

**OHLONE COMMUNITY
COLLEGE DISTRICT**

Fremont, California

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2004

OHLONE COMMUNITY COLLEGE DISTRICT

YEAR ENDED JUNE 30, 2004

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OHLONE COMMUNITY COLLEGE DISTRICT

YEAR ENDED JUNE 30, 2004

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OHLONE COMMUNITY COLLEGE DISTRICT

ORGANIZATION

YEAR ENDED JUNE 30, 2004

DESCRIPTION OF DISTRICT

The Ohlone Community College District (the District) was established July 1, 1966, and is comprised of an area approximating 534 acres. There were no changes in the boundaries of the District during the year.

The members of the Board of Trustees of the District holding office at June 30, 2004, and their terms of office are as follows:

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires December</u>
Ruthe Foster	President	2006
John H. Weed	Vice-President	2006
Robert Brunton	Secretary	2004
Dan Archer	Member	2004
Bill McMillin	Member	2006
Nick Nardolillo	Member	2004
Garrett Yee	Member	2006
Rosary Cordova	Student Member	2004

ADMINISTRATION

Dr. Douglas Treadway President/Superintendent
Dr. James Wright Vice President of Instruction
Ms. Deanna Walston Vice President/ Deputy Superintendent of Business Services
Dr. Lisa Waits Vice President of Student Services

OHLONE COMMUNITY COLLEGE DISTRICT

OBJECTIVES OF THE AUDIT

YEAR ENDED JUNE 30, 2004

The audit of the Ohlone Community College District (the District) had the following objectives:

- To evaluate the adequacy of the systems and procedures affecting compliance with applicable federal and California laws and regulations, noncompliance with which could have a material effect on the District's financial statements and the allowability of program expenditures for federal and California financial assistance programs.
- To evaluate the adequacy of the system of internal control sufficient to meet the requirements of generally accepted auditing standards, for the purpose of formulating an opinion on the financial statements taken as a whole.
- To determine the accountability for revenues and the propriety of expenditures, and the extent to which funds have been expended in accordance with prescribed federal and California laws and regulations.
- To determine whether financial and related reports to state and federal agencies fairly present the information set forth in relation to the financial statements taken as a whole.
- To determine the fairness of the financial statement presentation in accordance with generally accepted accounting principles.
- To recommend appropriate actions in any areas where internal control or compliance with applicable federal and California laws and regulations could be improved.

OHLONE COMMUNITY COLLEGE DISTRICT

HIGHLIGHTS OF THE AUDIT

YEAR ENDED JUNE 30, 2004

This section highlights findings that were identified during the audit. These findings are discussed in the independent auditor's report and the findings and recommendations section (see pages 51-58).

- The independent auditor's report on the financial statements for the year ended June 30, 2004 is unqualified (see page 4).
- There were no reportable conditions in the internal control structure over financial reporting.
- One compliance exception with state laws and regulations was noted.
- One compliance exception was found in federal financial assistance programs.

FINANCIAL SECTION



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

**Members of the Board of Trustees
Ohlone Community College District
Fremont, California**

We have audited the accompanying financial statements of the business-type activities of the Ohlone Community College District (the District), its discretely presented component unit, and fiduciary net assets and changes in net assets as of and for the year ended June 30, 2004, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the business-type activities, the discretely presented component unit, and fiduciary net assets of the Ohlone Community College District, as of June 30, 2004, and the changes in net assets and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and on 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 read in conjunction with this report in considering the results of our audit.

**Members of the Board of Trustees
Ohlone Community College District
Page 2**

The Management's Discussion and Analysis on pages 6 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 27, 2004

**OHLONE COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2004**

In June 1999, 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," 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 to public colleges and universities. Ohlone Community College District (OCCD) adopted these new standards in the 2002-2003 fiscal year.

The California Community College Chancellor's Office has recommended that all State community college districts follow the new standards under the Business Type Activity (BTA) model. OCCD 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.

In addition, GASB 39 was implemented this year. As a result the Ohlone College Foundation, which qualifies, as a component unit under GASB 39, has been discretely presented as a separate column on the face of the financial statements.

