



MATSON
& ISOM

KERN COMMUNITY COLLEGE DISTRICT

Bakersfield, California

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITORS' REPORTS

June 30, 2012 and 2011

TABLE OF CONTENTS

June 30, 2012 and 2011

Kern Community College District

	Page Number
Independent Auditors' Report	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	4
FINANCIAL SECTION	
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to the Financial Statements	12
SUPPLEMENTARY INFORMATION SECTION	
Organization Structure	37
Schedule of Workload Measures for State General Apportionment	38
Schedule of Expenditures of Federal Awards	39
Schedule of Expenditures of State Awards	40
Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements	41
Combining Balance Sheets – District Funds Included in the Reporting Entity	43
Combining Schedule of Revenues, Expenditures/Expenses, and Changes in Fund Equity – District Funds Included in the Reporting Entity	48
Reconciliation of Fund Equity to Net Assets	53
Reconciliation of Change in Fund Equity to Change in Net Assets	54
Notes to the Supplementary Information	55

TABLE OF CONTENTS

June 30, 2012 and 2011

Kern Community College District

	Page Number
OTHER REPORTS SECTION	
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 <i>Government Auditing Standards</i>	58
Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	60
Independent Auditors' Report on State Compliance	62
FINDINGS AND RECOMMENDATIONS SECTION	
Schedule of Findings and Questioned Costs	65
Corrective Action Plan	69
Summary Schedule of Prior Audit Findings	70



MATSON
& ISOM

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (the District), as of June 30, 2012 and 2011, and for the years then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30 2012 and 2011, and the respective changes in financial position and cash flows, thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated November 21, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

INDEPENDENT AUDITORS' REPORT

Continued

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying financial information listed as other supplementary information in the table of contents is presented for purposes of additional and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Matson and Isom

November 21, 2012
Redding, California

MANAGEMENTS' DISCUSSION AND ANALYSIS
(Required Supplementary Information)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

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 Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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

California's budget situation has changed dramatically from a year ago. California voters passed in November 2012 a proposition to temporarily increase income and sales taxes. Combined with other budget reductions the State's financial picture has improved. However the structural imbalance between revenues and expenditures continues to persist. The State is now projected to end fiscal 2012-13 with a deficit of less than \$2.0 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012 and 2011

Kern Community College District

The District has positioned itself financially in anticipation of further funding reductions from the State. The District has accomplished this through the implementation of expenditure control initiatives, organizational changes, management of reserves, conservative budget planning and management of student enrollment limits. These actions have significantly increased overall reserves and concurrently tempered cost increases. The District's goal is to minimize the effect of these continuous State Budget deficits on the District's various stakeholders until the State's economy and funding recover. The District utilized \$1.7 million in unrestricted reserves in 2011-12 and is anticipating utilizing \$3 to \$4 million of its unrestricted reserves in fiscal year 2012-13 in order to balance its ongoing operations. In addition, the District paid off early some of its limited obligation improvement bonds (2004 Refunding Bonds).

The District's total assets declined from \$508 million to \$492 million. The decrease in assets was primarily due to a \$13.9 million decrease in cash and \$4.9 million decrease in Other Post Employment Obligation Bond proceeds. Total liabilities decreased, from \$336.4 million to \$329.7 million. This \$6.7 million decrease was primarily due to a decrease of \$5.7 in long-term debt (non-current portion) and \$2.6 million decrease in accounts payable. These decreases were partially offset by \$1.5 million increase in Long Term Debt --current portion.

Overall revenues of \$186 million were less than expenditures of \$195 million, resulting in a decrease in net assets of \$9 million. Revenues decreased by \$20 million over the prior year. This decrease was primarily due to decreases in non-capital state apportionments of \$5.9 million, decrease in non-capital local taxes of \$2.9 million, a decrease in auxiliary enterprise sales and charges of \$5.5 million, a decrease in federal grants of \$2.2 million, a \$726K decrease in state apportionments capital, and a \$611K decrease in local property taxes – capital. Expenditures decreased by \$12.6 million over the prior year. This decrease was primarily due to decreased salaries and employee benefits of \$2.5 million, decrease in student financial aid payments of \$2.0 million and decrease in supplies, materials and other operating expenditures of \$6.0 million, decrease in utilities of \$611K and decrease in depreciation of \$741K. These expense decreases were partially offset by a \$1.2 million increase in interest expense.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets 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 assets – the difference between assets and liabilities – are one way to measure the financial health of the District. The net asset data allows readers to determine the resources available to continue the operations of the District.

The net assets of the District consist of three major categories:

- Invested in capital assets, net of related debt – The District's equity in property, plant, and equipment.
- Restricted net assets (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 assets – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2012 and 2011

Kern Community College District

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District. 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 assets on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. 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

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

Kern Community College District

June 30	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,268,184	\$ 22,949,719
Restricted cash and cash equivalents	80,283,662	84,463,884
Accounts receivable - net	30,350,285	26,628,551
Prepaid expenses	732,466	369,205
Inventories	11,659	18,589
Total Current Assets	124,646,256	134,429,948
NONCURRENT ASSETS		
Restricted investments	68,308,260	66,625,155
Other postemployment benefits obligation	67,840,596	72,709,380
Depreciable capital assets - net	163,063,045	134,823,631
Nondepreciable capital assets	65,346,471	95,719,204
Deferred charges - net	3,084,890	3,611,203
Total Noncurrent Assets	367,643,262	373,488,573
Total Assets	\$ 492,289,518	\$ 507,918,521
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 8,966,668	\$ 11,581,047
Deferred revenue	4,620,256	4,248,764
Compensated absences - current portion	1,628,176	1,887,121
Long-term debt - current portion	8,141,367	6,623,841
Amounts held for others	612,512	736,150
Total Current Liabilities	23,968,979	25,076,923
NONCURRENT LIABILITIES		
Compensated absences - noncurrent portion	666,444	553,707
Long-term debt - noncurrent portion	305,026,985	310,735,207
Total Noncurrent Liabilities	305,693,429	311,288,914
Total Liabilities	329,662,408	336,365,837
NET ASSETS		
Investments in capital assets - net of related debt	53,368,446	58,395,942
Restricted - expendable	31,981,693	33,960,296
Unrestricted	77,276,971	79,196,446
Total Net Assets	162,627,110	171,552,684
Total Liabilities and Net Assets	\$ 492,289,518	\$ 507,918,521

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

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Kern Community College District

Years Ended June 30	2012	2011
OPERATING REVENUES		
Tuition and fees	\$ 20,017,805	\$ 17,016,895
Less: Scholarship discounts and allowances	12,407,526	9,651,651
Net Tuition and Fees	7,610,279	7,365,244
Grants and contracts - noncapital:		
Federal	54,883,770	57,075,138
State	12,869,472	13,706,432
Local	2,471,222	2,651,930
Auxiliary enterprise sales and charges	1,683,341	7,199,433
Other operating revenue	1,366,153	2,125,818
Total Operating Revenues	80,884,237	90,123,995
OPERATING EXPENSES		
Salaries	74,842,593	76,569,402
Employee benefits	26,247,956	24,970,425
Payments to students	52,557,269	54,616,407
Supplies, materials, and other operating expenditures	16,520,420	22,565,896
Utilities	2,508,028	3,118,561
Depreciation	6,502,779	7,243,486
Total Operating Expenses	179,179,045	189,084,177
Operating Loss	(98,294,808)	(98,960,182)
NONOPERATING REVENUES (EXPENSES)		
State apportionments - noncapital	48,333,827	53,527,889
Local property taxes - noncapital	41,459,494	44,325,964
State taxes and other revenues	3,839,115	3,707,191
Investment income - noncapital	2,573,776	2,705,725
Interest expense - capital asset-related debt	(15,392,613)	(16,599,220)
Other nonoperating revenues (expenses)	(602,141)	(683,033)
Total Nonoperating Revenues (Expenses)	80,211,458	86,984,516
Loss Before Other Revenues, Expenses, Gains, or Losses	(18,083,350)	(11,975,666)
State apportionments - capital	299,649	1,025,570
Local property taxes and revenues- capital	8,858,127	9,468,862
Change in Net Assets	(8,925,574)	(1,481,234)
Net Assets - Beginning of Year	171,552,684	173,033,918
Net Assets - End of Year	\$ 162,627,110	\$ 171,552,684

