FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

COUNTY OF SANTA CLARA

LOS ALTOS HILLS, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2005

AND

INDEPENDENT AUDITOR'S REPORT

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Foothill-De Anza Community College District as of and for the year ended June 30, 2005, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Foothill-De Anza Community College District as of June 30, 2005, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 30, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) on pages 3 through 8 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Perry-Smith LLP

Sacramento, California
September 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2005

The Management Discussion and Analysis provides an overview of the District's financial activities for the year. The District has prepared the accompanying financial statements in accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments," and GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities." The statements are prepared using the Business Type Activity (BTA) model; this is in compliance with the California Community College Chancellor's Office recommendation to report in a manner consistent with other community college districts.

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

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

Each one of these statements will be discussed.

Statement of Net Assets

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

Condensed Statement of Net Assets

ASSETS	2005 (in thousands)	2004 (in thousands)	Year to Year Change	Dollar Change
Current assets:				
Cash and cash equivalents	$ 52,685	$ 49,593	6.2%	$ 3,092
Receivables	21,862	16,642	31.4%	5,220
Inventory and other assets	3,353	3,373	-0.6%	(20)
Total current assets	77,900	69,608	11.9%	8,292
Noncurrent assets:				
Restricted cash and cash equivalents	90,897	133,311	-31.8%	(42,414)
Receivables	2,116	2,138	-1.0%	(22)
Capital assets, net	216,005	174,015	24.1%	41,990
Total noncurrent assets	309,018	309,464	-0.1%	(446)
Total assets	$ 386,918	$ 379,072	2.1%	$ 7,846
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	$ 25,209	$ 24,581	2.6%	$ 628
Deferred revenue	11,912	12,345	-3.5%	(433)
Amounts held in trust	2,590	2,611	-0.8%	(21)
Long-term liabilities-current portion	10,580	10,353	2.2%	227
Total current liabilities	50,291	49,890	0.8%	401
Noncurrent liabilities:				
Long-term liabilities, noncurrent portion	3,487	3,209	8.7%	278
Long-term debt, noncurrent portion	208,863	210,716	-0.9%	(1,853)
Total noncurrent liabilities	212,350	213,925	-0.7%	(1,575)
Total liabilities	262,641	263,815	-0.4%	(1,174)
NET ASSETS				
Invested in capital assets, net of related debt	71,380	69,025	3.4%	2,355
Restricted	33,922	28,126	20.6%	5,796
Unrestricted	18,975	18,106	4.8%	869
Total net assets	124,277	115,257	7.8%	9,020
Total liabilities and net assets	$ 386,918	$ 379,072	2.1%	$ 7,846

Statement of Net Assets (Continued)

- Receivables increased by 31.4% as a result of the increase of receivables from state construction projects.

- Capital assets increased by 24.1%, or approximately $42 million, in connection with the construction of numerous Measure E capital projects that began in 2001. We anticipate continued growth in capital assets in future years as Measure E projects are completed.

- Restricted cash decreased by 31.8%, or approximately $42.4 million, consistent with the increase in capital assets described above.

- Long-term liabilities decreased by approximately $1.8 million, consistent with the scheduled repayment of debt obligations.

Statement of Revenues, Expenses and Changes in Net Assets

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2005 (in thousands)	2004	Year to Year Change	Dollar Change
Revenues:				
Operating revenues:				
Net tuition and fees	$ 30,109	$ 27,864	8.1%	$ 2,245
Grants and contracts, non-capital	25,845	25,642	0.8%	203
Auxiliary enterprise, net	14,098	15,849	-11.0%	(1,751)
Other	7,462	6,576	13.5%	886
Total operating revenues	77,514	75,931	2.1%	1,583
Total operating expense	208,634	205,227	1.7%	3,407
Loss from operations	(131,120)	(129,296)	1.4%	(1,824)
Non-operating revenues (expenses):				
State apportionments, non-capital	51,419	29,486	74.4%	21,933
Local property taxes	70,180	89,265	-21.4%	(19,085)
State taxes and other revenues	5,536	5,084	8.9%	452
Investment income	539	(986)	-154.7%	1,525
Interest expense	(7,337)	(6,944)	5.7%	(393)
Total non-operating revenues (expenses)	120,337	115,905	3.8%	4,432
Loss before capital revenues	(10,783)	(13,391)	-19.5%	2,608
Capital revenues	19,803	10,445	89.6%	9,358
Increase (decrease) in net assets	9,020	(2,946)	-406.2%	11,966
Net assets-beginning of year	115,257	118,203	-2.5%	(2,946)
Net assets-end of year	$ 124,277	$ 115,257	7.8%	$ 9,020

Operating revenues increased by approximately $1.6 million. The net tuition and fees increased by approximately $2.2 million, as a result of an increase in tuition fees from $12 to $17 per quarter unit. Auxiliary enterprise sales and charges decreased by approximately $1.8 million due to a drop in Flint Center and Bookstore revenues. In addition, the 13.5% increase in other revenue is due to the increase in interest and other local revenue.

Non-operating revenue increased by approximately $4.4 million, due to the increase of lottery revenue, additional funding from the State for Equalization, and the increase in unrealized gain of the County's commingled investment pool. The reduction in property tax revenue (including ERAF), caused by the State's realignment of local finances to balance the State budget, was offset by a corresponding increase in State General Fund revenues.

Capital revenues increased by approximately $9.4 million due to the increase of State funding for capital outlay projects and the Measure E tax levy.

Operating Expenses (by natural classification)

	(in thousands) 2005	2004	Year to Year Change	Dollar Change
Salaries	$ 114,863	$ 113,341	1.3%	$ 1,522
Benefits	34,892	38,721	-9.9%	(3,829)
Total salaries and benefits	149,755	152,062	-1.5%	(2,307)
Supplies, materials, and other operating expenses and services	42,606	38,172	11.6%	4,434
Utilities	3,273	3,320	-1.4%	(47)
Depreciation	13,000	11,673	11.4%	1,327
Total operating expenses	$ 208,634	$ 205,227	1.7%	$ 3,407

- Total compensation and benefits decreased by 1.5% or approximately $2.3 million. This is a result of the cost of living adjustment in compensation, the implementation of employee contributions to the medical costs, and lower medical expenses in our retiree group. In addition, there was a one time $1.2 million early retirement incentive expense incurred in 2004.

- Supplies, materials, and other operating expenses and services increased by 11.6%. The Election of 1999 General Obligation Bonds, Series B, was issued in September 2003. As a result, the Bond proceeds for the debt service fund reduced the amount of the operating expenses in 2004.

