



MATSON
& ISOM

KERN COMMUNITY COLLEGE DISTRICT

Bakersfield, California

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2013

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MATSON
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Kern Community College District
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

Continued

Change in Accounting Principles

As discussed in note 13, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*. The beginning net position was increased by \$11,269,421, as a result of capitalizing interest costs of bond projects that were previously expensed. Our opinion is not modified with respect to this matter.

The District also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The beginning net position was decreased by \$3,084,890, as a result of expensing the costs associated with the issuance of bonds. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying financial information listed as supplementary information in the table of contents and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and the schedule of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Matson and Isom

December 18, 2013
Redding, California

MANAGEMENTS' DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Kern Community College District

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (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. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. 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 has adopted and applied the above standards beginning with the 2003-04 fiscal year.

The California Community College Chancellor's Office recommends that all State community college districts follow the new standards using the Business Type Activity (BTA) model. Kern Community College District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

The following discussion and analysis provides an overview of the District's financial activities with emphasis on current year data. As required by the newly adopted accounting principles, this report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

Some of the changes in the financial statements that have resulted from the implementation of these new standards using the BTA model are:

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.
- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.
- Capital assets are included in the statement presentations.

OVERVIEW

The California State budget situation continues to improve as the effects of a recovering economy and increased tax receipts from temporary taxes California voter approved in 2012. The State is currently projecting modest budget surpluses. The 2013-14 State budget is projected to end the year with a \$2.4 billion reserve.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Kern Community College District

The District continues to take a cautious approach to the fiscal changes occurring to the State. The District believes that with the level of unfunded State liabilities that still need to be addressed combined with the temporary nature of the new taxes approved in 2012. In addition, there further uncertainty with ongoing unrestricted revenues associated with California's elimination of its Redevelopment Agencies (RDA's). The State budget assumed that Community College Districts would see a significant increase in property tax revenues associated with the elimination of the RDA's and thus correspondingly the State reduced unrestricted apportionment revenues. This increase in property taxes has for the most part not materialized leaving the College Districts with significant apportionment deficits (ranging from 1% to 2%). Due to these uncertainties with the State budget, the District believes it needs to continue to position itself to deal with another significant long term financial downturn in the future. The District continues to evaluate and identify opportunities for expenditure controls, organizational enhancements, reserve management, and conservative budget planning and student enrollment management practices. With the improvement in the State economy the District budget has stabilized. The Districts unrestricted fund balance remained flat between 2011-12 and 2012-13 and continues to be slightly under 20%. In addition, The District anticipates utilizing less than a million in unrestricted reserves for 2013-14.

Due to significant required accounting changes in the 2012-13 fiscal year which are described in the notes to this report, the District opted to only reflect the current year activity in its financial statements. The District was concerned that the significant changes required in the presentation of the reports made comparisons between fiscal years not appropriate. The District will return to comparative statements in its 2013-14 annual report.

The District's total assets declined slightly from \$489 million to \$485 million. This change was primarily driven by decreases in cash (\$6.8 million), accounts receivable (\$12.5 million), and other postemployment benefits asset (\$5.4 million) these decreases were partially offset by a \$15 million increase in depreciable assets. Liabilities declined slightly from \$334 million to \$328 million. This change is primarily driven by a \$8 million decrease in Long Term debt.

Overall revenues of \$175 million were less than expenditures of \$185 million, resulting in a decrease in net assets of \$9.6 million. Revenues decreased \$11 million from the prior year. This change was primarily due to decreases in federal and state grant including financial aid revenues (\$7.2 million) and investment income (\$2.4 million). Expenditures decreased \$10 million from the prior year. This change was primarily due to decreases in salaries and benefits (\$2.2 million) and payments to students including financial aid disbursements (\$8.0 million).

STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, liabilities, and net position of the District as of the end of the fiscal year using the accrual basis of accounting, which is comparable to that used by most private-sector institutions. Net position – the difference between assets and liabilities – are one way to measure the financial health of the District. The net position data allows readers to determine the resources available to continue the operations of the District.

The net position of the District consists of three major categories:

- Net investment in capital assets – The District's equity in property, plant, and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Kern Community College District

- Restricted net position (distinguishing between major categories of restriction) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments imposed through constitutional provisions or enabling legislation.
- Unrestricted net position – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net position, but it retains the power to change, remove, or modify those restrictions.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the operating results of the District. The purpose of the statement is to present the revenues received by the District, both operating and non-operating, and the expenses paid by the District, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the District. State general apportionment funds, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles. Changes in total net position on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues are received for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the District.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and shows the sources and uses of those funds. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

FINANCIAL SECTION

STATEMENT OF NET POSITION

June 30, 2013

Kern Community College District

June 30, 2013

ASSETS**CURRENT ASSETS**

Cash and cash equivalents	\$ 24,699,186
Restricted cash and cash equivalents - current	873,500
Accounts receivable - net	17,805,466
Prepaid expenses	1,287,168
Inventories	10,141

Total Current Assets 44,675,461**NONCURRENT ASSETS**

Restricted cash and cash equivalents - noncurrent	72,607,421
Restricted investments	64,252,278
Other postemployment benefits (obligation) asset	62,438,262
Depreciable capital assets - net	178,068,571
Nondepreciable capital assets	63,266,699

Total Noncurrent Assets 440,633,231**Total Assets** 485,308,692**DEFERRED OUTFLOW OF RESOURCES**Deferred loss on refunding 3,584,051**LIABILITIES****CURRENT LIABILITIES**

Accounts payable	10,321,924
Advances from grantors and students	4,697,312
Compensated absences - current portion	1,509,996
Long-term debt - current portion	49,718,068
Amounts held in trust for others	607,885

Total Current Liabilities 66,855,185**NONCURRENT LIABILITIES**

Compensated absences - noncurrent portion	740,089
Long-term debt - noncurrent portion	260,124,603

Total Noncurrent Liabilities 260,864,692**Total Liabilities** 327,719,877**NET POSITION**

Net investment in capital assets	85,888,151
Restricted - expendable	26,930,960
Unrestricted	48,353,755

Total Net Position \$ 161,172,866*The accompanying notes are an integral part of these financial statements.*

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

Kern Community College District

Year Ended June 30, 2013

OPERATING REVENUES	
Tuition and fees	\$ 24,504,605
Less: Scholarship discounts and allowances	15,915,673
Net Tuition and Fees	8,588,932
Grants and contracts - noncapital:	
Federal	7,398,341
State	8,955,454
Local	2,226,049
Auxiliary enterprise sales and charges	1,400,495
Other operating revenue	1,283,888
Total Operating Revenues	29,853,159
OPERATING EXPENSES	
Salaries	73,305,637
Employee benefits	25,625,087
Supplies, materials, and other operating expenditures	15,597,231
Utilities	2,542,531
Depreciation	7,525,664
Payments to students	351,727
Total Operating Expenses	124,947,877
Operating Loss	(95,094,718)
NONOPERATING REVENUES (EXPENSES)	
State apportionments - noncapital	22,944,300
Education protection account revenues	15,588,612
Local property taxes - noncapital	50,028,831
State taxes and other revenues - noncapital	3,700,375
Investment income - noncapital	114,966
Financial aid revenues - federal	41,700,633
Financial aid revenues - state	2,505,626
Financial aid disbursements	(44,191,901)
Other nonoperating revenues (expenses) - noncapital	(468,689)
Total Nonoperating Revenues (Expenses)	91,922,753
Loss Before Other Revenues, Expenses, Gains, or Losses	(3,171,965)
Local property taxes and revenues- capital	8,279,279
State apportionments - capital	59,525
Investment income - capital	500,933
Interest expense - capital asset-related debt	(15,306,547)
Change in Net Position	(9,638,775)
Net Position - Beginning of Year, As Restated (Note 13)	170,811,641
Net Position - End of Year	\$ 161,172,866

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

STATEMENT OF CASH FLOWS*Kern Community College District*

Page 1 of 2

Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 8,908,407
Federal grants and contracts	7,159,966
State grants and contracts	8,424,866
Local grants and contracts	1,842,285
Payments to/on behalf of employees	(73,894,382)
Payments for benefits	(18,567,058)
Payments for scholarships and grants	(351,727)
Payments to suppliers	(14,692,067)
Payments for utilities	(2,542,531)
Auxiliary enterprise sales and charges	1,400,495
Other receipts	1,250,180

Net Cash Used by Operating Activities (81,061,566)**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State apportionments - noncapital	34,599,270
Education protection account revenues	15,588,612
Local property taxes	50,028,831
Financial aid revenues - federal	41,700,633
Financial aid revenues - state	2,505,626
Financial aid disbursements	(44,191,901)
State taxes and other revenues	3,309,529
Other receipts (payments)	(468,689)

Net Cash Provided by Noncapital Financing Activities 103,071,911**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State apportionments - capital	59,525
Local property taxes - capital	8,279,279
Purchases of capital assets	(7,488,815)
Interest paid on capital debt	(12,078,800)
Interest on investments - capital	500,933
Principal paid on capital debt	(10,825,154)

Net Cash Used by Capital and Related Financing Activities (21,553,032)**CASH FLOWS FROM INVESTING ACTIVITIES**

Sale of investments	31,056,566
Purchase of investments	(27,000,584)
Interest on investments - noncapital	114,966

Net Cash Provided by Investing Activities 4,170,948**Net Change in Cash and Cash Equivalents** 4,628,261**Cash and Cash Equivalents - Beginning of Year** 93,551,846**Cash and Cash Equivalents - End of Year** \$ 98,180,107*The accompanying notes are an integral part of these financial statements.*

STATEMENT OF CASH FLOWS*Kern Community College District*

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Year Ended June 30, 2013

COMPONENTS OF CASH AND CASH EQUIVALENTS:

Cash and cash equivalents	\$ 24,699,186
Restricted cash and cash equivalents - current	873,500
Restricted cash and cash equivalents - noncurrent	72,607,421
Total Cash and Cash Equivalents	\$ 98,180,107

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

Operating loss	\$ (95,094,718)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	7,525,664
Allowance for doubtful accounts	(96,169)
Changes in:	
Accounts receivable	1,376,864
Prepaid expenses	(554,702)
Other postemployment benefit obligation	5,402,334
Inventories	1,518
Accounts payable	349,749
Deferred revenue	77,056
Compensated absences	(4,627)
Amounts held for others	(44,535)
Net Cash Used by Operating Activities	\$ (81,061,566)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity Kern Community College District (the District) is a community college governed by an elected seven-member Board of Trustees. The District provides educational services in the counties of Kern, Tulare, San Bernardino, Inyo, and Mono in the State of California. The District consists of three community colleges located in Bakersfield, Porterville, and Ridgecrest, California, and satellite campuses in outlying areas.