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

STATEMENTS OF CASH FLOWS

Kern Community College District

Page 1 of 2

Years Ended June 30	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 9,226,173	\$ 5,876,771
Federal grants and contracts	56,233,878	56,034,396
State grants and contracts	12,540,954	14,454,625
Local grants and contracts	2,841,364	2,183,808
Payments to/on behalf of employees	(74,823,602)	(77,742,060)
Payments for benefits	(23,330,447)	(20,451,641)
Payments for scholarships and grants	(52,557,269)	(54,616,407)
Payments to suppliers	(19,181,784)	(20,053,049)
Payments for utilities	(2,508,028)	(3,118,561)
Auxiliary enterprise sales and charges	4,528,379	4,938,564
Other receipts	922,685	2,967,476
Net Cash Used by Operating Activities	(86,107,697)	(89,526,078)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments - noncapital	43,078,506	52,330,777
Local property taxes	41,459,494	44,325,964
State taxes and other revenues	3,533,563	2,885,912
Other receipts (payments)	(602,141)	(683,033)
Net Cash Provided by Noncapital Financing Activities	87,469,422	98,859,620
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments - capital	299,649	1,025,570
Local property taxes - capital	8,858,127	9,468,862
Purchases of capital assets	(6,057,014)	(16,439,927)
Interest paid on capital debt	(13,181,070)	(12,617,660)
Principal paid on capital debt	(13,558,841)	(6,640,000)
Proceeds from capital debt	7,524,996	1,980,000
Net Cash Used by Capital and Related Financing Activities	(16,114,153)	(23,223,155)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	40,228,416	43,678,934
Purchase of investments	(41,911,521)	(44,826,491)
Interest on investments	2,573,776	2,705,725
Net Cash Provided by Investing Activities	890,671	1,558,168
Net Change in Cash and Cash Equivalents	(13,861,757)	(12,331,445)
Cash and Cash Equivalents - Beginning of Year	107,413,603	119,745,048
Cash and Cash Equivalents - End of Year	\$ 93,551,846	\$ 107,413,603

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

STATEMENTS OF CASH FLOWS

Kern Community College District

Page 2 of 2

Years Ended June 30	2012	2011
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 13,268,184	\$ 22,949,719
Restricted cash and cash equivalents	80,283,662	84,463,884
Total Cash and Cash Equivalents	93,551,846	107,413,603
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (98,294,808)	\$ (98,960,182)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,502,779	7,243,486
Allowance for doubtful accounts	(1,610,921)	449,209
Changes in:		
Accounts receivable	3,450,061	(3,672,779)
Prepaid expenses	(363,261)	(285,630)
Other postemployment benefit obligation	4,868,784	4,868,784
Inventories	6,930	1,374,817
Accounts payable	(768,906)	(36,625)
Deferred revenue	371,492	177,443
Compensated absences	(146,208)	(511,582)
Amounts held for others	(123,639)	(173,019)
Net Cash Used by Operating Activities	\$ (86,107,697)	\$ (89,526,078)
NONCASH CAPITAL FINANCING ACTIVITIES		
Debt Proceeds Withheld From District for Issuance Costs	\$ 73,268	\$ -

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) as its only component unit.

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. 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 District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

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 year-end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominately conducted.

The financial accounts of the District are recorded and maintained in accordance with the *California Community Colleges Budget and Accounting Manual*.

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 assets.

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 \$1,045,127 and \$2,656,048 for the years ended June 30, 2012 and 2011, respectively.

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, 2012 and 2011

Kern Community College District

Inventories Inventory consists primarily of bookstore merchandise including, but not limited to, books, instructional materials, and sundry items held for resale to students and staff of the District. Inventory is valued at cost utilizing the retail method on a first in, first out basis. Management has determined the likelihood of cost exceeding market to be low.

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	\$ 2,309,640

Deferred Revenue Deferred revenue 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. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Amounts Held 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.

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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs (including write-off of issuance costs on refunded debt) was \$599,582 and \$311,763 for the years ended June 30, 2012 and 2011, respectively and is included in interest expense.

Net Assets Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

Invested in Capital Assets - Net of Related Debt: This represents the District's total investment in capital assets, net of 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 invested in capital assets, net of related debt.

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

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

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

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) most 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.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues (Grants) and operating expenses (Payments to Students) in the District's financial statements.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

Scholarship Discounts and Allowances Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf.

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.

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.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

2. CASH AND INVESTMENTS

The cash and investments as of June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 13,268,184	\$ 22,949,719
Restricted cash and cash equivalents	80,283,662	84,463,884
Total Cash and Cash Equivalents	\$ 93,551,846	\$ 107,413,603

At June 30, 2012 and 2011, the carrying amount of the District's cash is summarized as follows:

	<u>2012</u>	<u>2011</u>
Cash in County Treasury	\$ 78,430,837	\$ 92,931,855
Cash on hand and in banks	6,633,135	5,440,486
Cash held by Trustees	8,487,874	9,041,262
Total Deposits	\$ 93,551,846	\$ 107,413,603

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 1.60 and 1.43 years at June 30, 2012 and 2011, respectively, 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 percent 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 percent of an entity's total deposits.

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, \$4,103,199 and \$675,982 of the bank balances at June 30, 2012 and 2011, respectively, are insured.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

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, 2012 and 2011, the District’s restricted investments and deposits are as follows:

	2012	2011
Investments in LAIF	\$ 883,205	\$ 879,642
Bank clearing account	424,722	424,861
Certificates of deposit	11,144,836	11,837,207
Money market	287,964	369,856
Municipal bonds	8,064,167	-
Corporate bonds and notes	11,548,709	12,395,544
U.S. Government agency securities	29,938,503	37,372,414
Foreign bonds	6,016,154	3,345,631
Total Investments	\$ 68,308,260	\$ 66,625,155

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

The District participates in the Local Agency Investment Fund (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 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, 2012	Fair Value	Investment Maturities		
		Less Than One Year	One to Five Years	More Than Five Years
Investment in LAIF	\$ 883,205	\$ 883,205	\$ -	\$ -
Bank clearing account	424,722	424,722	-	-
Certificates of deposit	11,144,836	995,692	9,824,301	324,843
Municipal bonds	8,064,167	-	5,159,064	2,905,103
Money market	287,964	287,964	-	-
Corporate bonds and notes	11,548,709	1,143,260	10,135,881	269,568
U.S. Government agency securities	29,938,503	100,728	27,799,990	2,037,785
Foreign bonds	6,016,154	-	5,367,542	648,612
Total Investments	\$ 68,308,260	\$ 3,835,571	\$ 58,286,778	\$ 6,185,911

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

June 30, 2011	Fair Value	Investment Maturities		
		Less Than One Year	One to Five Years	More Than Five Years
Investment in LAIF	\$ 879,642	\$ 879,642	\$ -	\$ -
Bank clearing account	424,861	424,861	-	-
Certificates of deposit	11,837,207	997,322	10,839,885	-
Money market	369,856	369,856	-	-
Corporate bonds and notes	12,395,544	1,087,799	11,307,745	-
U.S. Government agency securities	37,372,414	1,060,970	35,547,545	763,899
Foreign bonds	3,345,631	200,440	3,145,191	-
Total Investments	\$ 66,625,155	\$ 5,020,890	\$ 60,840,366	\$ 763,899

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, 2012	Fair Value	Investment Ratings				
		AAA	AA	A	BBB	Unrated
Investment in LAIF	\$ 883,205	\$ -	\$ -	\$ -	\$ -	\$ 883,205
Bank clearing account	424,722	424,722	-	-	-	-
Certificates of deposit	11,144,836	11,144,836	-	-	-	-
Municipal bonds	8,064,167	-	4,262,635	3,801,532	-	-
Money market	287,964	287,964	-	-	-	-
Corporate bonds and notes	11,548,709	-	2,587,284	8,705,870	255,555	-
U.S. Government agency securities	29,938,503	28,786,023	-	1,152,480	-	-
Foreign bonds	6,016,154	518,375	5,000,929	496,850	-	-
Total Investments	\$ 68,308,260	\$ 41,161,920	\$ 11,850,848	\$ 14,156,732	\$ 255,555	\$ 883,205

June 30, 2011	Fair Value	Investment Ratings				
		AAA	AA	A	BBB	Unrated
Investment in LAIF	\$ 879,642	\$ -	\$ -	\$ -	\$ -	\$ 879,642
Bank clearing account	424,861	424,861	-	-	-	-
Certificates of deposit	11,837,207	11,837,207	-	-	-	-
Money market	369,856	369,856	-	-	-	-
Corporate bonds and notes	12,395,544	-	6,651,538	5,744,006	-	-
U.S. Government agency securities	37,372,414	37,372,414	-	-	-	-
Foreign bonds	3,345,631	299,414	3,046,217	-	-	-
Total Investments	\$ 66,625,155	\$ 50,303,752	\$ 9,697,755	\$ 5,744,006	\$ -	\$ 879,642

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 15% 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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

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 deposits, 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.