- Depreciation increased by 11.4%, or approximately $1.3 million, consistent with the increase in capital assets.

Statement of Cash Flows

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

	(in thousands) 2005	2004	Year to Year Change	Dollar Change
Cash provided by (used in):				
Operating activities	$ (118,473)	$ (115,475)	-2.6%	$ (2,998)
Non-capital financing activities	125,954	120,781	4.3%	5,173
Capital and related financing activities	(51,846)	43,694	-218.7%	(95,540)
Investing activities	5,049	371	1260.9%	4,678
Net increase (decrease) in cash	(39,316)	49,371	179.6%	(88,687)
Cash-beginning of the fiscal year	182,823	133,452	37.0%	49,371
Cash-end of the fiscal year	$ 143,507	$ 182,823	-21.5%	$ (39,316)

Economic Factors That May Affect the Future

2005-2006 Fiscal Year

The State controls most of the Foothill-De Anza Community College District’s operating income through the apportionment process, growth allowances, Cost of Living Adjustments (COLA) and categorical allocations. The District anticipated that increases in State funding would not be adequate to close the ongoing operating deficit and to cover the increases in expenses for 2005-06. This prompted an extensive review of the operating budget and resulted in reductions to bring the budget into balance for the 2005-06 year.

Governmental Accounting Standards Board (GASB) Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", addresses how employers should account for and report costs and obligations for postemployment health care and other non-pension postemployment benefits promised to employees. The District’s required implementation date begins in fiscal year 2007-08. In response to this Statement, the District has conducted an actuarial valuation of the unfunded liability for retiree health benefits. The Board of Trustees authorized the first payment of $500,000 to be made in the 2004-05 fiscal year towards this unfunded retiree medical liability.

The District received the highest bond ratings of any community college in the State when it issued Series C bonds for the Measure E program in October 2005. This is an indication of the financial strength of the District as assessed by the rating agencies.

The State continues to have a structural deficit between revenues and expenses. However, assuming the protection that the community colleges have under the provisions of Proposition 98, we are expecting the revenue for the next few years to be increasing slightly. The moderate economic recovery in the State will assist the District in balancing the budget in 2006-07, but continued pressure on the expense side will require the District's attention to balance the budget in future years. The District also was affected by a 4% drop in enrollment (FTES) in 2004-05 and had to adjust the 2005-06 budget to recognize that loss in revenue. The budget for 2005-06 is balanced assuming that we will attain a minimum of 1% growth to partially restore the revenue which will be lost due to declining enrollment.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	
Current assets:	
Cash and cash equivalents (Note 2)	$ 52,609,667
Short term investments (Note 2)	75,336
Accounts receivable, net (Note 3)	21,344,254
Student loans receivable, net	518,202
Stores inventories	1,590,127
Prepaid expenses	1,762,346
Total current assets	77,899,932
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	90,897,368
Student loans receivable, net	2,116,263
Capital assets, net (Note 4)	216,004,442
Total noncurrent assets	309,018,073
Total assets	$ 386,918,005
LIABILITIES	
Current Liabilities:	
Accounts and claims payable (Note 9)	$ 22,271,029
Deferred revenue (Note 5)	11,912,099
Compensated absences payable	2,937,512
Amounts held in trust	2,590,138
Note payable (Note 6)	5,000,000
Long-term debt-current portion (Note 7)	5,579,972
Total current liabilities	50,290,750
Noncurrent liabilities:	
Compensated absences payable-noncurrent (Note 7)	1,203,500
Unpaid claims and claim adjustment expenses (Note 9)	2,283,250
Long-term debt-noncurrent portion (Note 7)	208,863,694
Total noncurrent liabilities	212,350,444
Total liabilities	262,641,194
Commitments and contingencies (Note 12)	
NET ASSETS	
Invested in capital assets, net of related debt	71,379,535
Restricted for:	
Scholarships and loans	2,813,360
Capital projects	10,337,296
Debt services	7,961,911
Other special purposes	12,809,897
Unrestricted	18,974,812
Total net assets	124,276,811
Total liabilities and net assets	$ 386,918,005

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
(A Nonprofit Organization)

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS	
Cash in County Treasury (Note 2)	$ 2,255,785
Investments (Note 2)	18,990,390
Accounts receivable (Note 3)	40,794
Accrued interest receivable	15,025
Prepaid expenses	3,753
Total assets	$ 21,305,747
LIABILITIES	
Accounts payable and accrued liabilities	$ 91,788
Due to other funds of the District	1,307,718
Amounts held in trust	56,660
Total liabilities	1,456,166
NET ASSETS	
Unrestricted	181,449
Temporarily restricted	8,270,019
Permanently restricted	11,398,113
Total net assets	19,849,581
Total liabilities and net assets	$ 21,305,747

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2005

Operating revenues:	
Tuition and fees	$ 34,130,165
Less: scholarship discounts and allowances	(4,021,121)
Net tuition and fees	30,109,044
Grants and contracts, non-capital:	
Federal	11,614,366
State	12,455,479
Local	1,775,205
Auxiliary enterprise sales and charges	14,097,893
Interest on student loans	48,232
Other operating revenues	7,414,042
Total operating revenues	77,514,261
Operating expenses (Note 14):	
Salaries	114,862,872
Benefits (Notes 10 and 11)	34,891,759
Supplies, materials, and other operating expenses and services	42,605,466
Utilities	3,273,400
Depreciation (Note 4)	13,000,251
Total operating expenses	208,633,748
Loss from operations	(131,119,487)
Non-operating revenues (expenses):	
State apportionments, non-capital	51,418,846
Local property taxes (Note 6)	70,180,129
State taxes and other revenues	5,536,368
Investment income, noncapital	80,195
Investment income, capital	438,627
Interest expense on capital asset-related debt, net	(7,337,188)
Other non-operating revenues	20,063
Total non-operating revenues (expenses)	120,337,040

(Continued)

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(Continued)
For the Year Ended June 30, 2005

Loss before capital revenues	$ (10,782,447)
Capital revenues:	
State apportionment	8,967,647
Local property taxes and revenues	10,835,168
Total capital revenues	19,802,815
Increase in net assets	9,020,368
Net assets, beginning of year	115,256,443
Net assets, end of year	$ 124,276,811

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FOOTHILL-DE ANZA COMMUNITY COLLEGES FOUNDATION
(A Nonprofit Organization)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2005

Revenues:	
Contributions	$ 2,144,455
Donated services and facilities (Note 15)	30,780
Interest and dividend income	458,804
Change in fair value of investments (Note 2)	963,359
Other revenues	250,128
Total revenues	3,847,526
Expenses:	
Grants and related activities	4,138,684
Donated services and facilities (Note 15)	30,780
Total expenses	4,169,464
Change in net assets	(321,938)
Net assets, beginning of year	20,171,519
Net assets, end of year	$ 19,849,581