The District identified the Kern Community College District Public Facilities Corporation (the Corporation) and the Kern Community College Public Retirement System as its component units.

In order to make this determination, the District considered the following potential component units: the Corporation, Bakersfield College Foundation, Cerro Coso Community College Foundation, Delano College Center Foundation, and Porterville College Foundation. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Government Auditing Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the “direct benefit” criterion, the “entitlement/ability to access” criterion, and the “significance” criterion.

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Additionally, the Kern Community College Public Retirement System was established to administer payment of certain health care benefits and early retirement incentive benefits to retired employees of the District. Therefore, the District has classified the Corporation as a component unit that will be presented in the District’s annual financial statements using the blending method.

All of the Foundations are legally separate, not-for-profit corporations established to support the District and its students. The Foundations contribute to various scholarship funds for the benefit of District students as well as making direct contributions to the District. However, the Foundations do not meet the “entitlement/ability to access” criterion. Additionally, due to the size of the District, none of these Foundations, individually, meet the significance criteria and; therefore, the District has determined none of these Foundations meet the requirement to be included in the reporting entity as a discretely presented component unit.

Basis of Presentation and Accounting The financial statement presentation required by GASB Statement Nos. 34, 35, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the District’s overall financial position, results of operations and cash flows, and replaces the fund-group perspective previously required. The District now follows the “business-type activities” reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the District’s financial activities.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor’s Office of the California Community Colleges.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2013

Kern Community College District

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

Exceptions to the accrual basis of accounting are as follows:

In accordance with industry standards provided by the California Community Colleges Chancellor's Office, summer session tuition and fees received before yearend are recorded as advances from grantors and students as of June 30 with the revenue being reported in the fiscal year in which the program is predominately conducted.

Cash and Cash Equivalents For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

Investments GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the County treasury and investments in the Local Agency Investment Fund (LAIF) are recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pool.

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of revenues, expenses, and changes in net position.

Restricted Cash and Investments Restricted cash and investments includes cash restricted for the repayment of debt, for use in the acquisition or construction of capital assets, for restricted programs, for any other restricted purpose, or in any funds restricted in purpose per the *California Community Colleges Budget and Accounting Manual*.

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. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance for uncollectible accounts is calculated by applying certain percentages to each aging group. The allowance was estimated at \$948,958 for the year ended June 30, 2013.

Prepaid Expenses Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

Capital Assets Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes 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 site improvements, and 3 - 8 years for equipment and vehicles.

The District has entered into two significant joint facility use agreements with other public agencies. These agreements call for the prepayment of lease costs by the District in exchange for designated future use of specific facilities being constructed by various other public agencies. These prepayments were designated to be utilized to complete construction of the new facilities to be jointly used by the District and other public agencies. Based on management’s interpretation of current generally accepted accounting principles, these payments meet the definition of a capital asset due to the long-term nature of the agreements even though the District does not have an actual ownership interest in the capital assets underlying the agreements.

<u>Contracting Public Agencies</u>	<u>Term</u>	<u>Facilities</u>	<u>Prepaid Amount</u>
Joint Union High School District	50 Years	Gymnasium & Lecture Center	\$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	\$ 3,500,000

Capitalized interest consisted of the following at June 30, 2013:

Interest incurred	\$ 12,078,800
Less: Amount expensed	10,982,046
Amount to be Capitalized	1,096,754
Reduced by interest earned	120,055
Capitalized Interest - Net	\$ 976,699

Advances from Grantors and Students Advances from grantors and students includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that relate to the subsequent accounting period. Advances from grantors and students also includes amounts received from grant and contract sponsors that have not yet been earned.

Amounts Held in Trust for Others Amounts held for others represents funds held by the District for the associated students trust fund, student representation fee trust fund, and student body fee trust fund.

Compensated Absences Accumulated and vested unpaid employee vacation benefits and compensatory time are recognized as liabilities of the District as the benefits are earned.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2013

Kern Community College District

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating 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 when the employee retires.

Long-Term Liabilities Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Deferred Outflows/Inflows of Resources In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District only has one item that qualifies for reporting in this category, which is the deferred loss on refunding reported in the statement of net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District does not have any item of this type.

Net Position Net position represents the difference between assets and liabilities. The District's net position are classified as follows:

Net Investment in Capital Assets: This represents the District's total investment in capital assets, net of 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 of net investment in capital assets.

Restricted Net Position - Expendable: Restricted expendable net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

Unrestricted Net Position: Unrestricted net position represents 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 restricted resources, and then toward unrestricted resources.

**NOTES TO THE FINANCIAL
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Kern Community College District

Classification of Revenues The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues 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; and (3) some federal, state, and local grants and contracts, and federal appropriations.

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.

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 position. 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.

State Apportionments Certain current-year apportionments from the State are based on various financial and statistical information of the previous year as well as State budgets and other factors outside the District's control. In February, subsequent to the year end, the State will perform a recalculation based on actual financial and statistical information for the year just completed. Any corrections determined by the State are recorded in the year computed by the State.

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 that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

Property Taxes Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes for the District.

Budget and Budgetary Accounting By state law, the District's governing board must approve a tentative budget no later than July 1, and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption. The District's governing board satisfied these requirements.

The budget is revised during the year to incorporate categorical funds that are awarded during the year and miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

On-Behalf Payments GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by an 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 California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all Community College Districts in California. The payments have not been reported in the basic financial statements as management believes they are immaterial to the financial statements taken as a whole.

Reclassifications Certain reclassifications have been made to prior-year amounts to conform with current year presentation.

2. CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2013, are as follows:

Cash and cash equivalents	\$ 24,699,186
Restricted cash and cash equivalents	73,480,921
Total Cash and Cash Equivalents	\$ 98,180,107

At June 30, 2013, the carrying amount of the District's cash is summarized as follows:

Cash in County Treasury	\$ 81,483,061
Cash on hand and in banks	7,083,384
Cash held by Trustees	9,613,662
Total Deposits	\$ 98,180,107

As provided for by *California Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities were 1.53 at June 30, 2013, and the pool is unrated.

Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

The pooled treasury has regulatory oversight from the Kern County Treasury Oversight Committee in accordance with *California Government Code* requirements.

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% of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits.

**NOTES TO THE FINANCIAL
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Kern Community College District

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, \$750,000 of the bank balances at June 30, 2013, are insured.

The District's investment policy is consistent with *California Government Code* as it relates to investment vehicles. The District's investment policy authorizes it to invest in the following:

- U.S. Treasury notes, bonds, and bills
- Registered warrants, treasury notes, and bonds of the State of California
- Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California
- Obligations issued by, or fully guaranteed as to principal and interest by the Federal National Mortgage Association or instruments issued by a federal agency
- Bankers' acceptances which are eligible for purchase by the Federal Reserve System
- Rated commercial paper (A1 or P1)
- Negotiable certificates of deposit
- Repurchase agreements and reverse repurchase agreements with Master Agreement under California law
- Medium-term notes with a maximum of five (5) years maturity issued by U.S. Corporations and rated A or better
- Money market mutual funds meeting criteria prescribed in *California Government Code*, Section 53601
- Local Agency Investment Fund (State Pool)
- Passbook savings account demand deposits
- Interest-bearing demand deposits with the County of Kern Auditor-Controller

As of June 30, 2013, the District's restricted investments are as follows:

Investments in LAIF	\$ 424,730
Bank clearing account	886,114
Certificates of deposit	10,133,589
Money market	198,952
Municipal bonds	17,564,049
Corporate bonds and notes	10,682,827
U.S. Government agency securities	18,724,160
Foreign bonds	5,637,857
Total Investments	\$ 64,252,278

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

The District participates in LAIF, a voluntary program created by statute (*California Government Code*, Section 16429). The Local Investment Advisory Board provides oversight for LAIF. Market valuation is conducted monthly and fund policies, goals and objectives are reviewed annually. The District has the right to withdraw its deposited moneys from LAIF upon demand. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. LAIF’s exposure and the District’s related exposure to credit, market and legal risk is not available. Foreign bonds are dollar denominated bonds of companies based outside the U.S.

Risk Information

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk using multiple strategies. Those strategies are as follows:

1. The implementation of a “ladder” in which bond maturities are staggered evenly over a five-year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive “average” yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.
2. The District also diversifies through investing in credit quality securities. Over 60% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District’s bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.
3. The District invests in “step-up” coupon bonds and some “floating-rate” debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table of the District’s investments by maturity:

June 30, 2013	Fair Value	Investment Maturities		
		Less Than One Year	One to Five Years	More Than Five Years
Investment in LAIF	\$ 424,730	\$ 424,730	\$ -	\$ -
Bank clearing account	886,114	886,114	-	-
Certificates of deposit	10,133,589	1,668,598	8,364,991	100,000
Municipal bonds	17,564,049	-	14,836,514	2,727,535
Money market	198,952	198,952	-	-
Corporate bonds and notes	10,682,827	1,615,343	9,067,484	-
U.S. Government agency securities	18,724,160	-	16,803,033	1,921,127
Foreign bonds	5,637,857	-	4,847,507	790,350
Total Investments	\$ 64,252,278	\$ 4,793,737	\$ 53,919,529	\$ 5,539,012

Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized organizations. The following represents the actual ratings of the investment types:

June 30, 2013	Fair Value	Investment Ratings				
		AAA	AA	A	BBB	Unrated
Investment in LAIF	\$ 424,730	\$ -	\$ -	\$ -	\$ -	\$ 424,730
Bank clearing account	886,114	-	-	-	-	886,114
Certificates of deposit	10,133,589	10,133,589	-	-	-	-
Municipal bonds	17,564,049	2,419,859	8,176,415	6,967,775	-	-
Money market	198,952	198,952	-	-	-	-
Corporate bonds and notes	10,682,827	-	3,268,496	7,414,331	-	-
U.S. Government agency securities	18,724,160	18,724,160	-	-	-	-
Foreign bonds	5,637,857	5,637,857	-	-	-	-
Total Investments	\$ 64,252,278	\$ 37,114,417	\$ 11,444,911	\$ 14,382,106	\$ -	\$ 1,310,844

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. A total of 28% of the District's investments are in Federal National Mortgage Association, which is a U.S. government-sponsored enterprise.

The U.S. government agency securities (Federal National Mortgage Association) are mortgage-backed securities which entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal payments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

The U.S. government agency securities (Federal Farm Credit Bank and Federal Home Loan Bank) are mortgage-backed securities which entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal payments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., financial institution, broker-dealer) to a transaction, a government will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party.