Overview of the Financial Statements

As required by the newly adopted accounting principles, the annual report consists of three basic financial statements that provide information on OCCD as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The information provided on the statements that follow includes all funds, with the exception of the Student Association and Agency funds, shown on page 22 and the Foundation, which is a separate column. Each statement will be discussed separately.

Under the BTA model of financial reporting, a single entity-wide statement is required to report financial activity for all funds of the District. Since the District is made up of many different funds with a variety of purposes, the following information is provided to help with the understanding of the financial statements. The supplemental section of the audited financial statements provides a reconciliation of the typical fund-type format with the BTA-type presentation.

Budget Highlights

The economy of the State of California had a major down turn three years ago. While there has been some recovery, funding is limited. The District reduced staff at the onset of the downturn and has continued to monitor and cut when necessary. In 2002-03 mid-year cuts, early spending cut offs and salary savings helped the District through a second state budget deficit.

In 2003-04, under the leadership of a new president, the District implemented a new shared-governance model. Under this structure there was a campus wide cooperative effort that resulted in a less than 1% budget variance while maintaining our focus on student success.

Financial Highlights

In March 2002, the District passed a \$150 Million General Obligation Bond to fund capital construction projects over the next seven to eight years. These funds are to be used to build a center in Newark, for technology and health sciences, build a student support services building, and invest in critically needed renovation and upgrade projects on the Fremont campus.

The holistic planning style of the new president took the District through a comprehensive look at both sites and integrated the secondary effects on the Fremont campus as a result of moving programs to the Newark site. Although this focus has caused some delay in the construction phase of the projects, the District believes the resulting master plans will more appropriately meet the needs of the community.

The estimated completion of the Newark site is 2007 and the student service building on the Fremont campus is 2008.

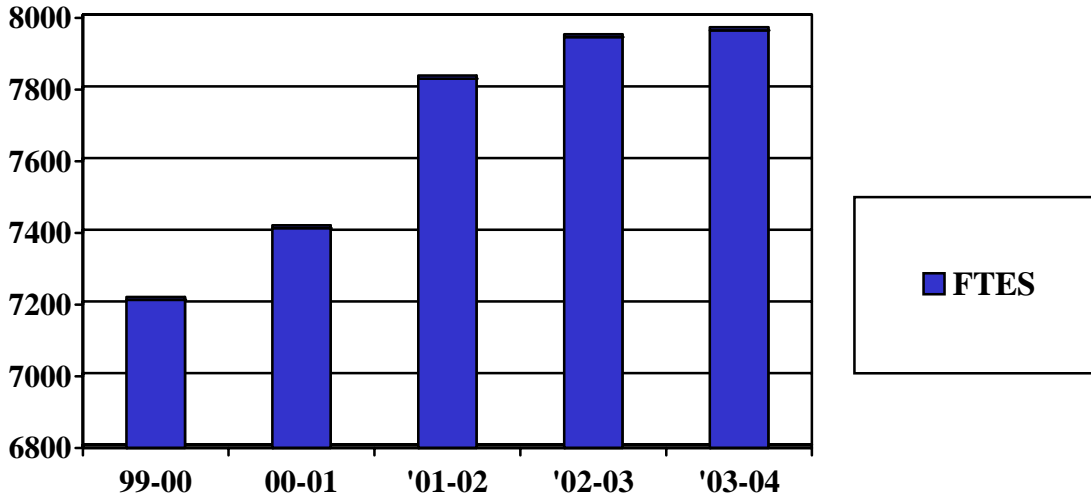
During 2003-04 the Board adopted a set of fiscal policies to formalize the sound fiscal management that the Business Office was utilizing in budget creation. The policies addressed:

- A balanced budget
- Use of one-time revenue for one-time expenses
- Set a priority for scheduled maintenance
- Established stabilization reserves
- Capitalization policies as required by GASB 34/35

Attendance Highlights

- ✘ Although the District was eligible for a 3.68% growth rate in 2002-03, the State could support only 40% of that rate for a funded growth rate of 1.48% in 2003-04. In order to manage its enrollment to maximize growth funding, the District schedules its summer programs so that summer enrollment counts toward either fiscal year. Therefore, enrollment that was not supported by the State.
- ✘ In the 2002-03 fiscal year was reported in the 2003-04 fiscal year. The growth target for 2003-04 was 2.8%, but with the system wide base adjustment the District experienced a .89% increase in FTES. The District has a large percentage of part time students and is working to increase the number of full time students.