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

FOOTHILL- DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

Cash flows from operating activities:	
Tuition and fees	$ 30,853,344
Federal grants and contracts	11,886,772
State grants and contracts	13,300,060
Local grants and contracts	1,760,438
Payments to suppliers	(32,073,510)
Payments to utilities	(3,186,450)
Payment to employees	(114,668,716)
Payment for benefits	(35,240,934)
Payment to students	(9,618,146)
Loans to students	24,625
Auxiliary enterprises sales and charges	14,120,390
Other receipts, net	4,369,232
Net cash used in operating activities	(118,472,895)
Cash flows from noncapital financing activities:	
State appropriations	50,620,108
Local property taxes	70,180,129
State taxes and other revenues	5,175,053
Scholarship and trust receipts	686,352
Scholarship and trust disbursements	(701,865)
Student organization agency receipts	1,332,418
Student organization agency disbursements	(1,338,218)
Net cash provided by noncapital financing activities	125,953,977
Cash flows from capital and related financing activities:	
State appropriations for capital purposes	2,428,854
Local revenue for capital purposes	10,852,285
Proceeds from capital debt	3,727,676
Purchase of capital assets	(54,989,320)
Principal paid on capital debt	(6,528,132)
Interest paid on capital debt, net	(7,337,188)
Net cash used in capital and related financing activities	(51,845,825)
Cash flows from investing activities:	
Interest income (expense)	3,795,188
Notes payable	1,247,863
Short-term investments	6,393
Net cash provided by investing activities	5,049,444
Net decrease in cash and cash equivalents	(39,315,299)
Cash balance, beginning of year	182,822,334
Cash balance, end of year	$ 143,507,035

(Continued)

FOOTHILL- DE ANZA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2005

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	$(131,119,487)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	13,000,251
Changes in assets and liabilities:	
Receivables, net	1,049,556
Inventories	(255,418)
Prepaid expenses	276,070
Accounts payable	556,962
Deferred revenue	1,157,497
Compensated absences	(1,107,913)
Medical reserve	1,383,236
Interest on investments	(3,413,649)
Net cash used in operating activities:	$(118,472,895)

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

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

FOOTHILL DE-ANZA COMMUNITY COLLEGES FOUNDATION
(Nonprofit Organization)

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

Cash flows from operating activities:	
Decrease in net assets	$ (321,938)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Decrease in accounts receivable	(191,753)
Decrease in prepaid expenses	(17,762)
Increase in accounts payable and accrued liabilities	71,753
Decrease in due to other funds	(388,110)
Increase in amounts held in trust	1,650
Net cash used in operating activities	(846,160)
Cash flows used in investing activities:	
Investment purchases	(6,100,000)
Net decrease in cash and cash equivalents	(6,946,160)
Cash and cash equivalents, July 1, 2004	9,201,945
Cash and cash equivalents, June 30, 2005	$ 2,255,785
Supplemental information:	
Noncash investing activities:	
Change in fair value of investments	$ 963,359

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Foothill-De Anza Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from Federal taxes.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance criterion. The District identified the Foothill-De Anza Community College District Financing Corporation (Financing Corporation) and the Foothill-De Anza Community Colleges Foundation (Foundation) as its potential component units.

The Financing Corporation is an organization whose activities to date have been limited to the issuance of Certificates of Participation and entering into lease arrangements with the District as discussed in Note 7. The District and the Financing Corporation have financial and operational relationships which met the reporting entity definition of GASB Statement 14 for inclusion of the Financing Corporation as a component unit of the District. Accordingly, the financial activities of the Financing Corporation have been blended with the financial statements of the District.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investments earnings to the District. The funds contributed by the Foundation to the District are significant to the District’s financial statements. The District applied the criteria for identifying component units in accordance with GASB Statement 39 and therefore, the District has classified the Association as a component unit that will be discretely presented in the District’s financial statements. The Foundation also issues a stand-alone audited, financial report, which can be obtained from the District or the Foundation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

GASB released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. The District adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The district adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

Financial Presentation

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash and Cash Equivalents

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

Fair Value of Investments

The District records its investment in Santa Clara County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenses and changes in net assets. The fair value of investments, including the Santa Clara County Treasury external investment pool, at June 30, 2005 approximated their carrying value.

Accounts Receivable

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

Inventory

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

Capital Assets

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Sick Leave

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

Deferred Revenue

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

Net Assets

The District's net assets are classified as follows:

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

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

State Apportionments

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2006 will be recorded in the year computed by the State.

On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructed districts not to record revenue and expenditures for these on-behalf payments.

Risk Management

As more fully described in Note 9, the District is partially self-insured with regard to workers' compensation and medical claims and certain other risks. The amount of the outstanding liability at June 30, 2005 for workers' compensation and medical claims includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date and is based on information provided by an outside actuary. Outstanding claims which are expected to become due and payable within the subsequent fiscal year are reflected as an accounts and claims payable liability and the balance of the estimated liability is reflected as a long-term liability in the Internal Service Fund.

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35 including State appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scholarship Discounts and Allowances

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

Estimates

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

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

District cash, cash equivalents and investments at June 30, 2005, consisted of the following:

Pooled Funds:	
Cash in County Treasury	$ 54,350,145
Deposits:	
Cash on hand and in banks	849,661
Cash held by Fiscal Agents	88,307,229
Total cash and cash equivalents	143,507,035
Less: restricted cash and cash equivalents:	
Cash held by Fiscal Agents	83,262,129
Cash held by Fiscal Agent; TRANs repayment (Note 6)	5,045,100
Cash held in trust	2,590,139
Total restricted cash and cash equivalents	90,897,368
Net cash and cash equivalents	$ 52,609,667
Investments:	
Certificates of deposit	$ 75,336

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As provided for by in Education Code, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Each respective fund's share of the total pooled cash is included in the accompanying combined balance sheet under the caption "Cash in County Treasury." Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool.

In accordance with applicable State laws, the Santa Clara County Treasurer may invest in derivative securities. However, at June 30, 2005, the Santa Clara County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

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

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

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

Cash balances held in banks are insured up to $100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2005, the carrying amount of the District's cash on hand and in banks (including certificates of deposit) was $849,661 and the bank balance was $798,926. The bank balance amount insured by the FDIC was $111,440.