For investments, the District's policy requires that a third-party bank trust department hold all securities owned by the District in the District's name.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013:

Tuition and fees	\$ 3,927,736
Less: Allowance for doubtful accounts	948,958
Tuition and Fees - Net	2,978,778
Federal grants and contracts	2,281,293
State grants and contracts	1,230,891
Local grants and contracts	1,347,667
State apportionment	6,693,919
State taxes and other revenues	2,188,188
Other	1,084,730
Total	\$ 17,805,466

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, is summarized as follows:

	Balance June 30, 2012	Additions	Deductions	Transfers	Balance June 30, 2013
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 15,675,746	\$ -	\$ -	\$ -	\$ 15,675,746
Construction in progress	46,076,328	7,080,605	-	(5,565,980)	47,590,953
Total Nondepreciable Capital Assets	\$ 61,752,074	\$ 7,080,605	\$ -	\$ (5,565,980)	\$ 63,266,699
DEPRECIABLE CAPITAL ASSETS					
Site improvements	\$ 6,102,692	\$ -	\$ -	\$ -	\$ 6,102,692
Joint use facilities agreements	6,309,640	1,138,735	-	-	7,448,375
Buildings and improvements	217,380,381	159,288	-	5,268,841	222,808,510
Equipment	16,225,773	545,949	-	297,139	17,068,861
Computer equipment	15,596,488	243,344	-	-	15,839,832
Vehicles	2,150,338	14,076	-	-	2,164,414
Total Depreciable Capital Assets	263,765,312	2,101,392	-	5,565,980	271,432,684
Less: Accumulated depreciation	85,838,449	7,525,664	-	-	93,364,113
Total Depreciable Assets - Net	\$ 177,926,863	\$ (5,424,272)	\$ -	\$ 5,565,980	\$ 178,068,571

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

Accrued payroll and related liabilities	\$ 3,205,243
Construction payables	1,822,926
Interest payable	1,873,061
Other	3,420,694
Total	\$ 10,321,924

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

6. LONG-TERM LIABILITIES

The long-term liability activity for the year ended June 30, 2013, is as follows:

June 30, 2013	Beginning Balance	Accretion/ Additions	Reductions	Ending Balance	Current Portion
Certificates of participation	\$ 79,794,006	\$ -	\$ 1,362,146	\$ 78,431,860	\$ 43,955,000
Limited obligation improvement bonds	9,486,024	-	3,576,689	5,909,335	305,000
General obligation improvement bonds	143,256,096	4,051,063	6,210,529	141,096,630	4,541,110
CEC loan	2,200,000	-	40,154	2,159,846	131,958
Other postemployment benefit bonds	82,985,000	-	740,000	82,245,000	785,000
Subtotal	317,721,126	4,051,063	11,929,518	309,842,671	49,718,068
Compensated absences	2,294,620	1,465,461	1,509,996	2,250,085	1,509,996
Total Long-Term Liabilities	\$ 320,015,746	\$ 5,516,524	\$ 13,439,514	\$ 312,092,756	\$ 51,228,064

Long-term liabilities consisted of the following individual debt issues at June 30, 2013:

CERTIFICATES OF PARTICIPATION

2008 Conversion of 2004 Variable Rate Certificates of Participation issued in the original amount of \$40,280,000 by the Corporation. Final maturity in 2034. Interest rates range from 3.50% to 4.75%. \$ 35,655,000

Reoffering of 2010 Refunding Certificates of Participation issued in the original amount of \$42,875,000 by the Corporation. Final maturity in 2014, with an interest rate of 4.00%. 42,875,000

Subtotal 78,530,000

Less: Discounts 98,140

Certificates of Participation - Net 78,431,860

LIMITED OBLIGATION IMPROVEMENT BONDS

2010A Lease Revenue Bonds issued in the original amount of \$6,810,000. Final maturity in 2035. Interest rates range from 3.00% to 5.12%. 6,000,000

Subtotal 6,000,000

Less: Discounts 90,665

Limited Obligation Improvement Bonds - Net \$ 5,909,335

**NOTES TO THE FINANCIAL
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June 30, 2013

Kern Community College District

GENERAL OBLIGATION IMPROVEMENT BONDS	
Bonds issued in the original amount of \$7,556,642, including current interest bonds and capital appreciation bonds. Final maturity in 2025. Interest rates range from 4.00% to 5.66%.	\$ 3,060,864
Bonds issued in the original amount of \$4,022,236, including current interest bonds and capital appreciation bonds. Final maturity in 2027. Interest rates range from 3.55% to 5.57%.	1,878,799
Bonds issued in the original amount of \$75,240,068, including current interest bonds and capital appreciation bonds. Final maturity in 2028. Interest rates range from 2.00% to 6.78%.	7,617,325
Bonds issued in the original amount of \$54,025,132, including current interest bonds and capital appreciation bonds. Final maturity in 2021. Interest rates range from 3.00% to 5.00%.	50,752,941
Bonds issued in the original amount of \$49,999,533, including current interest bonds and capital appreciation bonds. Final maturity in 2030. Interest rates range from 4.25% to 5.00%.	62,452,812
Bonds issued in the original amount of \$6,985,000, including current interest bonds and capital appreciation bonds. Final maturity in 2026. Interest rates range from 2% to 5.5%.	<u>6,850,000</u>
Subtotal	132,612,741
Premium on general obligation bonds	<u>8,483,889</u>
General Obligation Bonds - Net	<u>141,096,630</u>
CEC LOAN	
Energy Conservation Assistance Loan with a principal amount of \$2,200,000. Final maturity in 2026, with an interest rate of 3.00%. Interest-only payments until June 2013.	<u>2,159,846</u>
OTHER POSTEMPLOYMENT BENEFIT BONDS	
2008 Taxable Other Postemployment Benefit (OPEB) Bonds, Series A, issued in the original amount of \$85,880,000. Final maturity in 2047, with an interest rate of 6.01%.	<u>82,245,000</u>
Subtotal	309,842,671
Less: Current portion	<u>49,718,068</u>
Total Long-Term Liabilities - Noncurrent Portion	<u><u>\$ 260,124,603</u></u>

**NOTES TO THE FINANCIAL
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June 30, 2013

Kern Community College District

Accretion

General obligation bonds as of June 30, 2013, have been increased by \$25,830,371 to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

The annual debt service requirements to maturity on the long-term debt issues are as follows:

Year Ending June 30			Bonds		Bond	
	Principal	Interest	Total	Premium	Total	
2014	\$ 49,718,068	\$ 13,162,770	\$ 62,880,838	\$ 1,019,337	\$ 63,900,175	
2015	5,716,354	12,941,906	18,658,260	764,258	19,422,518	
2016	5,704,679	13,241,865	18,946,544	764,258	19,710,802	
2017	9,849,284	9,463,113	19,312,397	768,336	20,080,733	
2018	10,843,645	8,950,982	19,794,627	769,152	20,563,779	
2019-2023	60,875,808	42,016,249	102,892,057	2,943,407	105,835,464	
2024-2028	39,128,463	66,306,733	105,435,196	1,049,067	106,484,263	
2029-2033	23,705,915	45,802,691	69,508,606	224,101	69,732,707	
2034-2038	31,185,000	15,228,326	46,413,326	(6,832)	46,406,494	
2039-2043	19,120,000	9,552,595	28,672,595	-	28,672,595	
2044-2048	19,870,000	3,072,613	22,942,613	-	22,942,613	
Total	\$ 275,717,216	\$ 239,739,843	\$ 515,457,059	\$ 8,295,084	\$ 523,752,143	
Less: Interest (exclusing accretion of \$25,830,371)			(213,909,472)	-	(213,909,472)	
Net Principal			\$ 301,547,587	\$ 8,295,084	\$ 309,842,671	

7. OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the year ended June 30, 2013, were \$42,790.

The future minimum lease payments as of June 30, 2013, are as follows:

Year Ending June 30	
2014	\$ 37,149
2015	11,457
Total	\$ 48,606

8. EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

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% or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50% or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of CalSTRS. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

CalSTRS provides retirement, disability, and death benefits, and depending on which component of the Plan the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of 2% 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. While early retirement can reduce the 2% factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50% of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90% of final compensation. After five years of credited service, members become 100% 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.

At June 30, 2013 and 2012, the District employed 365 certificated employees with a total annual payroll of \$38,566,189.

Funding Policy

Active plan members are required to contribute 8.00% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal year ended June 30, 2013, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by state statutes. The District's contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$3,573,582, \$3,604,406, and \$3,699,805, respectively, and equaled 100% of the required contributions for each year.

Other Information

Under CalSTRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminated employees at June 30, 2013.

California Public Employees' Retirement System (CalPERS)

Plan Description

All full-time classified employees participate in CalPERS, a cost-sharing 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% of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5% at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, 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 CalPERS, 400 Q Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.00% of their salary (7.00% of monthly salary over \$133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2013, was 11.417% of annual payroll. The contribution requirements of the plan members are established by state statutes. The District's contributions to CalPERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$2,439,870, \$2,424,695, and \$2,377,447, respectively, and equaled 100% of the required contribution for each year.

9. STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements will not be material.

10. RISK MANAGEMENT

The District participates in three joint powers agreements (JPAs) with the Self-Insured Schools of California Workers' Compensation Program (SISC I), Self-Insured Schools of California Property and Liability Program (SISC II), and Self-Insured Schools of California Health Benefits Program (SISC III). Self-Insured Schools of California (SISC) arranges for and provides insurance for its members. SISC groups are governed by boards consisting of representatives from member districts. The boards control the operations of SISC, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in SISC.

Coverage includes property, liability/auto, crime, and boiler/machinery insurance. Liability losses in excess of the District's \$1,000 retention amount are covered up to \$1,500,000 per occurrence. Coverage above the \$1,500,000 level up to \$50,000,000 is afforded by three excess commercial insurers. Property losses in excess of the District's \$5,000 retention amount are covered up to \$250,000 per occurrence. Coverage above the \$250,000 level up to \$140,000,000 is afforded by three excess commercial insurers. There has been no significant reduction in any of the insurance coverages from prior year. Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years.

The District has recorded \$1,250,000 and \$590,000 of excess insurance reserves being held by SISC as of June 30, 2013 and 2012, respectively.

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District provides postemployment health care benefits for eligible employees who retire with CalPERS or CalSTRS pension benefits immediately upon termination of employment from the District through the Kern Community College District Postretirement Health Benefits Plan (the Plan). The Plan is a single employer OPEB plan and obligations of the Plan members and the District are based on negotiated contracts with the various bargaining units of the District.

Plan Description

Retirees are eligible for benefits depending on their most recent date of hire and their benefit eligibility service. The District pays up to 100% of the eligible retirees' medical, dental, and vision plan premiums.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2013

Kern Community College District

The retirement health benefit may continue for the lifetime of a surviving spouse and for other dependents as long as they are entitled to coverage under pertinent eligibility rules.

Currently, the District has 845 active full-time employees who are eligible for postretirement health benefits and 473 retirees who receive postretirement health benefits.