Full Time Equivalent Students (FTES) Trends



Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private sector organizations. Net assets – the difference between assets and liabilities – are an indicator of the financial health of a District.

	2004	2003	Change
ASSETS			
Current assets	\$ 14,496,256	\$ 13,808,201	\$ 688,055
Non-current assets	95,122,884	92,680,012	2,442,872
TOTAL ASSETS	\$109,619,140	\$106,488,213	\$ 3,130,927
LIABILITIES			
Current liabilities	\$ 11,026,925	\$ 9,875,438	\$ 1,151,487
Non-current liabilities	32,922,462	37,483,986	(4,561,524)
TOTAL LIABILITIES	43,949,387	47,359,424	(3,410,037)
NET ASSETS			
Invested in capital assets, net of related debt	57,895,987	52,622,262	5,273,725
Restricted	1,355,815	1,348,844	6,971
Unrestricted	6,417,951	5,157,683	1,260,268
TOTAL NET ASSETS	65,669,753	59,128,789	6,540,964
TOTAL LIABILITIES AND NET ASSETS	\$109,619,140	\$106,488,213	\$ 3,130,927

Current assets at June 30, 2004 consist of:

- ✧ Current cash and cash equivalents, mainly held in the County Treasury, total \$9.2 million reflecting a \$.9 million reduction.

- ✦ Accounts receivable includes amounts due from State, Federal and local grants, contract, and general apportionment earned, but not received by year-end. Accounts receivable totaled \$4.6 million, a \$1.5 million increase from prior year, which reflects the full June 2004 apportionment payments deferred by the state until 2004-05.
- ✦ Stores inventory consists of the Bookstore inventory.
- ✦ Prepaid expenditures are those expenses that are paid prior to year-end but relate to the next fiscal year. These are primarily prepaid premiums for a new workers' compensation policy and professional organization dues.

Non-current Assets

- ✦ Restricted cash and cash equivalents consist mainly of amounts relating to the General Obligation Bond including cash in the Bond Fund (\$12.8 million) This balance decreased by \$3.2 million from prior year due to capital outlay related to the District's progress on the bond projects for both the Newark and Fremont sites.
- ✦ Net Capital Assets are reported at the historical cost of land, buildings and equipment less accumulated depreciation, where applicable. The footnotes to the financial statements contain detailed information for capital assets.

Current liabilities consist of:

- ✦ Accounts payable are mainly amounts due to vendors (\$2.0 million), which is a \$1 million reduction over last year, a direct result of the early spending cut off.
- ✦ Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grants are earned when expended. Also included are the deferrals on enrollment fees for the Summer and Fall 2004 terms (\$882 thousand).
- ✦ Accrued payroll and benefits represents the amount held for the payment to employees that work 10 months but elect to have their salary spread over a 12 month period.
- ✦ The Bond payable is the amount due to the bond holders of our Measure A Bond. These payments are made from the voter approved tax assessments from Fremont and Newark property taxes. The original amount issued was \$40 million. The amount due next fiscal year is \$4.7 million.