Foundation Cash and cash equivalents at June 30, 2005, consisted of the following:

Cash in County Treasury:	
Unrestricted	$ 181,449
Restricted	2,074,336
Total cash and cash equivalents	$ 2,255,785

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2005, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

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

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2005, the District had no concentration of credit risk.

District Investments

At June 30, 2005, the District's investments, with a carrying value of $75,336, which equals market value, consist of certificates of deposit and money market funds. The majority of certificates of deposit are collateralized as required by California State law for any amount exceeding FDIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

Foundation Investments

The Foundation investments consist of the Common Fund mutual funds and zero coupon collateralized mortgage obligations, backed by the Government National Mortgage Association. At June 30, 2005, the Foundation's investments consisted of the following:

Common Fund:	
Multi-strategy Equity Fund	$ 12,618,114
Multi-strategy Bond Fund	2,871,990
Intermediate Term Fund	3,494,582
Total Common Fund	18,984,686
Collateralized mortgage obligations	5,704
	$ 18,990,390

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2005 are summarized as follows:

Federal	$ 1,680,832
State	13,091,307
Local and other	7,265,906
	22,038,045
Less allowance for doubtful accounts	(693,791)
	$ 21,344,254

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

At June 30, 2005 the Foundation had $40,794 in accounts receivable due from local sources.

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Land	$ 2,489,776			$ 2,489,776
Land improvements	10,887,748	$ 16,756,602		27,644,350
Building improvements	67,810,065	10,656,462		78,466,527
Portable buildings	5,237,527			5,237,527
Buildings	109,253,620	26,272,461		135,526,081
Equipment	17,442,034	736,458	$ 50,627	18,127,865
Software	1,226,040	116,453		1,342,493
Construction work in progress	41,634,681	54,692,927	54,242,043	42,085,565
Total	255,981,491	109,231,363	54,292,670	310,920,184
Less accumulated depreciation:				
Land improvements	4,210,956	1,662,592		5,873,548
Building improvements	31,592,576	6,747,543		38,340,119
Portable buildings	778,032	349,168		1,127,200
Buildings	30,958,996	2,447,797		33,406,793
Equipment	13,799,358	1,383,232	50,627	15,131,963
Software	626,200	409,919		1,036,119
Total	81,966,118	13,000,251	50,627	94,915,742
Capital assets, net	$ 174,015,373	$ 96,231,112	$ 54,242,043	$ 216,004,442

5. DEFERRED REVENUE AND DEFERRED SUPPORT

Deferred revenue consisted of the following:

Deferred Federal and State revenue	$ 6,059,518
Deferred student fees	2,294,048
Deferred tuition and other student fees	2,917,580
Deferred event sales	640,953
Total deferred revenue	$ 11,912,099

6. NOTE PAYABLE

At June 30, 2005, the District's Tax Revenue Anticipation Note (TRANS) consisted of a $5,000,000 note payable with interest at 1.60% maturing on July 6, 2005. Included in restricted cash and cash equivalents is $5,045,100 restricted for repayment of the TRANS (Note 2).

7. LONG-TERM DEBT

Long-term debt at June 30, 2005 consisted of the following:

Description	Year of Issue	Interest Rate	Final Maturity	Original Amount	Balance June 30, 2005
General Obligation Bonds Series A	2000	4.30%-6.26%	2030	$ 99,995,036	$ 31,350,036
General Obligation Bonds Series B	2004	2.00%-5.79%	2036	$ 90,100,063	90,100,063
Refunded General Obligation Bonds	2003	2.00%-5.00%	2030	$ 67,475,000	63,875,000
Financing Corporation Certificates of Participation	1997	3.80%-5.05%	2012	$ 12,520,000	5,805,000
Refunding Certificates of Participation	2003	1.00%-4.375%	2022	$ 18,275,000	16,640,000
Capitalized lease obligations	1989-2005	4.0%-7.9%	2009-2020	$ 9,005,573	6,633,567
Student Center revenue bonds	1968	3.00%	2006	$ 600,000	40,000
Total long-term debt					214,443,666
Less current portion of long-term debt					(5,579,972)
					208,863,694
Compensated absences payable - noncurrent					1,203,500
Claims payable					2,283,250
Total noncurrent liabilities					$ 212,350,444

7. LONG-TERM DEBT (Continued)

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

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

	General Obligation Bonds Series A	General Obligation Bonds Series B	General Obligation Refunding Bonds Series B	Financing COPs	Refunding COPs	Capitalized Lease Obligations	Student Center Revenue Bonds	Total
Balance, July 1, 2004	$ 32,855,036	$ 90,100,063	$ 66,480,000	$ 7,000,000	$ 17,385,000	$ 3,364,023	$ 60,000	$217,244,122
New issuance						3,727,676		3,727,676
Principal payments	1,505,000		2,605,000	1,195,000	745,000	458,132	20,000	6,528,132
Balance, June 30, 2005	$ 31,350,036	$ 90,100,063	$ 63,875,000	$ 5,805,000	$ 16,640,000	$ 6,633,567	$ 40,000	$214,443,666

7. LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
General Obligation Bonds, Series A			
2006	$ 295,000	$ 489,147	$ 784,147
2007	585,000	469,055	1,054,055
2008	900,000	434,450	1,334,450
2009	1,425,000	379,100	1,804,100
2010	2,000,000	294,900	2,294,900
2011-2015	4,415,000	267,350	4,682,350
2016-2020	9,418,699	16,896,301	26,315,000
2021-2025	5,899,454	16,610,546	22,510,000
2026-2030	5,323,306	23,206,694	28,530,000
2031-2035	1,088,577	5,916,423	7,005,000
	$ 31,350,036	$ 64,963,966	$ 96,314,002
General Obligation Bonds, Series B			
2006	$ 2,240,000	$ 2,484,130	$ 4,724,130
2007	2,605,000	2,429,168	5,034,168
2008	695,000	2,388,960	3,083,960
2009	720,000	2,371,955	3,091,955
2010	750,000	2,351,345	3,101,345
2011-2015	7,985,000	10,965,013	18,950,013
2016-2020	15,660,000	8,261,749	23,921,749
2021-2025	23,517,604	7,516,440	31,034,044
2026-2030	10,787,080	30,947,920	41,735,000
2031-2035	17,422,170	74,017,830	91,440,000
2036-2040	7,718,209	41,276,791	48,995,000
	$ 90,100,063	$ 185,011,301	$ 275,111,364