Funding Policy

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. Additionally, the District has established an irrevocable trust (the Trust) with Union Bank of California through the Retiree Health Benefit Program Joint Powers Authority to prefund a portion retiree health benefit costs.

The District issued OPEB bonds in a prior year to assist with the funding of the obligation and the Trust will be funded with contributions based on the District's approved final budget annually.

Annual OPEB Cost and Net OPEB Obligation

Before the implementation of GASB 45, the District's expenses for postretirement health benefits were recognized only when paid. The District's annual OPEB cost (expense) is now calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period of 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the year ended June 30, 2013:

	2013
Annual required contribution	\$ 1,869,328
Adjustment to annual required contribution	3,533,006
Annual OPEB Cost	5,402,334
Contributions	-
Change in Net OPEB Obligation	5,402,334
Net OPEB Obligation - Beginning of Year	(67,840,596)
Net OPEB Obligation - End of Year	\$ (62,438,262)

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years 2013, 2012, and 2011, were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contributions</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation</u>
June 30, 2011	\$ 4,868,784	\$ -	0.00%	\$ (72,709,380)
June 30, 2012	\$ 4,868,784	\$ -	0.00%	\$ (67,840,596)
June 30, 2013	\$ 5,402,334	\$ -	0.00%	\$ (62,438,262)

Funded Status and Funding Progress

The District’s funded status of the Plan as of the actuarial date below was as follows:

	<u>February 1, 2011</u>	<u>June 30, 2012</u>
Actuarial accrued liability (AAL)	\$ 67,675,250	\$ 89,874,408
Actuarial value of plan assets	84,044,523	87,973,160
Unfunded Actuarial Accrued Liability	\$ (87,528,266)	\$ (70,037,220)
Funded ratio (actuarial value of plan assets/AAL)	124.19%	97.88%
Covered payroll (active members)	\$ 48,163,240	\$ 46,757,426
UAAL as a Percentage of Covered Payroll	181.73%	149.79%

As of June 30, 2013, the District has set aside approximately \$84,782,678 in an external trust fund and the fair value of the trust fund as of June 30, 2013, was approximately \$86,137,873.

Actuarial Methods and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

In the June 2012 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 6.0% discount rate based on the assumption that a substantial portion of the ARC is funded. A 3.0% price inflation and a 3.0% wage inflation assumptions were used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2013

Kern Community College District

Condensed OPEB Trust Financial Statements

The financial information for the OPEB Trust is presented below.

Statement of Plan Net Position

June 30, 2013

ASSETS	
Cash and cash equivalents	\$ 51
Interest receivable	99,877
Long-term investments	86,137,873
Total Assets	86,237,801
LIABILITIES	
Benefits payable	-
Total Net Assets	\$ 86,237,801

Statement of Changes in Plan Position

June 30, 2013

ADDITIONS	
Investment income:	
Net realized and unrealized losses in investments	\$ 6,865,095
Dividends and interest	997,721
Total Additions	7,862,816
DEDUCTIONS	
Benefits payable	7,281,976
Decrease in Net Assets	580,840
Net Assets - Beginning of Year	85,656,961
Net Assets - End of Year	\$ 86,237,801

Notes to the Condensed OPEB Trust Financial Statements

Plan Provisions

The Plan is described in detail above and includes the plan provisions and the authority for plan changes.

Summary of Significant Accounting Policies

Basis of Accounting The financial statements shown above are prepared using the accrual basis of accounting. Contributions are recognized as revenues in the period in which the contributions are due, and the District has made a formal commitment to provide the contributions. Benefits expenses are recognized when due and payable.

Investments Investments are reported at fair value. The Plan retains a separate investment manager for its investment portfolios.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

12. COMMITMENTS

As of June 30, 2013, the District had unfinished construction contracts under the following project categories:

Bakersfield College Performing Arts Modernization	\$ 13,776,971
Bakersfield College PV Field	257,474
Porterville College Math Science HVAC	309,562
Porterville College Student Center Reroof	239,900
Other projects	228,529
Total	\$ 14,812,436

13. CHANGE IN ACCOUNTING PRINCIPLES

The District adopted the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, effective July 1, 2012. The beginning net position was increased by \$11,269,421 as a result of capitalizing interest costs of the bond projects that were previously expensed.

The District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The District has implemented this reporting for the year ended June 30, 2013. The components of net position were renamed to reflect the requirements of this statement.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013

Kern Community College District

The District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2013. This statement improves financial reporting by clarifying the appropriate use of the financial elements deferred outflows of resources and deferred inflows of financial resources to ensure consistency in financial reporting. The District implemented this statement in the year ended June 30, 2013. As a result, prior-year deferred bond issuance costs of \$3,084,890 have been expensed. In addition, \$3,584,051, representing the difference between the reacquisition price and the net carrying amount of the old general obligation bonds on the previous year’s refundings, has been reported as “deferred outflows of resources” and will be recognized as a component of interest expense over the remaining life of the refunded debt.

Net Position - July 1, 2012 - as Previously Reported	\$ 162,627,110
GASB 62 adjustment	11,269,421
GASB 65 adjustment	<u>(3,084,890)</u>
Net Position - July 1, 2012 - as Restated	<u>\$ 170,811,641</u>

14. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. This statement will improve accounting and financial reporting by state and local governments for defined benefit pensions and defined contribution pensions. The statement will also improve information provided by state and local governmental employers about financial support for pensions that are provided by other entities. The District’s management has not yet determined the impact that implementation of these standards, which is required on July 1, 2014, will have on the District’s financial statements, if any.

15. SUBSEQUENT EVENT

On August 22, 2013, the District issued \$54,805,000 in General Obligation Safety, Repair and Improvement Bonds (SRID) to provide funding in varying amounts for capital improvement, renovation, construction, and equipping projects. Interest will be payable semiannually on May 1 and November 1, commencing May 1, 2014. The Series 2013C were issued at coupon rates ranging from 2.00% to 5.24% percent. The bonds will mature, subject to the redemption provisions, from 2014 to 2034.

SUPPLEMENTARY INFORMATION SECTION

ORGANIZATION STRUCTURE

June 30, 2013

*Kern Community College District***Board of Trustees**

Name	Office	Area	Term Expires
Mr. John S. Corkins	President	Porterville	2014
Mr. John A. Rodgers	Vice President	Central Bakersfield	2014
Mr. Dennis L. Beebe	Clerk	Southwest Bakersfield	2016
Mr. Ruby Hill	Member	Northeastern Kern County	2016
Mrs. Kay Meek	Member	Southwest Bakersfield	2016
Mr. Stuart Witt	Member	Ridgecrest	2014
Mrs. Pauline F. Larwood	Member	Central Bakersfield	2014

ADMINISTRATION

Ms. Sandra V. Serrano
Chancellor

Mr. Thomas J. Burke
Chief Financial Officer

Mr. John Means
Associate Chancellor, Economic & Workforce Development

Mr. Ibrahim Ali
Vice Chancellor, Human Resources

Mr. Sean James
Vice Chancellor, Operations

Ms. Michele Bresso
Associate Vice Chancellor, Governmental & External Relations

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

Kern Community College District

June 30, 2013

	Reported Data
<hr/> <hr/>	
SUMMER INTERSESSION (Summer 2012 only)	
Noncredit	2.30
Credit	1,506.67
SUMMER INTERSESSION (Summer 2013 - Prior to July 1, 2013)	
Noncredit	-
Credit	175.28
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	12,325.91
Daily Census Contact Hours	524.51
Actual Hours of Attendance Procedure Courses	
Noncredit	41.54
Credit	1,821.47
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	1,861.72
Daily Census Contact Hours	275.11
Noncredit Independent Study/Distance Education Courses	-
Total FTES	18,534.51
<hr/> <hr/>	
SUPPLEMENTARY INFORMATION (Subset of above information)	
IN-SERVICE TRAINING COURSES (FTES)	446.48
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	48.07
Credit	2,165.38
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See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Kern Community College District

June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Pass-Through/ Grantor Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through California Department of Education Child Care Food Program	04352-CACFP-15-CC-CS	10.555	190,625
Total U.S. Department of Agriculture			<u>190,625</u>
U.S. DEPARTMENT OF LABOR			
Workforce Investment Act Cluster			
Passed Through County of Kern WIA Adult Program	161-2012	17.258	39,133
Total Workforce Investment Act Cluster			<u>39,133</u>
Trade Adjustment Assistance Community College and Career Training		17.282	697,516
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		17.275	1,292,542
Total U.S. Department of Labor			<u>2,029,191</u>
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Supplemental Education Opportunity Grants		84.007	468,820
Federal Work-Study Program		84.033	470,026
Federal Pell Grant Program		84.063	37,437,210
Federal Direct Student Loans		84.268	4,210,734
Total Student Financial Assistance Cluster			<u>42,586,790</u>
Vocational Rehabilitation Cluster			
Rehabilitation Services - Vocational Rehabilitation Grants to States		84.126	169,729
Passed Through Chancellor's Office			
Foundation for California Community Colleges	P116J10075-12	84.116J	46,782
Career and Technical Education - Basic Grants to States	12-112-520 & 12-C01-023	84.048	1,523,397
Title III - Higher Education Institutional Aid	P03C110073, P03C110009, GRA-1834	84.031	1,601,936
Total U.S. Department of Education			<u>45,928,634</u>
NATIONAL SCIENCE FOUNDATION			
Education and Human Resources		47.076	103,094
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through California Department of Education			
General Center - Child Care	CCTR2058	93.596	370,593
State Preschool	CSPP2120	93.596	379,339
Passed Through Chancellor's Office Child, Family, and Community Services - Foster Care - Title IV-E	10-2010	93.658	46,640
Total U.S. Department of Health and Human Services			<u>796,572</u>
Total Expenditures of Federal Awards			<u>\$ 49,048,116</u>

See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
STATE AWARDS**

June 30, 2013

Kern Community College District

	Program Revenues			
	Cash Received	Accounts Receivable	Deferred Revenue	Total
Extended Opportunity Programs and Services	\$ 1,564,350	\$ 2,289	\$ -	\$ 1,566,639
CALGrants	2,497,217	8,409	-	2,505,626
Disabled Student Program and Services	1,027,326	1,479	-	1,028,805
CalWORKS	408,002	-	-	408,002
Matriculation	683,574	-	-	683,574
Foster parent	107,333	(19,309)	-	88,024
Project care	275,566	(208)	-	275,358
BFAP	1,059,051	163	-	1,059,214
Small Business Center	123,000	-	99,192	222,192
PC Development Center	326,531	-	-	326,531
Career Tech Education	191,768	-	(191,768)	-
Basic Skills	502,411	-	-	502,411
YEP Funding	120,000	-	(30,624)	89,376
All other categorical	533,616	(74,993)	-	458,623
Total State Programs	\$ 9,419,745	\$ (82,170)	\$ (123,200)	\$ 9,214,375

See the accompanying notes to the supplementary information.