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012 and 2011:

	2012	2011
Tuition and fees	\$ 4,186,233	\$ 5,530,233
Less: Allowance for doubtful accounts	1,045,127	2,656,048
Tuition and Fees - Net	3,141,106	2,874,185
Federal grants and contracts	2,049,594	3,401,026
State grants and contracts	732,089	381,427
Local grants and contracts	927,074	1,267,847
State apportionment	18,348,889	13,093,568
State taxes and other revenues	1,797,342	1,491,790
Insurance reimbursement	2,316,253	604,978
Auxiliaries	-	2,845,032
Other	1,037,938	668,698
Total	\$ 30,350,285	\$ 26,628,551

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2012 and 2011, is summarized as follows:

	Balance				Balance
	June 30, 2011	Additions	Deductions	Transfers	June 30, 2012
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 15,675,746	\$ -	\$ -	\$ -	\$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	73,733,818	3,243,936	-	(33,616,669)	43,361,085
Total Nondepreciable Capital Assets	\$ 95,719,204	\$ 3,243,936	\$ -	\$ (33,616,669)	\$ 65,346,471
DEPRECIABLE CAPITAL ASSETS					
Site improvements	\$ 6,102,692	\$ -	\$ -	\$ -	\$ 6,102,692
Buildings and improvements	173,688,254	12,386	-	33,486,181	207,186,821
Equipment	15,743,923	447,679	96,317	130,488	16,225,773
Computer equipment	15,028,478	568,010	-	-	15,596,488
Vehicles	2,052,889	97,449	-	-	2,150,338
Total Depreciable Capital Assets	212,616,236	1,125,524	96,317	33,616,669	247,262,112
Less: Accumulated depreciation	77,792,605	6,502,779	(96,317)	-	84,199,067
Total Depreciable Assets - Net	\$ 134,823,631	\$ (5,377,255)	\$ -	\$ 33,616,669	\$ 163,063,045

	Balance				Balance
	June 30, 2010	Additions	Deductions	Transfers	June 30, 2011
NONDEPRECIABLE CAPITAL ASSETS					
Land	\$ 15,675,746	\$ -	\$ -	\$ -	\$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	58,630,545	15,522,839	-	(419,566)	73,733,818
Total Nondepreciable Capital Assets	\$ 80,615,931	\$ 15,522,839	\$ -	\$ (419,566)	\$ 95,719,204
DEPRECIABLE CAPITAL ASSETS					
Site improvements	\$ 6,102,692	\$ -	\$ -	\$ -	\$ 6,102,692
Buildings and improvements	173,630,499	6,800	-	50,955	173,688,254
Equipment	15,043,621	581,975	-	118,327	15,743,923
Computer equipment	13,972,008	806,186	-	250,284	15,028,478
Vehicles	1,979,641	73,248	-	-	2,052,889
Total Depreciable Capital Assets	210,728,461	1,468,209	-	419,566	212,616,236
Less: Accumulated depreciation	70,549,119	7,243,486	-	-	77,792,605
Total Depreciable Assets - Net	\$ 140,179,342	\$ (5,775,277)	\$ -	\$ 419,566	\$ 134,823,631

5. ACCOUNTS PAYABLE

Accounts payable at June 30, 2012 and 2011, consist of the following:

	2012	2011
Accrued payroll and related liabilities	\$ 3,749,453	\$ 3,584,254
Construction payables	1,106,443	2,793,997
Interest payable	1,584,037	1,741,956
Other	2,526,735	3,460,840
Total	\$ 8,966,668	\$ 11,581,047

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

6. SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2011 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

	<u>Balance</u> <u>June 30, 2011</u>	<u>Drawn</u>	<u>Repaid</u>	<u>Balance</u> <u>June 30, 2012</u>
Participation in California Community College Financing Authority 2011 Tax and Revenue Anticipation Bonds	\$ -	\$ 4,998,968	\$ 4,998,968	\$ -

There was no short-term debt activity for the year ended June 30, 2011.

7. LONG-TERM LIABILITIES

The long-term liability activity for the years ended June 30, 2012 and 2011, is as follows:

<u>June 30, 2012</u>	<u>Beginning</u> <u>Balance</u>	<u>Accretion/</u> <u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
Certificates of participation	\$ 76,869,446	\$ -	\$ 499,948	\$ 76,369,498
Limited obligation improvement bonds	10,332,713	-	846,689	9,486,024
General obligation improvement bonds	144,491,889	9,853,225	12,217,284	142,127,830
CEC loan	1,980,000	220,000	-	2,200,000
Other postemployment benefit bonds	83,685,000	-	700,000	82,985,000
Subtotal	317,359,048	10,073,225	14,263,921	313,168,352
Compensated absences	2,440,828	1,481,968	1,628,176	2,294,620
Total Long-Term Liabilities	\$ 319,799,876	\$ 11,555,193	\$ 15,892,097	\$ 315,462,972

<u>June 30, 2011</u>	<u>Beginning</u> <u>Balance</u>	<u>Accretion/</u> <u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
Certificates of participation	\$ 77,316,434	\$ -	\$ 446,988	\$ 76,869,446
Limited obligation improvement bonds	11,159,402	-	826,689	10,332,713
General obligation improvement bonds	145,698,108	3,655,829	4,862,048	144,491,889
CEC loan	-	1,980,000	-	1,980,000
Other postemployment benefit bonds	84,345,000	-	660,000	83,685,000
Subtotal	318,518,944	5,635,829	6,795,725	317,359,048
Compensated absences	2,952,410	1,375,539	1,887,121	2,440,828
Total Long-Term Liabilities	\$ 321,471,354	\$ 7,011,368	\$ 8,682,846	\$ 319,799,876

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

Long-term liabilities consist of the following individual debt issues at June 30, 2012 and 2011:

	2012	2011
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%.	\$ 36,695,000	\$ 37,700,000
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	42,875,000
Subtotal	79,570,000	80,575,000
Less: Discounts	3,200,502	3,705,554
Certificates of Participation - Net	76,369,498	76,869,446
LIMITED OBLIGATION IMPROVEMENT BONDS		
2004 Refunding Bonds issued in the original amount of \$7,115,000. Final maturity in 2017. Interest rates range from 1.90% to 4.10%.	3,305,000	3,895,000
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%.	6,280,000	6,545,000
Subtotal	9,585,000	10,440,000
Less: Discounts	98,976	107,287
Limited Obligation Improvement Bonds - Net	\$ 9,486,024	\$ 10,332,713

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

	<u>2012</u>	<u>2011</u>
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%.	\$ 3,228,973	\$ 7,571,066
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%.	1,822,888	4,493,785
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%.	9,572,547	11,188,344
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%.	51,873,556	53,629,128
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%.	60,498,715	58,564,965
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>6,985,000</u>	<u>-</u>
Subtotal	133,981,679	135,447,288
Premium on general obligation bonds	<u>8,146,151</u>	<u>9,044,601</u>
General Obligation Bonds - Net	<u>142,127,830</u>	<u>144,491,889</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>2,200,000</u>	<u>1,980,000</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>82,985,000</u>	<u>83,685,000</u>
Subtotal	313,168,352	317,359,048
Less: Current portion	<u>8,141,367</u>	<u>6,623,841</u>
Total Long-Term Liabilities - Noncurrent Portion	<u>\$ 305,026,985</u>	<u>\$ 310,735,207</u>

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

Refunded Debt

The 2007 Refunding Certificates of Participation (auction rate securities) were issued to refinance the 1998 Certificates of Participation in the 2007/2008 year. The District recognized a financial statement gain of \$1,230,808 on the refinance and it is being amortized over the life of the new debt. The issuance resulted in an economic gain of \$6,123,582.

The 2008 Certificates of Participation were issued to convert the existing 2004 variable rate Certificates of Participation to a long term rate period and long term rate in the 2007/2008 year. The District recognized a financial statement loss of \$3,038,898 on the conversion and it is being amortized over the life of the new debt. The District also recognized an economic loss of \$134,723. The District made the conversion as a stop gap measure from incurring further losses due to the collapse of the Auction Rate Securities Market and rating downgrades of the insurance providers for this issuance.

The Reoffering of 2007 Refunding Certificates of Participation were issued to convert the 2007 Refunding Certificates of Participation (auction rate securities) to long term interest rate securities, bearing interest at a fixed rate of interest (3.00%), in the 2007/2008 year. The District recognized a financial statement loss of \$516,334 on the refinance and it is being amortized over the life of the new debt. The issuance resulted in an economic gain of \$5,711,338. The District made the conversion as a stop gap measure from incurring further losses due to the collapse of the Auction Rate Securities Market and rating downgrades of the insurance providers for this issuance.

The 2010 Refunding Certificates of Participation were issued to refinance the 2007 Certificates of Participation in the 2009/2010 year. The District recognized a financial statement loss of \$3,061,453 on the refinance and it is being amortized over the life of the new debt. The issuance resulted in an economic gain of \$34,272,144.