7. LONG-TERM DEBT (Continued)

General Obligation Refunding Bonds	Principal	Interest	Total
2006	$ 220,000	$ 3,137,689	$ 3,357,689
2007	220,000	3,133,288	3,353,288
2008	225,000	3,128,839	3,353,839
2009	230,000	3,123,886	3,353,886
2010	235,000	3,118,129	3,353,129
2011-2015	11,460,000	14,693,853	26,153,853
2016-2020	1,180,000	12,526,522	13,706,522
2021-2025	16,365,000	10,828,694	27,193,694
2026-2030	27,220,000	5,205,250	32,425,250
2031-2035	6,520,000	163,000	6,683,000
	$ 63,875,000	$ 59,059,150	$ 122,934,150

Financing COPs	Principal	Interest	Total
2006	$ 1,245,000	$ 270,060	$ 1,515,060
2007	1,300,000	215,280	1,515,280
2008	595,000	156,780	751,780
2009	620,000	129,410	749,410
2010	650,000	100,270	750,270
2011-2015	1,395,000	104,820	1,499,820
	$ 5,805,000	$ 976,620	$ 6,781,620

Refunding COPs	Principal	Interest	Total
2006	$ 760,000	$ 591,000	$ 1,351,000
2007	775,000	575,650	1,350,650
2008	790,000	560,000	1,350,000
2009	805,000	542,239	1,347,239
2010	830,000	520,965	1,350,965
2011-2015	4,555,000	2,184,350	6,739,350
2016-2020	5,540,000	1,205,000	6,745,000
2021-2025	2,585,000	113,506	2,698,506
	$ 16,640,000	$ 6,292,710	$ 22,932,710

7. LONG-TERM DEBT (Continued)

	Principal	Interest	Total
Capitalized Lease Obligations			
2006	$ 799,972	$ 242,363	$ 1,042,335
2007	772,562	258,886	1,031,448
2008	545,271	219,690	764,961
2009	570,579	194,383	764,962
2010	597,086	167,876	764,962
2011-2015	2,087,694	485,181	2,572,875
2016-2020	1,260,403	147,884	1,408,287
	$ 6,633,567	$ 1,716,263	$ 8,349,830
Student Center Revenue Bonds			
2006	$ 20,000	$ 900	$ 20,900
2007	20,000	300	20,300
	$ 40,000	$ 1,200	$ 41,200
Total			
2006	$ 5,579,972	$ 7,215,289	$ 12,795,261
2007	6,277,562	7,081,627	13,359,189
2008	3,750,271	6,888,719	10,638,990
2009	4,370,579	6,740,973	11,111,552
2010	5,062,086	6,553,485	11,615,571
2011-2015	31,897,694	28,700,567	60,598,261
2016-2020	33,059,102	39,037,456	72,096,558
2021-2025	48,367,058	35,069,186	83,436,244
2026-2030	43,330,386	59,359,864	102,690,250
2031-2035	25,030,747	80,097,253	105,128,000
2036-2040	7,718,209	41,276,791	48,995,000
	$ 214,443,666	$ 318,021,210	$ 532,464,876

Certificates of Participation

On October 1, 1997, the Financing Corporation issued Certificates of Participation (COPs) in the amount of $12,520,000 to provide proceeds for the acquisition, construction and installation of certain electrical, technology and air conditioning equipment, to make repairs and improvements to existing buildings and to defease an existing COPs. The COPs bear effective interest rates ranging from 3.8% to 5% and mature through 2012.

7. LONG-TERM DEBT (Continued)

Certificates of Participation (Continued)

In June 2003, the Financing Corporation issued $18,275,000 of Certificates of Participation with effective interest rates ranging from 1% to 4.375% and maturing 2004 through 2021. The Certificate proceeds are being used to advance refunds to the outstanding Advanced Refunding COPs and certain debt issue costs and interest.

General Obligation Bonds

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

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

In September 2003, the District issued Series B, 1999 General Obligation Bonds aggregating $90,100,063. The bonds mature through 2036 and bear interest at rates ranging from 2% to 6%. The proceeds from the issuance will be used to construct and modernize education facilities.

8. PROPERTY TAXES

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

9. SELF-INSURANCE PROGRAM

Effective March 1, 2003, the District is self-insured for certain risks and employee benefits. Workers' compensation claims are self-insured to $250,000. Excess insurance has been purchased which covers workers' compensation claims between $250,000 and $10,000,000. The estimate of incurred but not reported and reported claims was actuarially determined based upon historical experience and actuarial assumptions. The current and long-term portions of the liability for the unpaid claims for workers' compensation losses as of June 30, 2005 were $691,750 and $2,238,250, respectively. The District purchases insurance for workers' compensation claims incurred subsequent to 1998 up to $1,000,000 per incident for each employee.

9. SELF-INSURANCE PROGRAM (Continued)

The District is also self-insured for health care claims of employees participating in the District's health care plans. The District carries stop loss insurance to limit its aggregate liability to 125% of the expected paid claims and its individual claim liability limit to $100,000 per care year. The current and long-term portions of the liability for health care claims at June 30, 2005 were $2,210,500 and $45,000, respectively.

The claims reserve activity for the year ended June 30, 2005 is as follows:

Unpaid claims and claim adjustment expenses, beginning of year	$ 5,400,162
Incurred claims and claim adjustment expenses:	
Provision for covered events of the current year	12,069,584
Provision for covered events of prior years	(1,633,350)
Total incurred claims and claims adjustment expenses	15,836,396
Payments	
Claims and claim adjustment expenses	10,653,191
Total unpaid claims and claim adjustment expenses, end of year	5,183,205
Less current portion included in accounts and claims payable	(2,899,955)
Total non-current unpaid claims and claim adjustment expenses, end of year	$ 2,283,250

10. EMPLOYEE RETIREMENT SYSTEMS

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

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

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

Funding Policy

Active members of the DB Plan are required to contribute 8.0% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers’ Retirement Board. The required employer contribution rate for fiscal year 2004-05 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The district contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were $4,662,893, $4,696,411 and $4,852,221, respectively and equal 100% of the required contributions for each year**.** The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by $2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of $2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by $1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

California Public Employees' Retirement System (CalPERS)

Plan Descriptions

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

10. EMPLOYEE RETIREMENT SYSTEMS (Continued)

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

Funding Policy

Active plan members are required to contribute 7% of their salary (7% 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 district's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ended in July 2003. The required employer contribution rate for fiscal year 2004-2005 was 9.95% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2005, 2004 and 2003 were $4,086,954, $4,119,523 and $1,164,095, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

11. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 10, the District provides post-retirement health care benefits to employees hired prior to July 1, 1997 and who retire from the District and meet the specific eligibility requirements set forth in their prospective employment contracts.