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

Kern Community College District

Page 1 of 2

June 30, 2013

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
June 30, 2013, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 33,640,953	\$ 18,779,374	\$ 66,940,404	\$ (350,619)	\$ 119,010,112
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	272,640	-	-	-	272,640
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	(1)	-	-	(1)
Net Adjustments and Reclassifications	272,640	(1)	-	-	272,639
June 30, 2013, District Accounting Records Fund Balance	\$ 33,913,593	\$ 18,779,373	\$ 66,940,404	\$ (350,619)	\$ 119,282,751

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Balance Forward
June 30, 2013, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 119,010,112	\$ 276,990	\$ 45,749,404	\$ 1,812,664	\$ 166,849,170
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	272,640	-	-	-	272,640
Reclassification of amounts held for others	-	-	-	-	-
Rounding	(1)	-	(1)	(1)	(3)
Net Adjustments and Reclassifications	272,639	-	(1)	(1)	272,637
June 30, 2013, District Accounting Records Fund Balance	\$ 119,282,751	\$ 276,990	\$ 45,749,403	\$ 1,812,663	\$ 167,121,807

See the accompanying notes to the supplementary information.

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

Kern Community College District

Page 2 of 2

June 30, 2013

	Balance Brought Forward	Cafeteria Fund	Pay for Print	Student Financial Aid Fund	Other Trust Fund	Balance Forward
June 30, 2013, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 166,849,170	\$ 367,790	\$ (54,459)	\$ 31,194	\$ (106,276)	\$ 167,087,419
Adjustment and reclassifications increasing (decreasing) the fund balance:						
District adjustments	272,640	-	-	59,697	39,617	371,954
Reclassification of amounts held for others	-	-	-	-	-	-
Rounding	(3)	-	-	-	-	(3)
Net Adjustments and Reclassifications	272,637	-	-	59,697	39,617	371,951
June 30, 2013, District Accounting Records Fund Balance	\$ 167,121,807	\$ 367,790	\$ (54,459)	\$ 90,891	\$ (66,659)	\$ 167,459,370

See the accompanying notes to the supplementary information.

	Balance Brought Forward	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
June 30, 2013, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 167,087,419	\$ 168,468	\$ 5,171	\$ 319,054	\$ 167,580,112
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	371,954	-	-	-	371,954
Reclassification of amounts held for others	-	(168,468)	(5,171)	(319,054)	(492,693)
Rounding	(3)	-	-	-	(3)
Net Adjustments and Reclassifications	371,951	(168,468)	(5,171)	(319,054)	(120,742)
June 30, 2013, District Accounting Records Fund Balance	\$ 167,459,370	\$ -	\$ -	\$ -	\$ 167,459,370

See the accompanying notes to the supplementary information.

RECONCILIATION OF 50% LAW CALCULATION

June 30, 2013

Kern Community College District

Page 1 of 2

	Object Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 and AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
INSTRUCTIONAL SALARIES							
Contract or regular	1100	\$ 27,785,769	\$ -	\$ 27,785,769	\$ 29,736,879	\$ -	\$ 29,736,879
Other	1300	8,751,911	-	8,751,911	8,790,466	-	8,790,466
Total Instructional Salaries		36,537,680	-	36,537,680	38,527,345	-	38,527,345
NON-INSTRUCTIONAL SALARIES							
Contract or regular	1200	-	-	-	5,330,353	-	5,330,353
Other	1400	-	-	-	300,911	-	300,911
Total Non-Instructional Salaries		-	-	-	5,631,264	-	5,631,264
Total Academic Salaries		36,537,680	-	36,537,680	44,158,609	-	44,158,609
CLASSIFIED SALARIES							
NON-INSTRUCTIONAL SALARIES							
Regular status	2100	-	-	-	15,394,882	-	15,394,882
Other	2300	-	-	-	463,434	-	463,434
Total Non-Instructional Salaries		-	-	-	15,858,316	-	15,858,316
INSTRUCTIONAL AIDES							
Regular status	2200	630,892	-	630,892	748,168	-	748,168
Other	2400	810,077	-	810,077	810,077	-	810,077
Total Instructional Aides		1,440,969	-	1,440,969	1,558,245	-	1,558,245
Total Classified Salaries		1,440,969	-	1,440,969	17,416,561	-	17,416,561
OTHER							
Employee benefits	3000	8,558,547	-	8,558,547	17,550,301	-	17,550,301
Supplies and materials	4000	-	-	-	1,136,499	-	1,136,499
Other operating expenses	5000	388,115	-	388,115	8,946,202	-	8,946,202
Equipment replacement	6420	-	-	-	-	-	-
Total Other		8,946,662	-	8,946,662	27,633,002	-	27,633,002
Total Expenditures Prior to Exclusions		\$ 46,925,311	\$ -	\$ 46,925,311	\$ 89,208,172	\$ -	\$ 89,208,172

See the accompanying notes to the supplementary information.

RECONCILIATION OF 50% LAW CALCULATION

June 30, 2013

Kern Community College District

Page 2 of 2

	Object Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 and AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
ACTIVITIES TO EXCLUDE							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Student Health Services Above Amount Collected	6441	-	-	-	21,752	-	21,752
Student Transportation	6491	-	-	-	198,313	-	198,313
Non-instructional Staff Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Total Instructional Salaries		-	-	-	220,065	-	220,065
OBJECTS TO EXCLUDE							
Rents and leases	5060	-	-	-	179,399	-	179,399
Lottery expenditures		-	-	-	-	-	-
Academic salaries	1000	-	-	-	-	-	-
Classified salaries	2000	-	-	-	-	-	-
Employee benefits	3000	-	-	-	-	-	-
Subtotal		-	-	-	179,399	-	179,399
Supplies and materials:	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, magazines, and periodicals	4200	-	-	-	-	-	-
Instructional supplies and materials	4300	-	-	-	-	-	-
Non-instructional supplies and materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-
Other operating expenses and services	5000	-	-	-	2,143,074	-	2,143,074
Capital outlay	6000	-	-	-	-	-	-
Library books	6300	-	-	-	-	-	-
Subtotal		-	-	-	2,143,074	-	2,143,074
Equipment	6400	-	-	-	-	-	-
Equipment - additional	6410	-	-	-	-	-	-
Equipment - replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	2,542,538	-	2,542,538
Total for ECS 84362 - 50% Law		\$ 46,925,311	\$ -	\$ 46,925,311	\$ 86,665,634	\$ -	\$ 86,665,634
Percentage of CEE (Instructional Salary Cost/Total CEE)		54.15%	0.00%	54.15%			
50% of Current Expense of Education					\$ 43,332,820	\$ -	\$ 43,332,820

See the accompanying notes to the supplementary information.

**RECONCILIATION OF EDUCATION
PROTECTION ACCOUNT EXPENDITURES**

Kern Community College District

June 30, 2013

	Object Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
EPA Proceeds	8630				\$ 15,588,612
Activity Classification:					
Instructional activities	0100-5900	\$ 15,588,612	\$ -	\$ -	15,588,612
Total Revenue Less Expenditures					\$ -

See the accompanying notes to the other supplementary information.

**COMBINING BALANCE SHEET –
DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2013	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 19,566,001	\$ (11,057)	\$ 2,489,393	\$ (154,206)	\$ 21,890,131
Restricted cash and cash equivalents - current	8,336,482	19,758,211	-	-	28,094,693
Accounts receivable - net	17,110,561	6,611	199,683	22,450	17,339,305
Prepaid expenses	36,610	-	-	-	36,610
Inventories	-	-	-	-	-
Due from other funds	75,000	-	-	-	75,000
Total Current Assets	45,124,654	19,753,765	2,689,076	(131,756)	67,435,739
NONCURRENT ASSETS					
Restricted cash and cash equivalents - noncurrent	-	-	-	-	-
Restricted investments	-	-	64,252,278	-	64,252,278
Capital assets - net	-	-	-	-	-
Total Noncurrent Assets	-	-	64,252,278	-	64,252,278
Total Assets	\$ 45,124,654	\$ 19,753,765	\$ 66,941,354	\$ (131,756)	\$ 131,688,017
LIABILITIES					
Accounts payable	\$ 6,755,620	\$ -	950	\$ 168,863	\$ 6,925,433
Advances from grantors and students	4,455,441	-	-	50,000	4,505,441
Due to other funds	-	974,392	-	-	974,392
Amounts held in trust for others	-	-	-	-	-
Total Liabilities	11,211,061	974,392	950	218,863	12,405,266
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	-	18,779,373	66,940,404	-	85,719,777
Reserved for special purposes	9,048,752	-	-	(350,619)	8,698,133
Unreserved:					
Undesignated	24,864,841	-	-	-	24,864,841
Total Fund Equity (Deficit)	33,913,593	18,779,373	66,940,404	(350,619)	119,282,751
Total Liabilities and Fund Equity (Deficit)	\$ 45,124,654	\$ 19,753,765	\$ 66,941,354	\$ (131,756)	\$ 131,688,017

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEET –
DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2013	Balance Brought Forward	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 21,890,131	\$ 276,990	\$ 1,530,245	\$ 803,999	\$ 24,501,365
Restricted cash and cash equivalents - current	28,094,693	-	873,500	640	28,968,833
Accounts receivable - net	17,339,305	-	98,029	(3,035)	17,434,299
Prepaid expenses	36,610	-	-	-	36,610
Inventories	-	-	-	-	-
Due from other funds	75,000	-	899,392	-	974,392
Total Current Assets	67,435,739	276,990	3,401,166	801,604	71,915,499
NONCURRENT ASSETS					
Restricted cash and cash equivalents - noncurrent	-	-	43,916,436	-	43,916,436
Restricted investments	64,252,278	-	-	-	64,252,278
Capital assets - net	-	-	-	541,349	541,349
Total Noncurrent Assets	64,252,278	-	43,916,436	541,349	108,710,063
Total Assets	\$ 131,688,017	\$ 276,990	\$ 47,317,602	\$ 1,342,953	\$ 180,625,562
LIABILITIES					
Accounts payable	\$ 6,925,433	\$ -	\$ 1,540,592	\$ (469,710)	\$ 7,996,315
Advances from grantors and students	4,505,441	-	27,607	-	4,533,048
Due to other funds	974,392	-	-	-	974,392
Amounts held in trust for others	-	-	-	-	-
Total Liabilities	12,405,266	-	1,568,199	(469,710)	13,503,755
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	85,719,777	-	-	-	85,719,777
Reserved for special purposes	8,698,133	276,990	45,749,403	1,812,663	56,537,189
Unreserved:					
Undesignated	24,864,841	-	-	-	24,864,841
Total Fund Equity (Deficit)	119,282,751	276,990	45,749,403	1,812,663	167,121,807
Total Liabilities and Fund Equity (Deficit)	\$ 131,688,017	\$ 276,990	\$ 47,317,602	\$ 1,342,953	\$ 180,625,562