The 2011 Refunding Bonds Mammoth were issued to refinance the Bonds of the Mammoth Campus in the 2011/2012 year. The District recognized a financial statement loss of \$120,272 on the refinance and it is being amortized over the life of the new debt. The issuance resulted in an economic gain of \$603,897.

Accretion

General obligation bonds as of June 30, 2012 and 2011, have been increased by \$21,779,308 and \$17,456,685, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

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

Year Ending June 30			Bonds	Bond	Total
	Principal	Interest	Total	Premium	
2013	\$ 8,141,367	\$ 11,955,748	\$ 20,097,115	\$ 159,831	\$ 20,256,946
2014	50,352,383	13,009,177	63,361,560	199,761	63,561,321
2015	6,375,649	12,736,736	19,112,385	569,468	19,681,853
2016	6,388,953	12,981,438	19,370,391	569,468	19,939,859
2017	10,563,535	9,143,003	19,706,538	573,546	20,280,084
2018-2022	63,460,326	36,975,362	100,435,688	2,583,332	103,019,020
2023-2027	41,507,667	58,902,726	100,410,393	564,664	100,975,057
2028-2032	26,707,493	59,314,659	86,022,152	(154,481)	85,867,671
2033-2037	30,854,998	16,869,572	47,724,570	(218,916)	47,505,654
2038-2042	18,035,000	10,636,498	28,671,498	-	28,671,498
2043-2047	24,155,000	4,524,328	28,679,328	-	28,679,328
Total	\$ 286,542,371	\$ 247,049,247	\$ 533,591,618	\$ 4,846,673	\$ 538,438,291
Less: Interest (excluding accretion of \$21,779,308)			(225,269,939)	-	(225,269,939)
Net Principal			\$ 308,321,679	\$ 4,846,673	\$ 313,168,352

8. OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2012 and 2011, were \$39,676 and \$49,919, respectively.

The future minimum lease payments as of June 30, 2012, are as follows:

Year Ending June 30	
2013	\$ 36,989
2014	34,026
Total	\$ 71,015

9. 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

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more 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 the CalSTRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

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 two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. 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 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

At June 30, 2012 and 2011, the District employed 351 and 348 certificated employees with a total annual payroll of \$38,448,419 and \$38,682,117, respectively.

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 STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2012 and 2011, 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, 2012, 2011, and 2010, were \$3,604,406, \$3,699,805, and \$3,670,070, respectively, and equaled 100% of the required contributions for each year.

California Public Employees' Retirement System

Plan Description

All full-time classified employees participate in the 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 the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

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, 2012 and 2011, was 10.923% and 10.707%, respectively, 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, 2012, 2011, and 2010, were \$2,424,695, \$2,377,447, and \$2,297,515, respectively, and equaled 100% of the required contribution for each year.

10. 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.

11. RISK MANAGEMENT

The District participates in three joint powers agreements (JPA's) with the Self-Insured Schools of California Workers' Compensation Program (SISC I), Self-Insured Schools of California Property and Liability Program (SISC II), 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 \$590,000 and \$350,000 of excess insurance reserves being held by SISC as of June 30, 2012 and 2011, respectively.

12. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 and 2011

Kern Community College District

Currently, the District has 726 active full-time employees who are eligible for postretirement health benefits and 460 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 the 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 years ended June 30, 2012 and 2011:

	2012	2011
Annual required contribution	\$ 453,447	\$ 453,447
Adjustment to annual required contribution	4,415,337	4,415,337
Annual OPEB Cost	4,868,784	4,868,784
Contributions	-	-
Change in Net OPEB Obligation	4,868,784	4,868,784
Net OPEB Obligation - Beginning of Year	(72,709,380)	(77,578,164)
Net OPEB Obligation - End of Year	\$ (67,840,596)	\$ (72,709,380)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal years 2012, 2011, and 2010, is as follows:

Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage Contributed	Net Ending OPEB Obligation
June 30, 2010	\$ 4,868,784	\$ -	0.00%	\$ (77,578,164)
June 30, 2011	\$ 4,868,784	\$ -	0.00%	\$ (72,709,380)
June 30, 2012	\$ 4,868,784	\$ -	0.00%	\$ (67,840,596)

**NOTES TO THE FINANCIAL
STATEMENTS**

June 30, 2012 and 2011

Kern Community College District

Funded Status and Funding Progress

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

	February 1, 2011
Actuarial accrued liability (AAL)	\$ 67,675,250
Actuarial value of plan assets	84,044,523
Unfunded Actuarial Accrued Liability	\$ (87,528,266)
Funded ratio (actuarial value of plan assets/AAL)	124.19%
Covered payroll (active members)	\$ 48,163,240
UAAL as a Percentage of Covered Payroll	181.73%

As of June 30, 2012, 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, 2012, was approximately \$87,861,348.

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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared 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 February 2011 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5% 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, 2012 and 2011

Kern Community College District

Condensed OPEB Trust Financial Statements

The financial information for the OPEB Trust is presented below.

Statement of Plan Net Assets

June 30, 2012	
ASSETS	
Cash and cash equivalents	\$ 51
Interest receivable	111,815
Long-term investments	87,861,348
Total Assets	87,973,214
LIABILITIES	
Benefits payable	2,316,253
Total Net Assets	\$ 85,656,961

Statement of Changes in Plan Assets

June 30, 2012	
ADDITIONS	
Investment income:	
Net realized and unrealized losses in investments	\$ 1,281,854
Dividends and interest	1,620,151
Total Additions	2,902,005
DEDUCTIONS	
Benefits payable	6,119,715
Decrease in Net Assets	(3,217,710)
Net Assets - Beginning of Year	88,874,671
Net Assets - End of Year	\$ 85,656,961

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.

13. COMMITMENTS

As of June 30, 2012, the District had unfinished construction contracts under the following project categories:

<u>June 30, 2012</u>	
Bakersfield College PV Solar Project	\$ 280,108
Cerro Coso Community College Fine Arts	288,344
Cerro Coso Student Center Modernization	98,630
Other projects	<u>13,900</u>
Total	\$ 680,982

As of June 30, 2011, the District had unfinished construction contracts under the following project categories:

<u>June 30, 2011</u>	
Bakersfield College Thermal Energy Storage	\$ 1,178,293
Bakersfield College PV Solar Project	489,702
Cerro Coso Community College Science Modernization	803,393
Cerro Coso Student Center Modernization	1,046,102
Portville College Wellness Modernization	2,694,452
Other projects	<u>494,499</u>
Total	\$ 6,706,441

14. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The object of this statement is to establish a framework of detailing: 1) where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities, should be displayed; and 2) how these elements should be reported. These two objects will result in the standardizing of the presentation of deferred balances and their effects on a government's net position. The provisions of GASB Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. The District has not yet determined the effect this statement will have on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations;
2. Accounting Principles Board Opinions; and
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The provisions of GASB Statement No. 62 are effective for financial statements for period beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The District has not yet determined the effect this statement will have on its financial statements.

SUPPLEMENTARY INFORMATION SECTION

ORGANIZATION STRUCTURE

June 30, 2012

*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	2012
Mrs. Rose M. Bans	Member	Northeastern Kern County	2012
Mrs. Kay Meek	Member	Southwest Bakersfield	2012
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**

Kern Community College District

June 30, 2012

	Reported Data
<hr/> <hr/>	
SUMMER INTERSESSION (Summer 2011 only)	
Noncredit	1.64
Credit	1,593.60
SUMMER INTERSESSION (Summer 2012 - Prior to July 1, 2012)	
Noncredit	-
Credit	10.98
PRIMARY TERMS (Exclusive of Summer Intersession)	
Census Procedure Courses	
Weekly Census Contact Hours	12,183.74
Daily Census Contact Hours	617.86
Actual Hours of Attendance Procedure Courses	
Noncredit	45.21
Credit	1,946.83
Alternative Attendance Accounting Procedure	
Weekly Census Contact Hours	2,106.77
Daily Census Contact Hours	384.62
Noncredit Independent Study/Distance Education Courses	-
Total FTES	18,891.25
<hr/> <hr/>	
SUPPLEMENTARY INFORMATION (Subset of above information)	
In-Service Training Courses (FTES)	458.48
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	55.41
Credit	2,165.32
<hr/> <hr/>	

See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Kern Community College District