The District pays health care insurance premiums to maintain the level of coverage enjoyed by the retiree immediately preceding retirement up to age 65. After Medicare coverage begins, these benefits become supplemental to Medicare. Expenditures for post-retirement health care benefits are recognized as the premiums are paid. For the year ended June 30, 2005, expenditures of approximately $6,302,000 were recognized for post-retirement health care benefits.

12. COMMITMENTS AND CONTINGENCIES

State Controller's Office Audit

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

District management intends to aggressively pursue the appeals process. However, there can be no assurance that management will be successful in their appeal. The District estimated its ultimate liability to be approximately $1,129,000.

Contingent Liabilities

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

Operating Leases

Future minimum rental payments under all noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2005, are as follows:

Years Ended June 30,	
2006	$ 1,340,047
2007	1,494,875
2008	1,763,507
2009	2,106,776
2010	2,482,479
	$ 9,187,684

13. JOINT POWERS AGREEMENTS

Schools Excess Liability Fund

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

13. JOINT POWERS AGREEMENTS (Continued)

Schools Excess Liability Fund (Continued)

The Agency is governed by an Executive Board consisting of representatives from member districts. The Executive Board controls the operations of SELF, including selections of management and approval of operating budgets. The following is a summary of financial information for SELF at June 30, 2004 (the most recent information available):

Total assets	$ 173,648,016
Total liabilities	$ 147,852,240
Total net assets	$ 25,795,776
Total revenues	$ 74,589,111
Total expenses	$ 81,308,586
Total other income (expense)	$ 1,317,721

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

South Bay Regional Public Safety Training Consortium

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

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

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

The following is a summary of financial information for SBRPSTC at June 30, 2005:

Total assets	$ 4,617,567
Total liabilities	$ 1,549,281
Total net assets	$ 3,068,286
Total revenues	$ 5,848,786
Total expenses	$ 5,743,752

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

14. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2005.

Functional Classifications	Salaries	Benefits	Supplies, Materials and other Operating Expenses	Utilities	Depreciation	Total
Instruction	$ 65,482,100	$ 14,794,006	$ 183,930	$ 8,873		$ 80,468,909
Academic Support	10,086,682	3,347,113	2,755,859	18,318		16,207,972
Student Services	10,869,621	3,862,533	2,462,768	43,741		17,238,663
Operation and Maintenance of Plant	5,712,200	2,198,748	975,679	2,958,169		11,844,796
Institution support	12,881,809	8,225,557	12,316,972	91,439		33,515,777
Community Services & Economic Development	1,261,643	344,708	2,694,659	6,849		4,307,859
Auxiliary Operations	8,078,129	2,119,030	12,103,481	146,011		22,446,651
Student Aid	490,688	64	9,112,118			9,602,870
Depreciation (Note 4)					$ 13,000,251	13,000,251
	$ 114,862,872	$ 34,891,759	$ 42,605,466	$ 3,273,400	$ 13,000,251	$ 208,633,748

15. DONATED SERVICES AND FACILITIES

Donated services and facilities to the Foothill-De Anza Community Colleges Foundation totaling $30,780 for the year ended June 30, 2005 consisted of accounting and management support, comprehensive insurance, office space, and other miscellaneous internal services as provided by the District.

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

16. SUBSEQUENT EVENTS

Measure E Series C and General Obligation Refunding Bonds Issuances

On October 4, 2005, the District issued $80,069,900 of General Obligation Bonds. The issuance consists of $57,904,900 of the Election of 1999 General Obligation Bonds, Series C, and $22,165,000 of 2005 General Obligation Refunding Bonds. The Series C Bonds require principal payments beginning August 1, 2007 until August 1, 2036, plus interest. Annual interest rates for the Series C Bonds range from 3.0% to 5.0%. The Refunding Bonds require principal payments beginning August 1, 2006 until August 1, 2021, plus interest. Annual interest rates for the Refunding Bonds range from 3.0% to 5.25%.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

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

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

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION
(Continued)

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

Perry-Smith LLP

Sacramento, California
September 30, 2005

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2005

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

The Board of Trustees and District Administration for the fiscal year ended June 30, 2005 were composed of the following members:

BOARD OF TRUSTEES

Members	Office	Term Expires
Edward "Sandy" Hay	President	November 2005
Betsy Bechtel	Vice President	November 2007
Paul Fong	Trustee	November 2005
Hal Plotkin	Trustee	November 2007
Andrea Leiderman	Trustee	November 2007
Bridget Howe	Student Trustee	May 2006
Maryann Noor	Student Trustee	May 2006

DISTRICT ADMINISTRATION

Martha Kanter, Ed.D.
Chancellor

Bernadine Chuck Fong, Ph.D.
President, Foothill College

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

DISTRICT FISCAL ADMINISTRATION

Mike Brandy
Vice Chancellor, Business Services

Hector Quinonez
District Controller

Bernata Slater
Director, Budget Operations

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Education:			
Vocational and Applied Technology Education Act	84.048	03577	$ 694,301
Student Financial Aid Cluster:			
Federal College Work Study	84.033		382,690
Pell Grants	84.063		7,520,087
Pell Grant Administration	84.063		63,196
Federal Supplemental Education Opportunity Grant	84.007		438,891
Perkins Loan Program	84.038		36,182
FIPSE Grant	84.116		212,108
Subtotal Student Financial Aid Cluster			9,347,455
CDC DA Campus	335A		32,677
Department of Health and Human Services (MAA)			183,128
National Science Foundation Cluster:			
NSF DEFP	47.076		37,669
NSF Tech Ed CMU	47.076		294,453
NSF Collab Project	47.076		26,026
Subtotal National Science \ Foundation Cluster			358,148
Department of Agriculture Child Care Food Program	10.558		18,252
TANF	93.558		45,020
Americorps	94.006		32,847
NASA/Ames Internship Program	NGT2-1001		1,446,490
TAA/NAFTA	NGT2-1001		21,332
WIA (Workers Investment Act)	NGT2-1001		129,017
Total Federal Categorical Awards and Allowances			$ 11,614,366

See accompanying notes to supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2005

