause

Software controls prohibiting editing access to those who do not need such access are not operating in an optimal manner.

Recommendation

Review system access to human resources and payroll transaction processes and ensure that the ability to make and/or edit entries is restricted to only those in need of such rights in the appropriate departments. Others, such as those in another department, needing access to information should be provided with read only access rights to such transactions.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Current Status

Implemented.

2009-2 Finding – Students Actively Enrolled – San Jose City College *Instance of Noncompliance - Significant Deficiency*

Criteria or Specific Requirement

CCR Title V, Section 58003.1 and 58004 require that any student who has been identified as a no show, officially withdrawn from the course, or been dropped from the course as of the last business day before census day not be considered activity enrolled and not included in FTES reported.

Condition

Census rosters for 3 of 13 courses from Fall 2008 selected for testing were unable to be located. The instructors use these census rosters to indicate which students are no shows and should not be considered actively enrolled. The date a drop is recorded is critical to the correct processing of FTES reported and the calculation of funds received from the State. Without these census rosters a drop would not be recorded until such time as the student went to the admissions and records office and initiated the drop.

Substitute rosters in the form of class rosters as of the end of the course term were later provided, however, the rosters as of the end of the course do not indicate if there were any students that were no shows at the census date and should have been dropped by the process initiated by the instructor before census date, rather than being dropped by the student themselves at a date after census information was processed.

Questioned Costs

The three daily courses for which census rosters were unable to be located were:

- AJ-011-101 reported 2.88 RFTES and .06 NFTES
- ENGL-092-112 reported 3.43 RFTES and 0.12 NFTES
- ENGL-001A-124 reported 2.72 RFTES and .2 NFTES

The FTES of the District are over cap so there should be no financial effect to the District as a result of the FTES reported in these three classes.

Context

We noted that the census rosters that were unable to be located were from a limited group of daily census courses and short term courses at San Jose City College. The questioned costs noted above include all students reported for those courses. It is probable that some students in these courses were currently enrolled and appropriately included in FTES reports, however, it is also likely that an unknown portion of the FTES claimed for these courses were for students who were no shows and should have been dropped prior to the calculation of FTES totals.

SAN JOSE/EVERGREEN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Effect

FTES reported for these courses may or may not have been over reported.

Cause

Census rosters selected for review were not able to be located. Instructors may not be turning in their census rosters to the Admissions and Records, or rosters turned in may not be maintained on file.

Recommendation

Faculty and admissions and records should be reminded of importance of timely census procedures and understand that the lack of a census roster or other method to report no shows before census date FTES are calculated results in the over-reporting of FTES and potentially receiving state funds to which the District is not entitled or disallowance of FTES for which the District was entitled to if an entire class is disallowed.

We were informed that the Colleges have a census report tracking process which includes sending the Department Deans a list of the faculty who have not turned in census rosters. In order to ensure that FTES reported are accurate and the District receives all state funding to which it is entitled and no funding for which it is not entitled, we recommend that the Deans follow up with those responsible for the missing rosters and ensure that census rosters are submitted timely for all census courses.

Current Status

Implemented