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEET –
DISTRICT FUNDS INCLUDED IN
THE REPORTING ENTITY**

June 30, 2013	Balance Brought Forward	Cafeteria Fund	Pay for Print Fund	Student Financial Aid Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 24,501,365	\$ 308,021	(54,459)	\$ (38,247)	\$ 24,716,680
Restricted cash and cash equivalents - current	28,968,833	-	-	69,441	29,038,274
Accounts receivable - net	17,434,299	52,510	-	59,697	17,546,506
Prepaid expenses	36,610	-	-	-	36,610
Inventories	-	10,141	-	-	10,141
Due from other funds	974,392	-	-	-	974,392
Total Current Assets	71,915,499	370,672	(54,459)	90,891	72,322,603
NONCURRENT ASSETS					
Restricted cash and cash equivalents - noncurrent	43,916,436	-	-	-	43,916,436
Restricted investments	64,252,278	-	-	-	64,252,278
Capital assets - net	541,349	-	-	-	541,349
Total Noncurrent Assets	108,710,063	-	-	-	108,710,063
Total Assets	\$ 180,625,562	\$ 370,672	\$ (54,459)	\$ 90,891	\$ 181,032,666
LIABILITIES					
Accounts payable	\$ 7,996,315	\$ 2,882	\$ -	\$ -	\$ 7,999,197
Advances from grantors and students	4,533,048	-	-	-	4,533,048
Due to other funds	974,392	-	-	-	974,392
Amounts held in trust for others	-	-	-	-	-
Total Liabilities	13,503,755	2,882	-	-	13,506,637
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	85,719,777	-	-	-	85,719,777
Reserved for special purposes	56,537,189	367,790	(54,459)	90,891	56,941,411
Unreserved:					
Undesignated	24,864,841	-	-	-	24,864,841
Total Fund Equity (Deficit)	167,121,807	367,790	(54,459)	90,891	167,526,029
Total Liabilities and Fund Equity (Deficit)	\$ 180,625,562	\$ 370,672	\$ (54,459)	\$ 90,891	\$ 181,032,666

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEET –
DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2013	Balance Brought Forward	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 24,716,680	\$ (17,494)	\$ -	\$ -	\$ 24,699,186
Restricted cash and cash equivalents - current	29,038,274	(244,832)	354,704	23,654	29,171,800
Accounts receivable - net	17,546,506	196,223	62,737	-	17,805,466
Prepaid expenses	36,610	-	-	-	36,610
Inventories	10,141	-	-	-	10,141
Due from other funds	974,392	-	-	-	974,392
Total Current Assets	72,322,603	(66,103)	417,441	23,654	72,697,595
NONCURRENT ASSETS					
Restricted cash and cash equivalents - noncurrent	43,916,436	-	-	-	43,916,436
Restricted investments	64,252,278	-	-	-	64,252,278
Capital assets - net	541,349	-	-	-	541,349
Total Noncurrent Assets	108,710,063	-	-	-	108,710,063
Total Assets	\$ 181,032,666	\$ (66,103)	\$ 417,441	\$ 23,654	\$ 181,407,658
LIABILITIES					
Accounts payable	\$ 7,999,197	\$ 556	\$ 61,423	\$ 208	\$ 8,061,384
Advances from grantors and students	4,533,048	-	72,358	18,275	4,623,681
Due to other funds	974,392	-	-	-	974,392
Amounts held in trust for others	-	-	283,660	5,171	288,831
Total Liabilities	13,506,637	556	417,441	23,654	13,948,288
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	85,719,777	-	-	-	85,719,777
Reserved for special purposes	56,941,411	(66,659)	-	-	56,874,752
Unreserved:					
Undesignated	24,864,841	-	-	-	24,864,841
Total Fund Equity (Deficit)	167,526,029	(66,659)	-	-	167,459,370
Total Liabilities and Fund Equity (Deficit)	\$ 181,032,666	\$ (66,103)	\$ 417,441	\$ 23,654	\$ 181,407,658

See the accompanying notes to the supplementary information.

**COMBINING BALANCE SHEET –
DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

June 30, 2013	Balance Brought Forward	Student Body Center Fee Trust Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 24,699,186	\$ -	\$ 24,699,186
Restricted cash and cash equivalents - current	29,171,800	392,685	29,564,485
Accounts receivable - net	17,805,466	-	17,805,466
Prepaid expenses	36,610	-	36,610
Inventories	10,141	-	10,141
Due from other funds	974,392	-	974,392
Total Current Assets	72,697,595	392,685	73,090,280
NONCURRENT ASSETS			
Restricted cash and cash equivalents - noncurrent	43,916,436	-	43,916,436
Restricted investments	64,252,278	-	64,252,278
Capital assets - net	541,349	-	541,349
Total Noncurrent Assets	108,710,063	-	108,710,063
Total Assets	\$ 181,407,658	\$ 392,685	\$ 181,800,343
LIABILITIES			
Accounts payable	\$ 8,061,384	\$ -	\$ 8,061,384
Advances from grantors and students	4,623,681	73,631	4,697,312
Due to other funds	974,392	-	974,392
Amounts held in trust for others	288,831	319,054	607,885
Total Liabilities	13,948,288	392,685	14,340,973
FUND EQUITY (DEFICIT)			
Fund balances:			
Reserved for debt service	85,719,777	-	85,719,777
Reserved for special purposes	56,874,752	-	56,874,752
Unreserved:			
Undesignated	24,864,841	-	24,864,841
Total Fund Equity (Deficit)	167,459,370	-	167,459,370
Total Liabilities and Fund Equity (Deficit)	\$ 181,407,658	\$ 392,685	\$ 181,800,343

See the accompanying notes to the supplementary information.

**COMBINING SCHEDULE OF REVENUES,
EXPENDITURES/EXPENSES, AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

Kern Community College District
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Year Ended June 30, 2013	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 24,380,577	\$ -	\$ -	\$ -	\$ 24,380,577
Less: Scholarship discount and allowance	15,915,673	-	-	-	15,915,673
Net Tuition and Fees	8,464,904	-	-	-	8,464,904
Grants and contracts - noncapital:					
Federal	6,457,784	-	-	940,557	7,398,341
State	23,310,501	-	-	1,352,615	24,663,116
Local	2,054,093	-	-	-	2,054,093
Auxiliary enterprise sales and charges	56,377	-	-	24,182	80,559
Other operating revenues	542,353	5,009,147	-	21,694	5,573,194
Total Operating Revenues	40,886,012	5,009,147	-	2,339,048	48,234,207
OPERATING EXPENDITURES/EXPENSES					
Salaries	70,704,921	-	-	1,825,467	72,530,388
Employee benefits	19,827,770	-	-	726,302	20,554,072
Supplies, materials, and other operating expenditures	13,650,916	46,584	5,088,851	162,295	18,948,646
Capital outlay	1,308,243	-	-	-	1,308,243
Utilities	2,504,734	-	-	37,797	2,542,531
Depreciation	-	-	-	-	-
Payments to students	351,727	-	-	-	351,727
Total Operating Expenditures/Expenses	108,348,311	46,584	5,088,851	2,751,861	116,235,607
Operating Income (Loss)	(67,462,299)	4,962,563	(5,088,851)	(412,813)	(68,001,400)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	22,944,300	-	-	-	22,944,300
Local property taxes - noncapital	50,028,832	(1)	-	-	50,028,831
State taxes and other revenues - noncapital	3,631,576	68,799	-	-	3,700,375
Investment income - noncapital	114,925	-	-	41	114,966
Financial aid revenues - federal	-	-	-	-	-
Financial aid revenues - state	-	-	-	-	-
Financial aid disbursements	-	-	-	-	-
Other nonoperating expenditures/expenses	(468,689)	-	-	-	(468,689)
Total Nonoperating Revenues (Expenditures)	76,250,944	68,798	-	41	76,319,783
Income (Loss) Before Other Revenues and Expenditures/Expenses	8,788,645	5,031,361	(5,088,851)	(412,772)	8,318,383
OTHER REVENUES AND EXPENDITURES					
Local property taxes and revenues - capital	-	8,279,279	-	-	8,279,279
State apportionments - capital	-	-	-	-	-
Investment income - capital	-	69,285	187,905	-	257,190
Debt service	(5,923,163)	(16,980,791)	-	-	(22,903,954)
Excess of Revenues Over (Under) Expenditures/Expenses	2,865,482	(3,600,866)	(4,900,946)	(412,772)	(6,049,102)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	192,541	-	255,000	-	447,541
Operating transfers out	(3,209,541)	(25,000)	-	-	(3,234,541)
Total Other Financing Sources (Uses)	(3,017,000)	(25,000)	255,000	-	(2,787,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(151,518)	(3,625,866)	(4,645,946)	(412,772)	(8,836,102)
Fund Equity - Beginning of Year	34,065,111	22,405,239	71,586,350	62,153	128,118,853
Fund Equity - End of Year	\$ 33,913,593	\$ 18,779,373	\$ 66,940,404	\$ (350,619)	\$ 119,282,751

See the accompanying notes to the supplementary information.