June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
U.S. Forest Service	10.679	\$ 20,873
Passed Through California Department of Education Child Care Food Program	10.555	<u>221,768</u>
Total U.S. Department of Agriculture		<u>242,641</u>
U.S. DEPARTMENT OF LABOR		
Workforce Investment Act Cluster		
Passed Through County of Kern WIA Adult Program	17.258	48,817
Passed Through State of California Employment Development Department WIA Adult Program	17.258	<u>25,606</u>
Total Workforce Investment Act Cluster		74,423
Trade Adjustment Assistance Community College and Career Training	17.282	111,007
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	<u>907,919</u>
Total U.S. Department of Labor		<u>1,093,349</u>
U.S. DEPARTMENT OF EDUCATION		
Financial Aid Cluster		
Federal Supplemental Education Opportunity Grants	84.007	463,469
Federal Work-Study Program	84.033	480,104
Federal Pell Grant Program	84.063	42,883,251
Federal Direct Student Loans	84.268	5,969,490
Academic Competitiveness Grants	84.375	<u>1,032</u>
Total Financial Aid Cluster		49,797,346
Vocational Rehabilitation Cluster		
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	164,412
Passed Through Chancellor's Office		
Vocational Education - Basic Grants to States	84.048	1,269,283
Vocational Education - Tech Prep Education	84.243	26,101
Title III - Higher Education Institutional Aid	84.031	365,494
Migrant Education - State Grant Program	84.011	49,306
Fund for the Improvement of Postsecondary Education	84.116	<u>230,179</u>
Total U.S. Department of Education		<u>51,902,121</u>
NATIONAL SCIENCE FOUNDATION		
Education and Human Resources	47.076	<u>129,641</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Chancellor's Office		
General Center - Child Care	93.596	370,794
State Preschool	93.596	427,505
Child, Family, and Community Services - Foster Care - Title IV-E	93.658	<u>48,331</u>
Total U.S. Department of Health and Human Services		<u>846,630</u>
Total Expenditures of Federal Awards		<u>\$ 54,214,382</u>

See the accompanying notes to the supplementary information.

**SCHEDULE OF EXPENDITURES OF
STATE AWARDS**

June 30, 2012

Kern Community College District

	Program Revenues			Total
	Cash Received	Accounts Receivable	Deferred Revenue	
Extended opportunity programs and services	\$ 1,526,873	\$ (103)	\$ -	\$ 1,526,770
CALGrants	2,956,927	8,782	-	2,965,709
Disabled students programs and services	1,201,797	-	-	1,201,797
CalWORKs	423,460	(12,180)	-	411,280
Matriculation	717,965	-	-	717,965
Foster parent	93,180	(961)	-	92,219
Project care	206,995	208	-	207,203
BFAP	979,574	320	-	979,894
Small Business Center	205,000	68,528	(112,005)	161,523
PC Development Center	294,896	-	-	294,896
Psych Tech	204,199	(50,834)	-	153,365
Career Tech Education	177,848	192,367	-	370,215
Basic skills	451,969	(4,062)	-	447,907
YEP Funding	193,750	26,250	(70,000)	150,000
All other categorical	377,797	362,139	-	739,936
Total State Programs	\$ 10,012,230	\$ 590,454	\$ (182,005)	\$ 10,420,679

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, 2012

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 34,159,787	\$ 22,405,238	\$ 71,586,350	\$ 62,153	\$ 128,213,528
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	(94,676)	-	-	-	(94,676)
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	1	-	-	1
Net Adjustments and Reclassifications	(94,676)	1	-	-	(94,675)
June 30, 2012, District Accounting Records Fund Balance	\$ 34,065,111	\$ 22,405,239	\$ 71,586,350	\$ 62,153	\$ 128,118,853

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, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 128,213,528	\$ 268,131	\$ 50,428,643	\$ 1,812,664	\$ 180,722,966
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	(94,676)	-	-	-	(94,676)
Reclassification of amounts held for others	-	-	-	-	-
Rounding	1	-	(1)	(1)	(1)
Net Adjustments and Reclassifications	(94,675)	-	(1)	(1)	(94,677)
June 30, 2012, District Accounting Records Fund Balance	\$ 128,118,853	\$ 268,131	\$ 50,428,642	\$ 1,812,663	\$ 180,628,289

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, 2012

	Balance Brought Forward	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Balance Forward
June 30, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 180,722,966	\$ 170,648	\$ 90,891	\$ (62,951)	\$ 180,921,554
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	(94,676)	-	-	(3,709)	(98,385)
Reclassification of amounts held for others	-	-	-	-	-
Rounding	(1)	-	-	1	-
Net Adjustments and Reclassifications	(94,677)	-	-	(3,708)	(98,385)
June 30, 2012, District Accounting Records Fund Balance	\$ 180,628,289	\$ 170,648	\$ 90,891	\$ (66,659)	\$ 180,823,169

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, 2012, Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 180,921,554	\$ 169,194	\$ 18,548	\$ 284,595	\$ 181,393,891
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District adjustments	(98,385)	-	-	-	(98,385)
Reclassification of amounts held for others	-	(169,194)	(18,548)	(284,595)	(472,337)
Rounding	-	-	-	-	-
Net Adjustments and Reclassifications	(98,385)	(169,194)	(18,548)	(284,595)	(570,722)
June 30, 2012, District Accounting Records Fund Balance	\$ 180,823,169	\$ -	\$ -	\$ -	\$ 180,823,169

See the accompanying notes to the supplementary information.

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

June 30, 2012	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 8,632,331	\$ (8,557)	\$ 3,070,792	\$ 203,337	\$ 11,897,903
Restricted cash and cash equivalents	6,209,572	23,364,581	-	-	29,574,153
Accounts receivable - net	29,703,737	23,607	207,298	37,887	29,972,529
Prepaid expenses	108,827	-	-	296	109,123
Inventories	-	-	-	-	-
Due from other funds	75,000	-	-	-	75,000
Total Current Assets	44,729,467	23,379,631	3,278,090	241,520	71,628,708
NONCURRENT ASSETS					
Restricted investments	-	-	68,308,260	-	68,308,260
Capital assets - net	-	-	-	-	-
Total Noncurrent Assets	-	-	68,308,260	-	68,308,260
Total Assets	\$ 44,729,467	\$ 23,379,631	\$ 71,586,350	\$ 241,520	\$ 139,936,968
LIABILITIES					
Accounts payable	\$ 6,319,343	\$ -	\$ -	\$ 129,367	\$ 6,448,710
Deferred revenue	4,345,013	-	-	50,000	4,395,013
Due to other funds	-	974,392	-	-	974,392
Amounts held for others	-	-	-	-	-
Total Liabilities	10,664,356	974,392	-	179,367	11,818,115
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	-	22,405,239	71,586,350	-	93,991,589
Reserved for special purposes	9,343,200	-	-	-	9,343,200
Unreserved:					
Undesignated	24,721,911	-	-	62,153	24,784,064
Total Fund Equity (Deficit)	34,065,111	22,405,239	71,586,350	62,153	128,118,853
Total Liabilities and Fund Equity (Deficit)	\$ 44,729,467	\$ 23,379,631	\$ 71,586,350	\$ 241,520	\$ 139,936,968

See the accompanying notes to the supplementary information.

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

June 30, 2012	Balance Brought Forward	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 11,897,903	\$ 268,131	\$ 149,212	\$ 785,586	\$ 13,100,832
Restricted cash and cash equivalents	29,574,153	-	50,132,560	640	79,707,353
Accounts receivable - net	29,972,529	-	100,470	15,378	30,088,377
Prepaid expenses	109,123	-	33,343	-	142,466
Inventories	-	-	-	-	-
Due from other funds	75,000	-	899,392	-	974,392
Total Current Assets	71,628,708	268,131	51,314,977	801,604	124,013,420
NONCURRENT ASSETS					
Restricted investments	68,308,260	-	-	-	68,308,260
Capital assets - net	-	-	-	541,349	541,349
Total Noncurrent Assets	68,308,260	-	-	541,349	68,849,609
Total Assets	\$ 139,936,968	\$ 268,131	\$ 51,314,977	\$ 1,342,953	\$ 192,863,029
LIABILITIES					
Accounts payable	\$ 6,448,710	\$ -	\$ 822,645	\$ (469,710)	\$ 6,801,645
Deferred revenue	4,395,013	-	63,690	-	4,458,703
Due to other funds	974,392	-	-	-	974,392
Amounts held for others	-	-	-	-	-
Total Liabilities	11,818,115	-	886,335	(469,710)	12,234,740
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	93,991,589	-	-	-	93,991,589
Reserved for special purposes	9,343,200	268,131	50,428,642	1,812,663	61,852,636
Unreserved:					
Undesignated	24,784,064	-	-	-	24,784,064
Total Fund Equity (Deficit)	128,118,853	268,131	50,428,642	1,812,663	180,628,289
Total Liabilities and Fund Equity (Deficit)	\$ 139,936,968	\$ 268,131	\$ 51,314,977	\$ 1,342,953	\$ 192,863,029

See the accompanying notes to the supplementary information.