	Program Entitlements			Program Revenues				
	Prior Year Carry-forward	Current Entitlement	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue/ Accounts Payable	Total	Program Expend-itures
Extended Opportunity Programs and Services	$ 459	$ 1,595,109	$ 1,595,568	$ 1,595,477			$ 1,595,477	$ 1,595,568
Cooperative Agencies Resources for Education	14,133	136,502	150,635	150,635			150,635	150,635
Disabled Student Programs & Services	242,091	3,027,832	3,269,923	3,027,832			3,027,832	3,022,441
Deferred Maintenance Costs	469,202	725,230	1,194,432	557,524	$ 167,706		725,230	749,333
Matriculation	36,986	1,304,197	1,341,183	1,341,183			1,341,183	1,341,183
Matriculation (non-credit)	3,041	58,052	61,093	61,093			61,093	61,093
AB 1725 Staff Development	50,296		50,296	46,017		$ 44,229	1,788	1,788
AB 1725 Staff Diversity	39,625	55,080	94,705	94,705		75,418	19,287	19,287
Economic Development		361,290	361,290	303,484	57,806		361,290	361,290
Child Development Tax Bailout		716,954	716,954	716,954			716,954	716,954
Child Development Center		191,336	191,336	212,550		21,214	191,336	191,336
Child Care Pre-K Resource		1,290	1,290	1,290			1,290	1,290
Child Care Infant/Toddler Resource		4,058	4,058	4,058			4,058	1,595
High Tech Center Training Unit	100,190	943,000	1,043,190	1,043,190		11,739	1,031,451	1,031,451
Hazardous Substances		20,735	20,735	20,735			20,735	20,735
Child Care Food Program		871	871	589	282		871	871
Child Care Instructional Materials		1,142	1,142	1,142			1,142	1,142
BFAP Administration	218,220	943,126	1,161,346	1,161,346		1,531	1,159,815	1,159,815
TANF	3,269	43,039	46,308	43,848	1,960	1,287	44,521	44,520
Transfer Ed and Articulation	15,023		15,023	15,023		11,190	3,833	3,833
Telecom and Tech Infrastructure	269		269	269			269	269
School to Career	3,554		3,554	3,554		2,638	916	916
TTIP Telecom & Technology	323,311	116,738	440,049	440,049		282,730	157,319	157,318
Instructional Equipment	1,907,296	1,500,574	3,407,870	3,407,870		3,060,928	346,942	346,942
Lottery Instructional Materials	1,089,804	830,927	1,920,731	52,888	778,039		830,927	829,591
CalGrant B & C	18,537	1,095,678	1,114,215	1,087,402	8,276		1,095,678	1,095,678
CVU Greater Bay Area		171,487	171,487	101,021	70,466		171,487	171,487
Calworks	5,343	315,349	320,692	320,692		5,343	315,349	315,349
Miscellaneous State Assistance	206,918	304,600	511,518	503,765	7,754	231,432	280,087	280,086
Total State categorical awards and allowances				$ 16,316,185	$ 1,092,289	$ 3,749,679	$ 13,658,795	$ 13,673,796

See accompanying notes to supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

Annualized Attendance as of June 30, 2005

	Reported Data	Audit Adjustments	Revised Data
Categories			
A. Credit full-time equivalent student (FTES)			
1. Weekly census	24,878		24,878
2. Daily census	427		427
3. Actual hours of attendance	3,420		3,420
4. Independent study work experience	2,030		2,030
Total	30,755		30,755
B. Noncredit FTES			
1. Actual hours of attendance	256		256
C. Gross square footage			
1. Existing facilities	1,681,038		1,681,038
2. New facilities	51,375		51,375
D. FTES in New Facilities	769		769

See accompanying notes to supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF ANNUAL APPRENTICESHIP HOURS OF INSTRUCTION

Annualized Attendance as of June 30, 2005

	Reported Annual Hours
Reporting periods:	
July 1 - December 31, 2004	135,155
January 1 - April 15, 2005	139,447
April 16 - June 30, 2005	136,684
Total	411,286

See accompanying notes to supplemental information.

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

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

For the Year Ended June 30, 2005

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

See accompanying notes to
supplemental information.

1. PURPOSE OF SCHEDULES

A - Schedule of Federal and State Financial Assistance

OMB Circular A-133 requires a disclosure of the financial activities of all Federally funded programs. To comply with A-133 and State requirements, this schedule was prepared by the District. Differences exist between the revenues shown on the schedule and the basic financial statements for the following reasons:

- Various program revenues are recorded in the current year for prior year claims, related expenditures were incurred in prior years.
- Amounts reported as revenue may not represent final claim amounts, due to the timing of filing the final claims, and the closing of the District's records.

B - Schedule of Workload Measures for State General Apportionment

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

C - Schedule of Annual Apprenticeship Hours of Instruction

This schedule provides information regarding annual apprenticeship hours of instruction for reporting periods during the year ended June 30, 2005.

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

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

PS

INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS

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

We have audited the basic financial statements of Foothill-De Anza Community College District for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following State laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual* (CDAM):

General Directives

Management Information System Implementation – Required Data Elements

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination For Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students In Community College Credit Courses
Apportionments – Enrollment Fee
Fiscal Operations – Salaries of Classroom Instructors (50 Percent Law)
Fiscal Operations – Gann Limit Calculation
Open Enrollment
Minimum Conditions – "Standards of Scholarship"
Student Fees – Instructional Materials Fees and Health Fees

Student Services

Matriculation – Uses of Matriculation Funds

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

Special Programs

Extended Opportunity Programs and Services – (EOPS) Allocation of Costs
Extended Opportunity Programs and Services – EOPS Administrator/Director Requirements

Facilities

Scheduled Maintenance Program

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the Foothill-De Anza Community College District complied, in all material respects with the aforementioned requirements for the year ended June 30, 2005.

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

Perry-Smith LLP

Sacramento, California
September 30, 2005

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

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

We have audited the basic financial statements of Foothill-De Anza Community College District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Foothill-De Anza Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

(Continued)

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

Perry-Smith LLP

Sacramento, California
September 30, 2005

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

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

Compliance

We have audited the compliance of Foothill-De Anza Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. Foothill-De Anza Community College District's major Federal programs are identified in the accompanying schedule of Federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Foothill-De Anza Community College District's management. Our responsibility is to express an opinion on Foothill-De Anza Community College District's compliance based on our audit.

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

In our opinion, Foothill-De Anza Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs, except as described in the Schedule of Audit Findings and Questioned Costs section of this report, for the year ended June 30, 2005.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

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

Perry-Smith LLP

Sacramento, California
September 30, 2005

FINDINGS AND RECOMMENDATIONS

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2005

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness (es) identified?	______Yes	__X__No
Reportable condition(s) identified not considered to be material weakness (es)?	______Yes	__X__None reported
Noncompliance material to financial statements noted?	______Yes	__X__No

FEDERAL AWARDS

Internal control over major programs:		
Material weakness(es) identified?	______Yes	__X__No
Reportable condition(s) identified not considered to be material weakness(es)?	______Yes	__X__None reported
Type of auditor's report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	__X__Yes	______No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.038 *	Student Financial Aid
NGT2-1001	NASA/Ames Internship Program

* Clustered

Dollar threshold used to distinguish between Type A and Type B programs:	$ 348,431	
Auditee qualified as low-risk auditee?	______Yes	__X__No

STATE AWARDS

Internal control over State programs:		
Material weakness identified	______Yes	__X__No
Reporting conditions identified not considered as material weakness	______Yes	__X__No
Type of auditor's report issued on compliance for State programs	Unqualified	

1. DEANZA CAMPUS CENTER – FOOD SERVICE

Criteria

Internal Controls – Safeguarding of Assets

Condition

There are no written rental or vendor agreements with food vendors.