**COMBINING SCHEDULE OF REVENUES,
EXPENDITURES/EXPENSES, AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

Year Ended June 30, 2013	Balance Brought Forward	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 24,380,577	\$ -	\$ 124,028	\$ -	\$ 24,504,605
Less: Scholarship discount and allowance	15,915,673	-	-	-	15,915,673
Net Tuition and Fees	8,464,904	-	124,028	-	8,588,932
Grants and contracts - noncapital:					
Federal	7,398,341	-	-	-	7,398,341
State	24,663,116	-	(119,050)	-	24,544,066
Local	2,054,093	13,059	158,897	-	2,226,049
Auxiliary enterprise sales and charges	80,559	-	-	-	80,559
Other operating revenues	5,573,194	-	153,588	-	5,726,782
Total Operating Revenues	48,234,207	13,059	317,463	-	48,564,729
OPERATING EXPENDITURES/EXPENSES					
Salaries	72,530,388	-	389,442	-	72,919,830
Employee benefits	20,554,072	-	154,167	-	20,708,239
Supplies, materials, and other operating expenditures	18,948,646	4,200	7,432,069	-	26,384,915
Capital outlay	1,308,243	-	124,292	-	1,432,535
Utilities	2,542,531	-	-	-	2,542,531
Depreciation	-	-	-	-	-
Payments to students	351,727	-	-	-	351,727
Total Operating Expenditures/Expenses	116,235,607	4,200	8,099,970	-	124,339,777
Operating Income (Loss)	(68,001,400)	8,859	(7,782,507)	-	(75,775,048)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	22,944,300	-	-	-	22,944,300
Local property taxes - noncapital	50,028,831	-	-	-	50,028,831
State taxes and other revenues - noncapital	3,700,375	-	-	-	3,700,375
Investment income - noncapital	114,966	-	-	-	114,966
Financial aid revenues - federal	-	-	-	-	-
Financial aid revenues - state	-	-	-	-	-
Financial aid disbursements	-	-	-	-	-
Other nonoperating expenditures/expenses	(468,689)	-	-	-	(468,689)
Total Nonoperating Revenues (Expenditures)	76,319,783	-	-	-	76,319,783
Income (Loss) Before Other Revenues and Expenditures/Expenses	8,318,383	8,859	(7,782,507)	-	544,735
OTHER REVENUES AND EXPENDITURES					
Local property taxes and revenues - capital	8,279,279	-	-	-	8,279,279
State apportionments - capital	-	-	59,525	-	59,525
Investment income - capital	257,190	-	243,743	-	500,933
Debt service	(22,903,954)	-	-	-	(22,903,954)
Excess of Revenues Over (Under) Expenditures/Expenses	(6,049,102)	8,859	(7,479,239)	-	(13,519,482)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	447,541	-	2,889,393	-	3,336,934
Operating transfers out	(3,234,541)	-	(89,393)	-	(3,323,934)
Total Other Financing Sources (Uses)	(2,787,000)	-	2,800,000	-	13,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(8,836,102)	8,859	(4,679,239)	-	(13,506,482)
Fund Equity - Beginning of Year	128,118,853	268,131	50,428,642	1,812,663	180,628,289
Fund Equity - End of Year	\$ 119,282,751	\$ 276,990	\$ 45,749,403	\$ 1,812,663	\$ 167,121,807

See the accompanying notes to the supplementary information.

**COMBINING SCHEDULE OF REVENUES,
EXPENDITURES/EXPENSES, AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

Year Ended June 30, 2013	Balance Brought Forward	Cafeteria Fund	Pay for Print Fund	Student Financial Aid Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 24,504,605	\$ -	\$ -	\$ -	\$ 24,504,605
Less: Scholarship discount and allowance	15,915,673	-	-	-	15,915,673
Net Tuition and Fees	8,588,932	-	-	-	8,588,932
Grants and contracts - noncapital:					
Federal	7,398,341	-	-	-	7,398,341
State	24,544,066	-	-	-	24,544,066
Local	2,226,049	-	-	-	2,226,049
Auxiliary enterprise sales and charges	80,559	1,302,238	17,698	-	1,400,495
Other operating revenues	5,726,782	-	-	-	5,726,782
Total Operating Revenues	48,564,729	1,302,238	17,698	-	49,884,665
OPERATING EXPENDITURES/EXPENSES					
Salaries	72,919,830	430,342	-	-	73,350,172
Employee benefits	20,708,239	175,072	-	-	20,883,311
Supplies, materials, and other operating expenditures	26,384,915	562,634	9,205	-	26,956,754
Capital outlay	1,432,535	-	-	-	1,432,535
Utilities	2,542,531	-	-	-	2,542,531
Depreciation	-	-	-	-	-
Payments to students	351,727	-	-	-	351,727
Total Operating Expenditures/Expenses	124,339,777	1,168,048	9,205	-	125,517,030
Operating Income (Loss)	(75,775,048)	134,190	8,493	-	(75,632,365)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	22,944,300	-	-	-	22,944,300
Local property taxes - noncapital	50,028,831	-	-	-	50,028,831
State taxes and other revenues - noncapital	3,700,375	-	-	-	3,700,375
Investment income - noncapital	114,966	-	-	-	114,966
Financial aid revenues - federal	-	-	-	617,320	617,320
Financial aid revenues - state	-	-	-	-	-
Financial aid disbursements	-	-	-	(604,320)	(604,320)
Other nonoperating expenditures/expenses	(468,689)	-	-	-	(468,689)
Total Nonoperating Revenues (Expenditures)	76,319,783	-	-	13,000	76,332,783
Income (Loss) Before Other Revenues and Expenditures/Expenses	544,735	134,190	8,493	13,000	700,418
OTHER REVENUES AND EXPENDITURES					
Local property taxes and revenues - capital	8,279,279	-	-	-	8,279,279
State apportionments - capital	59,525	-	-	-	59,525
Investment income - capital	500,933	-	-	-	500,933
Debt service	(22,903,954)	-	-	-	(22,903,954)
Excess of Revenues Over (Under) Expenditures/Expenses	(13,519,482)	134,190	8,493	13,000	(13,363,799)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,336,934	-	-	-	3,336,934
Operating transfers out	(3,323,934)	-	-	(13,000)	(3,336,934)
Total Other Financing Sources (Uses)	13,000	-	-	(13,000)	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(13,506,482)	134,190	8,493	-	(13,363,799)
Fund Equity - Beginning of Year	180,628,289	233,600	(62,952)	90,891	180,889,828
Fund Equity - End of Year	\$ 167,121,807	\$ 367,790	\$ (54,459)	\$ 90,891	\$ 167,526,029

See the accompanying notes to the supplementary information.

**COMBINING SCHEDULE OF REVENUES,
EXPENDITURES/EXPENSES, AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

Year Ended June 30, 2013	Balance Brought Forward	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 24,504,605	\$ -	\$ -	\$ -	\$ 24,504,605
Less: Scholarship discount and allowance	15,915,673	-	-	-	15,915,673
Net Tuition and Fees	8,588,932	-	-	-	8,588,932
Grants and contracts - noncapital:					
Federal	7,398,341	-	-	-	7,398,341
State	24,544,066	-	-	-	24,544,066
Local	2,226,049	-	-	-	2,226,049
Auxiliary enterprise sales and charges	1,400,495	-	-	-	1,400,495
Other operating revenues	5,726,782	-	-	-	5,726,782
Total Operating Revenues	49,884,665	-	-	-	49,884,665
OPERATING EXPENDITURES/EXPENSES					
Salaries	73,350,172	-	-	-	73,350,172
Employee benefits	20,883,311	-	-	-	20,883,311
Supplies, materials, and other operating expenditures	26,956,754	1,358	-	-	26,958,112
Capital outlay	1,432,535	-	-	-	1,432,535
Utilities	2,542,531	-	-	-	2,542,531
Depreciation	-	-	-	-	-
Payments to students	351,727	-	-	-	351,727
Total Operating Expenditures/Expenses	125,517,030	1,358	-	-	125,518,388
Operating Income (Loss)	(75,632,365)	(1,358)	-	-	(75,633,723)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	22,944,300	-	-	-	22,944,300
Local property taxes	50,028,831	-	-	-	50,028,831
State taxes and other revenues - noncapital	3,700,375	-	-	-	3,700,375
Investment income - noncapital	114,966	-	-	-	114,966
Financial aid revenues - federal	617,320	41,083,313	-	-	41,700,633
Financial aid revenues - state	-	2,505,626	-	-	2,505,626
Financial aid disbursements	(604,320)	(43,587,581)	-	-	(44,191,901)
Other nonoperating expenditures/expenses	(468,689)	-	-	-	(468,689)
Total Nonoperating Revenues (Expenditures)	76,332,783	1,358	-	-	76,334,141
Income (Loss) Before Other Revenues and Expenditures/Expenses	700,418	-	-	-	700,418
OTHER REVENUES AND EXPENDITURES					
Local property taxes and revenues - capital	8,279,279	-	-	-	8,279,279
State apportionments - capital	59,525	-	-	-	59,525
Investment income - capital	500,933	-	-	-	500,933
Debt service	(22,903,954)	-	-	-	(22,903,954)
Excess of Revenues Over (Under) Expenditures/Expenses	(13,363,799)	-	-	-	(13,363,799)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,336,934	-	-	-	3,336,934
Operating transfers out	(3,336,934)	-	-	-	(3,336,934)
Total Other Financing Sources (Uses)	-	-	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(13,363,799)	-	-	-	(13,363,799)
Fund Equity - Beginning of Year	180,889,828	(66,659)	-	-	180,823,169
Fund Equity - End of Year	\$ 167,526,029	\$ (66,659)	\$ -	\$ -	\$ 167,459,370

See the accompanying notes to the supplementary information.

**COMBINING SCHEDULE OF REVENUES,
EXPENDITURES/EXPENSES, AND CHANGES IN
FUND EQUITY – DISTRICT FUNDS INCLUDED
IN THE REPORTING ENTITY**

Year Ended June 30, 2013	Balance Brought Forward	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	\$ 24,504,605	\$ -	\$ 24,504,605
Less: Scholarship discount and allowance	15,915,673	-	15,915,673
Net Tuition and Fees	8,588,932	-	8,588,932
Grants and contracts - noncapital:			
Federal	7,398,341	-	7,398,341
State	24,544,066	-	24,544,066
Local	2,226,049	-	2,226,049
Auxiliary enterprise sales and charges	1,400,495	-	1,400,495
Other operating revenues	5,726,782	-	5,726,782
Total Operating Revenues	49,884,665	-	49,884,665
OPERATING EXPENDITURES/EXPENSES			
Salaries	73,350,172	-	73,350,172
Employee benefits	20,883,311	-	20,883,311
Supplies, materials, and other operating expenditures	26,958,112	-	26,958,112
Capital outlay	1,432,535	-	1,432,535
Utilities	2,542,531	-	2,542,531
Depreciation	-	-	-
Payments to students	351,727	-	351,727
Total Operating Expenditures/Expenses	125,518,388	-	125,518,388
Operating Income (Loss)	(75,633,723)	-	(75,633,723)
NONOPERATING REVENUES (EXPENDITURES)			
State apportionments - noncapital	22,944,300	-	22,944,300
Local property taxes	50,028,831	-	50,028,831
State taxes and other revenues - noncapital	3,700,375	-	3,700,375
Investment income - noncapital	114,966	-	114,966
Financial aid revenues - federal	41,700,633	-	41,700,633
Financial aid revenues - state	2,505,626	-	2,505,626
Financial aid disbursements	(44,191,901)	-	(44,191,901)
Other nonoperating expenditures/expenses	(468,689)	-	(468,689)
Total Nonoperating Revenues (Expenditures)	76,334,141	-	76,334,141
Income (Loss) Before Other Revenues and Expenditures/Expenses	700,418	-	700,418
OTHER REVENUES AND EXPENDITURES			
Local property taxes and revenues - capital	8,279,279	-	8,279,279
State apportionments - capital	59,525	-	59,525
Investment income - capital	500,933	-	500,933
Debt service	(22,903,954)	-	(22,903,954)
Excess of Revenues Over (Under) Expenditures/Expenses	(13,363,799)	-	(13,363,799)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	3,336,934	-	3,336,934
Operating transfers out	(3,336,934)	-	(3,336,934)
Total Other Financing Sources (Uses)	-	-	-
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(13,363,799)	-	(13,363,799)
Fund Equity - Beginning of Year	180,823,169	-	180,823,169
Fund Equity - End of Year	\$ 167,459,370	\$ -	\$ 167,459,370

See the accompanying notes to the supplementary information.