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

June 30, 2012	Balance Brought Forward	Cafeteria Fund	Pay for Print Fund	Student Financial Aid Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 13,100,832	\$ 188,633	\$ (48,955)	\$ -	\$ 13,240,510
Restricted cash and cash equivalents	79,707,353	-	-	90,891	79,798,244
Accounts receivable - net	30,088,377	37,161	-	-	30,125,538
Prepaid expenses	142,466	-	-	-	142,466
Inventories	-	11,659	-	-	11,659
Due from other funds	974,392	-	-	-	974,392
Total Current Assets	124,013,420	237,453	(48,955)	90,891	124,292,809
NONCURRENT ASSETS					
Restricted investments	68,308,260	-	-	-	68,308,260
Capital assets - net	541,349	-	-	-	541,349
Total Noncurrent Assets	68,849,609	-	-	-	68,849,609
Total Assets	\$ 192,863,029	\$ 237,453	\$ (48,955)	\$ 90,891	\$ 193,142,418
LIABILITIES					
Accounts payable	\$ 6,801,645	\$ 3,853	\$ 13,997	\$ -	\$ 6,819,495
Deferred revenue	4,458,703	-	-	-	4,458,703
Due to other funds	974,392	-	-	-	974,392
Amounts held for others	-	-	-	-	-
Total Liabilities	12,234,740	3,853	13,997	-	12,252,590
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	93,991,589	-	-	-	93,991,589
Reserved for special purposes	61,852,636	-	-	90,891	61,943,527
Unreserved:					
Undesignated	24,784,064	233,600	-	-	25,017,664
Total Fund Equity (Deficit)	180,628,289	233,600	(62,952)	90,891	180,952,780
Total Liabilities and Fund Equity (Deficit)	\$ 192,863,029	\$ 237,453	\$ (48,955)	\$ 90,891	\$ 193,205,370

See the accompanying notes to the supplementary information.

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

June 30, 2012	Balance Brought Forward	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 13,240,510	\$ 27,674	\$ -	\$ -	\$ 13,268,184
Restricted cash and cash equivalents	79,798,244	(287,256)	367,810	36,982	79,915,780
Accounts receivable - net	30,125,538	194,999	28,336	1,412	30,350,285
Prepaid expenses	142,466	-	-	-	142,466
Inventories	11,659	-	-	-	11,659
Due from other funds	974,392	-	-	-	974,392
Total Current Assets	124,292,809	(64,583)	396,146	38,394	124,662,766
NONCURRENT ASSETS					
Restricted investments	68,308,260	-	-	-	68,308,260
Capital assets - net	541,349	-	-	-	541,349
Total Noncurrent Assets	68,849,609	-	-	-	68,849,609
Total Assets	\$ 193,142,418	\$ (64,583)	\$ 396,146	\$ 38,394	\$ 193,512,375
LIABILITIES					
Accounts payable	\$ 6,819,495	\$ 2,076	\$ 15,152	\$ 1,207	\$ 6,837,930
Deferred revenue	4,458,703	-	71,627	18,638	4,548,968
Due to other funds	974,392	-	-	-	974,392
Amounts held for others	-	-	309,367	18,549	327,916
Total Liabilities	12,252,590	2,076	396,146	38,394	12,689,206
FUND EQUITY (DEFICIT)					
Fund balances:					
Reserved for debt service	93,991,589	-	-	-	93,991,589
Reserved for special purposes	61,943,527	(66,659)	-	-	61,876,868
Unreserved:					
Undesignated	24,954,712	-	-	-	24,954,712
Total Fund Equity (Deficit)	180,889,828	(66,659)	-	-	180,823,169
Total Liabilities and Fund Equity (Deficit)	\$ 193,142,418	\$ (64,583)	\$ 396,146	\$ 38,394	\$ 193,512,375

See the accompanying notes to the supplementary information.

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

June 30, 2012	Balance Brought Forward	Student Student Body Center Fee Trust Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 13,268,184	\$ -	\$ 13,268,184
Restricted cash and cash equivalents	79,915,780	367,882	80,283,662
Accounts receivable - net	30,350,285	-	30,350,285
Prepaid expenses	142,466	-	142,466
Inventories	11,659	-	11,659
Due from other funds	974,392	-	974,392
Total Current Assets	<u>124,662,766</u>	<u>367,882</u>	<u>125,030,648</u>
NONCURRENT ASSETS			
Restricted investments	68,308,260	-	68,308,260
Capital assets - net	541,349	-	541,349
Total Noncurrent Assets	<u>68,849,609</u>	<u>-</u>	<u>68,849,609</u>
Total Assets	<u>\$ 193,512,375</u>	<u>\$ 367,882</u>	<u>\$ 193,880,257</u>
LIABILITIES			
Accounts payable	\$ 6,837,930	\$ 11,998	\$ 6,849,928
Deferred revenue	4,548,968	71,288	4,620,256
Due to other funds	974,392	-	974,392
Amounts held for others	327,916	284,596	612,512
Total Liabilities	<u>12,689,206</u>	<u>367,882</u>	<u>13,057,088</u>
FUND EQUITY (DEFICIT)			
Fund balances:			
Reserved for debt service	93,991,589	-	93,991,589
Reserved for special purposes	61,876,868	-	61,876,868
Unreserved:			
Undesignated	24,954,712	-	24,954,712
Total Fund Equity (Deficit)	<u>180,823,169</u>	<u>-</u>	<u>180,823,169</u>
Total Liabilities and Fund Equity (Deficit)	<u>\$ 193,512,375</u>	<u>\$ 367,882</u>	<u>\$ 193,880,257</u>

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**

For the Year Ended June 30, 2012	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 19,882,383	\$ -	\$ -	\$ -	\$ 19,882,383
Less: Scholarship discount and allowance	12,407,526	-	-	-	12,407,526
Net Tuition and Fees	7,474,857	-	-	-	7,474,857
Grants and contracts - noncapital:					
Federal	4,546,461	-	-	1,020,067	5,566,528
State	8,043,754	-	-	1,860,009	9,903,763
Local	2,347,452	-	-	-	2,347,452
Auxiliary enterprise sales and charges	52,647	-	-	-	52,647
Other operating revenues	597,688	2,273,734	-	42,715	2,914,137
Total Operating Revenues	23,062,859	2,273,734	-	2,922,791	28,259,384
OPERATING EXPENDITURES/EXPENSES					
Salaries	71,726,845	-	-	2,366,162	74,093,007
Employee benefits	20,299,521	-	-	956,844	21,256,365
Payments to students	276,258	-	-	-	276,258
Supplies, materials, and other operating expenditures	13,873,336	196,937	1,718,394	212,477	16,001,144
Capital outlay	1,508,537	-	-	-	1,508,537
Utilities	2,464,938	-	-	42,022	2,506,960
Depreciation	-	-	-	-	-
Total Operating Expenditures/Expenses	110,149,435	196,937	1,718,394	3,577,505	115,642,271
Operating Income (Loss)	(87,086,576)	2,076,797	(1,718,394)	(654,714)	(87,382,887)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	48,333,827	-	-	-	48,333,827
Local property taxes	41,459,495	(1)	-	-	41,459,494
State taxes and other revenues	3,764,331	74,784	-	-	3,839,115
Investment income - noncapital	312,051	130,872	1,703,347	1,712	2,147,982
Debt service	(5,729,455)	(21,054,089)	-	(3,857)	(26,787,401)
Cost of issuance	-	(73,268)	-	-	(73,268)
Other nonoperating expenditures/expenses	(602,141)	-	-	-	(602,141)
Total Nonoperating Revenues (Expenditures)	87,538,108	(20,921,702)	1,703,347	(2,145)	68,317,608
Income (Loss) Before Other Revenues and Expenditures/Expenses	451,532	(18,844,905)	(15,047)	(656,859)	(19,065,279)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	-	-	-	-	-
Local property taxes and revenues - capital	-	8,858,127	-	-	8,858,127
Gifts and grants - capital	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures/Expenses	451,532	(9,986,778)	(15,047)	(656,859)	(10,207,152)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	1,382,677	-	982,437	916,783	3,281,897
Operating transfers out	(2,528,701)	(25,000)	(27,171)	(469,306)	(3,050,178)
Bonds issued	-	6,985,000	-	-	6,985,000
Premium (discount) on bond issuance	-	440,754	-	-	440,754
Total Other Financing Sources (Uses)	(1,146,024)	7,400,754	955,266	447,477	7,657,473
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(694,492)	(2,586,024)	940,219	(209,382)	(2,549,679)
Fund Equity - Beginning of Year	34,759,603	24,991,263	70,646,131	271,535	130,668,532
Fund Equity - End of Year	\$ 34,065,111	\$ 22,405,239	\$ 71,586,350	\$ 62,153	\$ 128,118,853