Effect

Possible incorrect payments by vendors and misallocation of receipts.

Cause

No rental or vendor agreements have been required in the past for the Campus Center.

Fiscal Impact

Not applicable.

Recommendations

The District should prepare written agreements to be signed by District personnel and vendors for food services.

Corrective Action Plan

The District agrees with the finding and has taken corrective action.

2. FOUNDATION

Criteria

Internal Controls – Safeguarding of Assets

Condition

Numbered receipts are not issued for each individual check or cash receipt and the transmittal sheets used to record checks are also not pre-numbered.

Effect

Funds received may be misplaced or misallocated between time of receipt in Foundation office and time deposits are prepared.

2. FOUNDATION (Continued)

Cause

There is no method in place to determine if all funds received have been deposited with the bank. Transmittal sheets are not pre-numbered and have the potential of being misplaced.

Fiscal Impact

Not applicable.

Recommendation

All deposits should be tracked by pre-numbered receipts and transmittal sheets, or a deposit log should be maintained and reconciled to all cash receipts.

Corrective Action Plan

The District agrees with the finding and has taken corrective action.

3. CHILD DEVELOPMENT CENTER

Criteria

Internal Controls – Safeguarding of Assets

Condition

The Staff Assistant currently receives the funds from the parents, logs in checks received, posts the funds to individual student accounts, and prepares the deposit.

The Child Development Center does not receive any documentation of the payments made by parents to the Administration office when receiving cash or credit cards since these payments are made through the Cashier's office.

Effect

Potential misappropriation of assets.

Cause

Due to budget cuts, the District has been unable to properly staff the Child Development Center in order to implement improved segregation of duties.

The Cashier's office was unaware of what information was needed by the Child Development Center in order to reconcile their receipts.

3. CHILD DEVELOPMENT CENTER (Continued)

Fiscal Impact

Not applicable.

Recommendations

The District should implement procedures to provide adequate separation of duties for the cash receipts process at the Child Development Center.

The Administration office should send a report detailing payments made so the Child Development Center can properly document and reconcile cash receipts.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

4. MIDDLEFIELD CASH RECEIPTS

Criteria

Internal Controls – Safeguarding of Assets

Condition

There are no formal control procedures in place for teachers who receive payments in the classroom.

Effect

Possible misappropriation of assets.

Cause

This internal control has not been implemented.

Fiscal Impact

No applicable.

Recommendation

The District should implement formal procedures for the collection of cash receipts in the classroom, to include but not limit to: issuance of pre-numbered receipts to students, maintenance of checks in a secured location, submittal of deposits and receipts in a timely manner.

4. MIDDLEFIELD CASH RECEIPTS(Continued)

Corrective Action Plan

The District agrees with the finding and will take corrective action.

5. JOURNAL ENTRIES

Criteria

Internal Controls – Safeguarding of Assets

Condition

Each accountant is responsible for posting and reviewing their own journal entries. There is no review of entries posted.

Effect

Potential misappropriation of assets.

Cause

Currently, only certain accountants have access to journal entries. Management has not formalized a process to review journal entries.

Fiscal Impact

No applicable.

Recommendation

Journal entries meeting a certain threshold determined by the District should be reviewed by an independent employee.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

6. FEDERAL COMPLIANCE

STUDENT FINANCIAL AID – FEDERAL WORK STUDY

Criteria

Per OMB Circular A-133 an institution must use at least 7% on the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities unless waived by the Secretary of Education.

6. FEDERAL COMPLIANCE (Continued)

STUDENT FINANCIAL AID – FEDERAL WORK STUDY (Continued)

Condition

The District only allocated 6.4% of its FWS allocation toward students employed in the community service activities.

Effect

The District is not in compliance with FWS funding requirements.

Cause

District management was not aware minimum requirements would not be met.

Fiscal Impact

The District did not meet its required match by approximately $2,909.

Recommendation

We recommend the District monitor their allocation to students employed in community service activities in order to meet Federal requirements.

Corrective Action Plan

The District agrees with the finding and will take corrective action.

SUMMARY SCHEDULE OF

PRIOR AUDIT FINDINGS

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2005

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
1. Child Development Center			
Funds collected at the CDC Center are not adequately secured.	The collection box should be secured to prevent theft of the box.	Implemented.	
There is no segregation of duties between who receives, logs, posts, and prepares funds for deposit.	The District should implement procedures to provide adequate segregation of duties for the cash receipts process.	See current year findings and recommendations.	
2. De Anza Campus Center – Food Service			
Cash count worksheets are not signed or initialed by the two employees who count the cash drawer.	Both employees who count the cash register drawer should sign the cash count worksheet to provide evidence the drawer was counted on dual custody.	Implemented.	
Cash over/shorts are not monitored for each employee.	The District should implement procedures requiring the monitoring of daily cash outages for each employee.	Implemented.	
The Campus Center safe is not restricted to dual access.	Access to the safe should be performed in dual custody.	Implemented.	
Checks received by the Campus Center are not always properly secured.	Checks should be secured in the Campus Center vault after they are logged.	Implemented.	
There is no segregation of duties in the cash receipts process.	The District should implement procedures to provide adequate segregation of duties.	Implemented.	
Purchase orders are not completed when goods are ordered.	The purchase order process should be implemented to include the approval of all purchase orders prior to ordering the goods.	Implemented.	

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
June 30, 2005

Finding	Recommendation	Current Status	District Explanation if Not Fully Implemented
3. Associated Student Body – De Anza College			
There is no method to determine whether cash received from fundraising activities is received timely since the cashier's office does not receive a listing of planned activities.	The cashier's office should receive a listing of planned activities on a quarterly basis.	Implemented.	
4. State Compliance – EOP&S			
One employee charged to the EOP&S program was funded by EOP&S at a percentage less than the employee was actually working in the program.	The District should implement procedures to ensure that the actual amount of time the employee is working in EOP&S is greater than or equal to the amount budgeted in the District's Summary of Personnel Costs, Activity Assignments, and Description of Duties.	Implemented.	