**RECONCILIATION OF FUND EQUITY
TO NET POSITION**

Kern Community College District

June 30, 2013

Total Fund Equity - District Funds Included in the Reporting Entity		\$ 167,459,370
Assets recorded within the GASB 35 Statement of Net Position not included in the District fund financial statements:		
Depreciable capital assets	\$ 270,546,754	
Accumulated depreciation	<u>(93,019,532)</u>	177,527,222
Nondepreciable capital assets		63,266,699
Other postemployment benefits obligation		62,438,262
Excess insurance reserve		1,250,558
Deferred Loss on Refunding		3,584,051
Liabilities recorded within the GASB 35 Statement of Net Position not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,873,061)
Retentions payable		(387,479)
Compensated absences	(2,250,085)	
Other long-term liabilities	<u>(309,842,671)</u>	<u>(312,092,756)</u>
Net Assets Reported Within the GASB 35 Statement of Net Position		\$ 161,172,866

See the accompanying notes to the supplementary information.

**RECONCILIATION OF CHANGE IN FUND
EQUITY TO CHANGE IN NET POSITION**

Kern Community College District

June 30, 2013

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	\$ (13,363,799)
Compensated absence expense reduction reported within the GASB 35 Statements	44,535
Depreciation expense reported within the GASB 35 Statements	(7,525,664)
Amortization of bond premium cost reported within the GASB 35 Statements	1,104,364
Amortization of deferred loss on refunding within the GASB 35 Statements	(968,723)
Capital outlay expense not reported within the GASB 35 Statements	9,181,997
Retentions payable reported within the GASB 35 Statements	145,224
Excess insurance reserve reported within the GASB 35 Statements	660,558
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(4,340,087)
Principal payments on debt not reported within the GASB 35 Statements	10,825,154
Prepaid expense of other postemployment benefits reported within the GASB 35 Statements	(5,402,334)
Net Change in Net Position Reported Within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	\$ (9,638,775)

See the accompanying notes to the supplementary information.

June 30, 2013

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards

The audit of the Kern Community College District (the District) for the year ended June 30, 2013, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB Circular A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Awards were prepared for the District.

The schedules have been prepared on the accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2013, represents the basis of apportionment of the District's annual source of funding.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With District Accounting Records

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

Reconciliation of 50% Law Calculation

This schedule provides the information necessary to reconcile the 50% law calculation as reported on the Form CCFS-311 to the audited financial statements.

Reconciliation of Education Protection Account Expenditures

This schedule provides the information necessary to reconcile the Education Protection Account Expenditures reported on the Form CCFS-311 to the audited financial statements.

2. COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The accompanying Combining Balance Sheet – District Funds Included in the Reporting Entity, Combining Schedule of Revenues, Expenditures/Expenses, and Changes in Fund Equity – District Funds Included in the Reporting Entity are presented on the modified accrual basis of accounting with the exception of the Bookstore and Cafeteria fund which are presented on the accrual basis of accounting consistent with the presentation in the entity-wide financial statements.

**NOTES TO THE SUPPLEMENTARY
INFORMATION**

Kern Community College District

June 30, 2013

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Property taxes, franchise taxes, licenses, interest revenue, and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

The District reports advances from grantors and students on its combining balance sheet. Advances from grantors and students arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Advances from grantors and students also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has legal claim to the resources, the liability for advances from grantors and students is removed and revenue is recognized.

OTHER REPORTS SECTION



MATSON
& ISOM

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

To the Board of Trustees
Kern Community College District
Bakersfield, California

We have audited, 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, the financial statements of the business-type activities of Kern Community College District (the District) as of and for the year ended June 30, 2013; and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

Continued

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Matson and Isom

December 18, 2013
Redding, California

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
Kern Community College District
Bakersfield, California

Report on Compliance for Each Major Federal Program

We have audited Kern Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Continued

Report on Internal Control Over Compliance

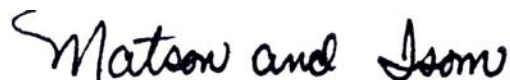
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance, and the results of the testing, based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



December 18, 2013
Redding, California



MATSON
& ISOM

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the Kern Community College District's (the District) compliance with the types of state compliance requirements described in the *California Community Colleges Contracted District Audit Manual 2012-13*, published by the California Community Colleges Chancellor's Office, for the year ended June 30, 2013. The applicable state compliance requirements are identified in the table below.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the District's management.

Auditors' Responsibility

Our responsibility is to express an opinion on the District's compliance with the state laws and regulations based on our audit.

We conducted our audit 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 the *California Community Colleges Contracted District Audit Manual 2012-13*, published by the California Community Colleges Chancellor's Office. Those standards and the *California Community Colleges Contracted District Audit Manual 2012-13*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on compliance with the state laws and regulations described in the schedule below. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of the District's compliance with those requirements.

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

SALARIES OF CLASSROOM INSTRUCTORS: 50 PERCENT LAW
APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS/CONTRACTS
STATE GENERAL APPORTIONMENT FUNDING SYSTEM
RESIDENCY DETERMINATION FOR CREDIT COURSES
STUDENTS ACTIVELY ENROLLED
CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES
GANN LIMIT CALCULATION
CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS)
OPEN ENROLLMENT
STUDENT FEES - INSTRUCTIONAL AND OTHER MATERIALS
STUDENT FEES - HEALTH FEES AND USE OF HEALTH FEE FUNDS
EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS) AND
COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)
DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)
TO BE ARRANGED HOURS (TBA)
PROPOSITION 1D STATE BOND FUNDED PROJECTS
PROPOSITION 30 EDUCATION PROTECTION ACCOUNT FUNDS

Opinion

In our opinion, except for findings 13-1 and 13-2 described in the accompanying schedule of findings and questioned cost, the District complied, in all material respects, with the state laws and regulations referred to above that are applicable to the District for the year ended June 30, 2013.

The District's Response to Findings

The District's responses to the noncompliance findings identified in our audit are described in the schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance, and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, based on the *California Community Colleges Contracted District Audit Manual 2012-13*. Accordingly, this report is not suitable for any other purpose.

Matson and Isom

December 18, 2013
Redding, California

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

Kern Community College District

**SECTION I
SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	None reported
Type of auditors' report issued on compliance for major program	Unmodified
Audit findings disclosed relative to major federal award programs?	No
Identification of major programs	
CFDA Nos. 84.007, 84.033, 84.268, and 84.063	Student Financial Assistance Cluster
CFDA No. 17.282	Trade Adjustment Assistance Community College and Career Training
Threshold for distinguishing types A and B programs	\$300,000
Determined to be a low-risk auditee?	Yes

STATE AWARDS

Internal control over state programs	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	Yes
Type of auditors' report issued on compliance for state programs	Qualified

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

Kern Community College District

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

Kern Community College District

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

Kern Community College District

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

STATE COMPLIANCE (475 - Disabled Student Programs and Services - DSPS)

13-1

Significant Deficiency

Condition

During our testing, we discovered that 10 of the 16 student files selected from the Bakersfield campus were missing required documents.

Criteria

To demonstrate compliance with *California Code of Regulations*, Title 5, Section 56026, the District should maintain records of the services provided to students with disabilities, including number of hours, pay rate, name of providers, and the identification of the disability and educational limitations requiring the service.

Effect

There is a potential for noncompliance with the Chancellors' *Office Implementing Guidelines for Title 5 Regulations* – DSPS, due to lack of effective monitoring and retention of student files.

Recommendation

We recommend that the District develop and complete a checklist that includes all of the required file documents for each student.

Response

The District will set up processes and procedures that will insure all records be maintained in compliance with *California Code of Regulations*, Title 5, Section 56026. Effective monitoring and retention of student files will be maintained.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2013

Kern Community College District

STATE COMPLIANCE (424 – State General Apportionment)

13-2

Significant Deficiency

Condition

During our testing of the General Apportionment Funding System, we noted one course section where the census date was calculated incorrectly. The census date used for calculation of contact hours and full time equivalent students was one day later than the correct calculation of the census date. This did not result in an error in the FTES reported for the course section. The District reviewed the error and noted that it was caused by a manual change in the course section from an 8-week course to a 4-week course. This is an extremely rare occurrence and the District is confident that no other census dates are incorrect.

Criteria

Per the Student Attendance Accounting Manual (SAAM), census dates are to be calculated as the week/day nearest 20% of the total number of section meetings.

Effect

We noted no errors in the reporting of the FTES for the above 1 course sections.

Recommendation

We recommend the District institute procedures to recalculate census dates for any course sections that are manually modified in the future.

Response

The District will create a report to verify census dates.

CORRECTIVE ACTION PLAN

June 30, 2013

Kern Community College District

Not applicable: there are no current-year findings related to federal awards.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

Kern Community College District

**STATE COMPLIANCE (Extended Opportunity Programs & Services - EOPS, and
Cooperative Agencies Resources for Education - CARE**

12-1

Significant Deficiency

Condition

The District did not hold two advisory committee meetings for the CARE program during the academic year.

Criteria

For the CARE program, the advisory committee shall meet at least twice during each academic year (CARE Program Guidelines, revised August 1, 2010).

Effect

The purpose of the advisory committee is to assist the District in developing and maintaining adequate programs. By not holding the advisory committee meetings, the programs may not be operating in an efficient or effective manner.

Recommendation

We recommended that the District establish procedures to ensure that advisory committee for CARE meet the required number of times each academic year.

Current Status

District has complied.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2013

Kern Community College District

STATE COMPLIANCE (Disabled Student Programs and Services - DSPS)

12-2

Significant Deficiency

Condition

During our testing, we discovered that 17 of the student files selected from the Bakersfield campus were missing required documents.

Criteria

To demonstrate compliance with *California Code of Regulations*, Title 5, Section 56026, the District should maintain records of the services provided to students with disabilities, including number of hours, pay rate, name of providers, and the identification of the disability and educational limitations requiring the service.

Effect

There is a potential for noncompliance with the Chancellors' *Office Implementing Guidelines for Title 5 Regulations* – DSPS, due to lack of effective monitoring and retention of student files.

Recommendation

We recommended that the District should implement tighter internal controls to ensure that proper documentation is received and filed for every student participating in the DSPS program.

Current Status

See current-year finding 13-1.