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**

For the Year Ended June 30, 2012	Balance Brought Forward	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 19,882,383	\$ -	\$ 135,422	\$ -	\$ 20,017,805
Less: Scholarship discount and allowance	12,407,526	-	-	-	12,407,526
Net Tuition and Fees	7,474,857	-	135,422	-	7,610,279
Grants and contracts - noncapital:					
Federal	5,566,528	-	-	-	5,566,528
State	9,903,763	-	-	-	9,903,763
Local	2,347,452	17,591	106,211	-	2,471,254
Auxiliary enterprise sales and charges	52,647	-	-	400,678	453,325
Other operating revenues	2,914,137	-	165,208	1,352	3,080,697
Total Operating Revenues	28,259,384	17,591	406,841	402,030	29,085,846
OPERATING EXPENDITURES/EXPENSES					
Salaries	74,093,007	-	383,697	40,296	74,517,000
Employee benefits	21,256,365	-	139,400	16,236	21,412,001
Payments to students	276,258	-	-	-	276,258
Supplies, materials, and other operating expenditures	16,001,144	-	6,231,864	34,121	22,267,129
Capital outlay	1,508,537	-	140,487	-	1,649,024
Utilities	2,506,960	-	430	98	2,507,488
Depreciation	-	-	-	-	-
Total Operating Expenditures/Expenses	115,642,271	-	6,895,878	90,751	122,628,900
Operating Income (Loss)	(87,382,887)	17,591	(6,489,037)	311,279	(93,543,054)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	48,333,827	-	-	-	48,333,827
Local property taxes	41,459,494	-	-	-	41,459,494
State taxes and other revenues	3,839,115	-	-	-	3,839,115
Investment income - noncapital	2,147,982	-	425,560	234	2,573,776
Debt service	(26,787,401)	-	-	-	(26,787,401)
Cost of issuance	(73,268)	-	-	-	(73,268)
Other nonoperating expenditures/expenses	(602,141)	-	-	-	(602,141)
Total Nonoperating Revenues (Expenditures)	68,317,608	-	425,560	234	68,743,402
Income (Loss) Before Other Revenues and Expenditures/Expenses	(19,065,279)	17,591	(6,063,477)	311,513	(24,799,652)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	-	-	299,649	-	299,649
Local property taxes and revenues - capital	8,858,127	-	-	-	8,858,127
Gifts and grants - capital	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures/Expenses	(10,207,152)	17,591	(5,763,828)	311,513	(15,641,876)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,281,897	-	586,383	77,270	3,945,550
Operating transfers out	(3,050,178)	-	-	(911,809)	(3,961,987)
Bonds issued	6,985,000	-	220,000	-	7,205,000
Premium (discount) on bond issuance	440,754	-	-	-	440,754
Total Other Financing Sources (Uses)	7,657,473	-	806,383	(834,539)	7,629,317
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(2,549,679)	17,591	(4,957,445)	(523,026)	(8,012,559)
Fund Equity - Beginning of Year	130,668,532	250,540	55,386,087	2,335,689	188,640,848
Fund Equity - End of Year	\$ 128,118,853	\$ 268,131	\$ 50,428,642	\$ 1,812,663	\$ 180,628,289

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**

For the Year Ended June 30, 2012	Balance Brought Forward	Cafeteria Fund	Pay for Print Fund	Student Financial Aid Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 20,017,805	\$ -	\$ -	\$ -	\$ 20,017,805
Less: Scholarship discount and allowance	12,407,526	-	-	-	12,407,526
Net Tuition and Fees	7,610,279	-	-	-	7,610,279
Grants and contracts - noncapital:					
Federal	5,566,528	-	-	463,469	6,029,997
State	9,903,763	-	-	-	9,903,763
Local	2,471,254	(32)	-	-	2,471,222
Auxiliary enterprise sales and charges	453,325	1,230,016	-	-	1,683,341
Other operating revenues	3,080,697	-	-	-	3,080,697
Total Operating Revenues	29,085,846	1,229,984	-	463,469	30,779,299
OPERATING EXPENDITURES/EXPENSES					
Salaries	74,517,000	471,803	-	-	74,988,803
Employee benefits	21,412,001	207,171	-	-	21,619,172
Payments to students	276,258	-	-	463,469	739,727
Supplies, materials, and other operating expenditures	22,267,129	593,812	62,952	-	22,923,893
Capital outlay	1,649,024	-	-	-	1,649,024
Utilities	2,507,488	540	-	-	2,508,028
Depreciation	-	-	-	-	-
Total Operating Expenditures/Expenses	122,628,900	1,273,326	62,952	463,469	124,428,647
Operating Income (Loss)	(93,543,054)	(43,342)	(62,952)	-	(93,649,348)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	48,333,827	-	-	-	48,333,827
Local property taxes	41,459,494	-	-	-	41,459,494
State taxes and other revenues	3,839,115	-	-	-	3,839,115
Investment income - noncapital	2,573,776	-	-	-	2,573,776
Debt service	(26,787,401)	-	-	-	(26,787,401)
Cost of issuance	(73,268)	-	-	-	(73,268)
Other nonoperating expenditures/expenses	(602,141)	-	-	-	(602,141)
Total Nonoperating Revenues (Expenditures)	68,743,402	-	-	-	68,743,402
Income (Loss) Before Other Revenues and Expenditures/Expenses	(24,799,652)	(43,342)	(62,952)	-	(24,905,946)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	299,649	-	-	-	299,649
Local property taxes and revenues - capital	8,858,127	-	-	-	8,858,127
Gifts and grants - capital	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures/Expenses	(15,641,876)	(43,342)	(62,952)	-	(15,748,170)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,945,550	16,437	-	-	3,961,987
Operating transfers out	(3,961,987)	-	-	-	(3,961,987)
Bonds issued	7,205,000	-	-	-	7,205,000
Premium (discount) on bond issuance	440,754	-	-	-	440,754
Total Other Financing Sources (Uses)	7,629,317	16,437	-	-	7,645,754
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(8,012,559)	(26,905)	(62,952)	-	(8,102,416)
Fund Equity - Beginning of Year	188,640,848	260,505	-	90,891	188,992,244
Fund Equity - End of Year	\$ 180,628,289	\$ 233,600	\$ (62,952)	\$ 90,891	\$ 180,889,828

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**

For the Year Ended June 30, 2012	Balance Brought Forward	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Balance Forward
OPERATING REVENUES					
Tuition and fees	\$ 20,017,805	\$ -	\$ -	\$ -	\$ 20,017,805
Less: Scholarship discount and allowance	12,407,526	-	-	-	12,407,526
Net Tuition and Fees	7,610,279	-	-	-	7,610,279
Grants and contracts - noncapital:					
Federal	6,029,997	48,853,773	-	-	54,883,770
State	9,903,763	2,965,709	-	-	12,869,472
Local	2,471,222	-	-	-	2,471,222
Auxiliary enterprise sales and charges	1,683,341	-	-	-	1,683,341
Other operating revenues	3,080,697	-	-	-	3,080,697
Total Operating Revenues	30,779,299	51,819,482	-	-	82,598,781
OPERATING EXPENDITURES/EXPENSES					
Salaries	74,988,803	-	-	-	74,988,803
Employee benefits	21,619,172	-	-	-	21,619,172
Payments to students	739,727	51,817,542	-	-	52,557,269
Supplies, materials, and other operating expenditures	22,923,893	1,940	-	-	22,925,833
Capital outlay	1,649,024	-	-	-	1,649,024
Utilities	2,508,028	-	-	-	2,508,028
Depreciation	-	-	-	-	-
Total Operating Expenditures/Expenses	124,428,647	51,819,482	-	-	176,248,129
Operating Income (Loss)	(93,649,348)	-	-	-	(93,649,348)
NONOPERATING REVENUES (EXPENDITURES)					
State apportionments - noncapital	48,333,827	-	-	-	48,333,827
Local property taxes	41,459,494	-	-	-	41,459,494
State taxes and other revenues	3,839,115	-	-	-	3,839,115
Investment income - noncapital	2,573,776	-	-	-	2,573,776
Debt service	(26,787,401)	-	-	-	(26,787,401)
Cost of issuance	(73,268)	-	-	-	(73,268)
Other nonoperating expenditures/expenses	(602,141)	-	-	-	(602,141)
Total Nonoperating Revenues (Expenditures)	68,743,402	-	-	-	68,743,402
Income (Loss) Before Other Revenues and Expenditures/Expenses	(24,905,946)	-	-	-	(24,905,946)
OTHER REVENUES AND EXPENDITURES					
State apportionments - capital	299,649	-	-	-	299,649
Local property taxes and revenues - capital	8,858,127	-	-	-	8,858,127
Gifts and grants - capital	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures/Expenses	(15,748,170)	-	-	-	(15,748,170)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	3,961,987	-	-	-	3,961,987
Operating transfers out	(3,961,987)	-	-	-	(3,961,987)
Bonds issued	7,205,000	-	-	-	7,205,000
Premium (discount) on bond issuance	440,754	-	-	-	440,754
Total Other Financing Sources (Uses)	7,645,754	-	-	-	7,645,754
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(8,102,416)	-	-	-	(8,102,416)
Fund Equity - Beginning of Year	188,992,244	(66,659)	-	-	188,925,585
Fund Equity - End of Year	\$ 180,889,828	\$ (66,659)	\$ -	\$ -	\$ 180,823,169

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**

For the Year Ended June 30, 2012	Balance Brought Forward	Student Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	\$ 20,017,805	\$ -	\$ 20,017,805
Less: Scholarship discount and allowance	12,407,526	-	12,407,526
Net Tuition and Fees	7,610,279	-	7,610,279
Grants and contracts - noncapital:			
Federal	54,883,770	-	54,883,770
State	12,869,472	-	12,869,472
Local	2,471,222	-	2,471,222
Auxiliary enterprise sales and charges	1,683,341	-	1,683,341
Other operating revenues	3,080,697	-	3,080,697
Total Operating Revenues	82,598,781	-	82,598,781
OPERATING EXPENDITURES/EXPENSES			
Salaries	74,988,803	-	74,988,803
Employee benefits	21,619,172	-	21,619,172
Payments to students	52,557,269	-	52,557,269
Supplies, materials, and other operating expenditures	22,925,833	-	22,925,833
Capital outlay	1,649,024	-	1,649,024
Utilities	2,508,028	-	2,508,028
Depreciation	-	-	-
Total Operating Expenditures/Expenses	176,248,129	-	176,248,129
Operating Income (Loss)	(93,649,348)	-	(93,649,348)
NONOPERATING REVENUES (EXPENDITURES)			
State apportionments - noncapital	48,333,827	-	48,333,827
Local property taxes	41,459,494	-	41,459,494
State taxes and other revenues	3,839,115	-	3,839,115
Investment income - noncapital	2,573,776	-	2,573,776
Debt service	(26,787,401)	-	(26,787,401)
Cost of issuance	(73,268)	-	(73,268)
Other nonoperating expenditures/expenses	(602,141)	-	(602,141)
Total Nonoperating Revenues (Expenditures)	68,743,402	-	68,743,402
Income (Loss) Before Other Revenues and Expenditures/Expenses	(24,905,946)	-	(24,905,946)
OTHER REVENUES AND EXPENDITURES			
State apportionments - capital	299,649	-	299,649
Local property taxes and revenues - capital	8,858,127	-	8,858,127
Gifts and grants - capital	-	-	-
Excess of Revenues Over (Under) Expenditures/Expenses	(15,748,170)	-	(15,748,170)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	3,961,987	-	3,961,987
Operating transfers out	(3,961,987)	-	(3,961,987)
Bonds issued	7,205,000	-	7,205,000
Premium (discount) on bond issuance	440,754	-	440,754
Total Other Financing Sources (Uses)	7,645,754	-	7,645,754
Excess of Revenues and Other Financing Sources Over (Under) Expenditures/Expenses and Other Financing Uses	(8,102,416)	-	(8,102,416)
Fund Equity - Beginning of Year	188,925,585	-	188,925,585
Fund Equity - End of Year	\$ 180,823,169	\$ -	\$ 180,823,169

See the accompanying notes to the supplementary information.

**RECONCILIATION OF FUND EQUITY
TO NET ASSETS**

Kern Community College District

June 30, 2012

Total Fund Equity - District Funds Included in the Reporting Entity		\$ 180,823,169
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capital assets	\$ 246,376,182	
Accumulated depreciation	<u>(83,854,486)</u>	162,521,696
Nondepreciable capital assets		65,346,471
Other postemployment benefits obligation		67,840,596
Excess insurance reserve		590,000
Deferred costs - net		3,084,890
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,584,037)
Retentions payable		(532,703)
Compensated absences	(2,294,620)	
Other long-term liabilities	<u>(313,168,352)</u>	<u>(315,462,972)</u>
Net Assets Reported Within the GASB 35 Statement of Net Assets		\$ 162,627,110

See the accompanying notes to the supplementary information.

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

Kern Community College District

June 30, 2012

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	\$ (8,102,416)
Compensated absence expense reduction reported within GASB 35 Statements	146,210
Depreciation expense reported within GASB 35 Statements	(6,502,779)
Amortization of bond issuance cost reported within the GASB 35 Statements	(599,582)
Amortization of bond premium cost reported within the GASB 35 Statements	705,080
Capital outlay expense not reported within the GASB 35 Statements	4,369,458
Retentions payable reported within the GASB 35 Statements	1,970,435
Excess insurance reserve reported within the GASB 35 Statements	240,000
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(2,196,283)
Principal payments on debt not reported within the GASB 35 Statements	13,558,841
Proceeds from debt not reported within the GASB 35 Statements	(7,645,754)
Prepaid expense of other postemployment benefits reported within the GASB 35 Statements	<u>(4,868,784)</u>
Net Change in Net Assets Reported Within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	<u>\$ (8,925,574)</u>

See the accompanying notes to the supplementary information.

June 30, 2012

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 for the year ended June 30, 2012, 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 Financial Awards were prepared for the Kern Community College 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, 2012, represents the basis of apportionment of the Kern Community College 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.

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.

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.

**NOTES TO THE SUPPLEMENTARY
INFORMATION**

Kern Community College District

June 30, 2012

The District reports deferred revenue on its combining balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues 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 deferred revenue is removed and revenue is recognized.

OTHER REPORTS SECTION

**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 the financial statements of the business-type activities of the Kern Community College District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2.

**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

We noted certain matters that we have reported to management of the District in a separate letter dated November 21, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response; and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, the California Community College Chancellor's Office, the federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

November 21, 2012
Redding, California



MATSON
& ISOM

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

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

Compliance

We have audited the compliance of Kern Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Continued

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

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

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

Matson and Isom

November 21, 2012
Redding, CA

**INDEPENDENT AUDITORS' REPORT ON
STATE COMPLIANCE**



**MATSON
& ISOM**

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

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 2011-12*, published by the California Community Colleges Chancellor's office, for the year ended June 30, 2012. The applicable state compliance requirements are identified in the table below. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on 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 Standard*, issued by the Comptroller General of the United States; and *California Community Colleges Contracted District Audit Manual 2011-12*, published by the California Community Colleges Chancellor's office. Those standards and the *California Community Colleges Contracted District Audit Manual 2011-12*, 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.

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) -
USE OF STATE AND FEDERAL TANF FUNDING
OPEN ENROLLMENT
STUDENT FEES - INSTRUCTIONAL AND OTHER MATERIALS
STUDENT FEES - HEALTHV 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)
CURRICULUM AND INSTRUCTION
TO BE ARRANGED HOURS (TBA)

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

In our opinion, 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, 2012, except as described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2.

This report is intended solely for the information and use of the Board of Trustees, management, the California Community College Chancellor's Office, the federal and state awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

November 21, 2012
Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

Kern Community College District

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiency identified not considered to be a material weakness?	No
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?	No
Type of auditors' report issued on compliance for major program	Unqualified
Audit findings disclosed relative to major federal award programs?	
Identification of major programs	
CFDA Nos. 84.007, 84.033, 84.375, 84.268, and 84.063	Student Financial Assistance Cluster
CFDA No. 84.048	Vocational Education – Basic Grants to States
CFDA No. 93.596	Child Development Cluster – Child Care and State Preschool
CFDA No. 17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors
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, 2012

Kern Community College District

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

Kern Community College District

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

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

Response

The District will set up processes and procedures to insure a minimum of two advisory committee meetings to be held for the CARE program during each academic year.

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2012

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 Title 5, Section 56026, the college 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 Chancellor's Office Implementing Guidelines for Title 5 Regulations over the Disabled Student Programs and Services due to lack of effective monitoring and retention of student files.

Recommendation

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

Response

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

None.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2012

Kern Community College District

EOPS

(11-1)

Significant Deficiency

Condition

During our testing of EOPS, we noted one student that received EOPS services from the Porterville campus that was not a California resident and was therefore not eligible to receive EOPS services.

Criteria

Oversight in initial review of the EOPS applicant.

Effect

Such student received \$325 in services from the EOPS program that she was not eligible to receive.

Recommendation

We recommend that the District institute a process to confirm the residency status of all EOPS applicants.

Current Status

Fully implemented.