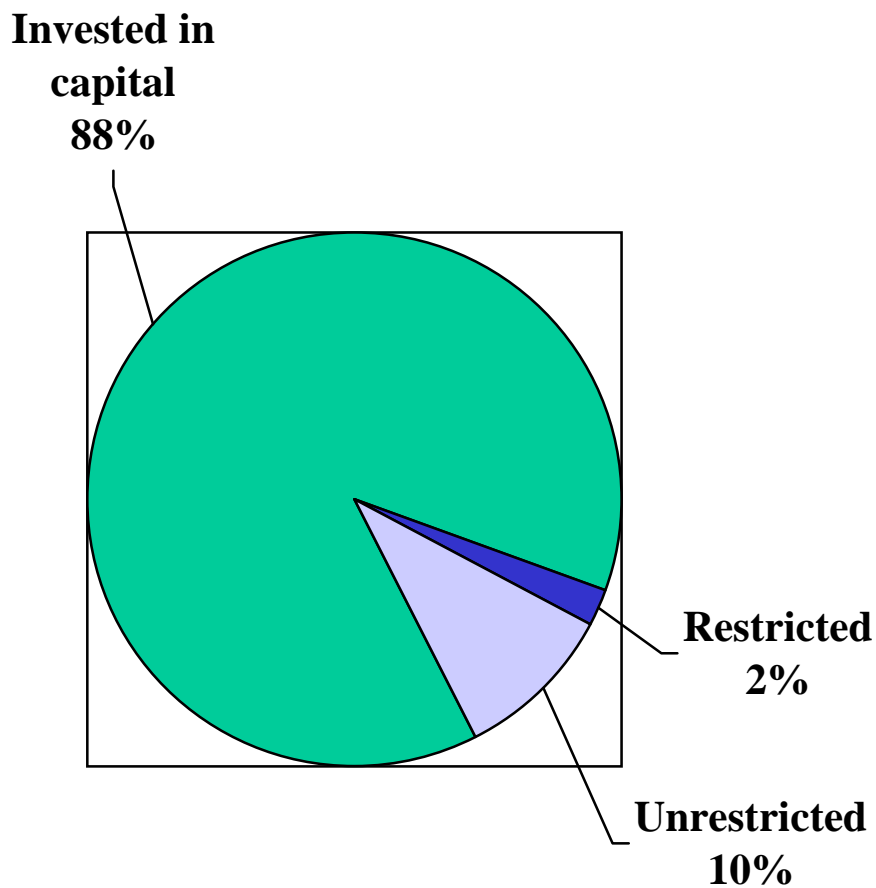
Non-current liabilities are:

- ✦ Non-current liabilities represent debt potentially owed in future years. The major component is the long-term portion (due in more than one year) of the Measure A Bond. After the \$4.7 million (current portion) is paid, the remaining amount of \$31.5 million is to be paid over 27 years.

Net Assets: Analysis of the District's Financial Position

Net assets, the difference between the District's assets and liabilities, are an indicator of the District's financial position. Net assets are reported in three components: Unrestricted, Restricted, and Invested in Capital Assets, Net of Related Debt. Invested in Capital Assets, Net of Related Debt is \$57.9 million. Restricted Net Assets include amounts legally restricted for payment of scholarships, other capital projects and debt service (\$1.3 million).

Unrestricted Net Assets (\$6.4 million) represent resources with no external restrictions. This category includes \$2.8 million from the Bookstore. These funds may also carry designations from the Board of Trustees for contingencies and other special purposes. Unrestricted Net Assets represent 10% of Total Net Assets.



The Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating activity of the District, as well as the non-operating revenues and expenses. State general apportionment funds, while budgeted as operations, are considered non-operating revenues according to generally accepted accounting principles.

	2004	2003	Change
Total Operating Revenue	\$13,151,665	\$ 14,670,738	\$(1,519,073)
Total Operating Expenses	46,920,470	48,771,041	(1,850,571)
Operating income (loss)	(33,768,805)	(34,100,303)	331,498
Net non-operating revenue (expenses)	30,175,926	31,285,728	(1,109,802)
Gain(loss) before capital revenue	(3,592,879)	(2,814,575)	(778,304)
Capital revenues	10,133,843	1,402,813	8,731,030
Increase(decrease) in net assets	6,540,964	(1,411,762)	7,952,726
Net Assets - Beginning of the year	59,128,789	60,540,551	(1,411,762)
Net-Assets - End of the year	<u>\$65,669,753</u>	<u>\$ 59,128,789</u>	<u>\$ 6,540,964</u>

Changes in operating revenue:

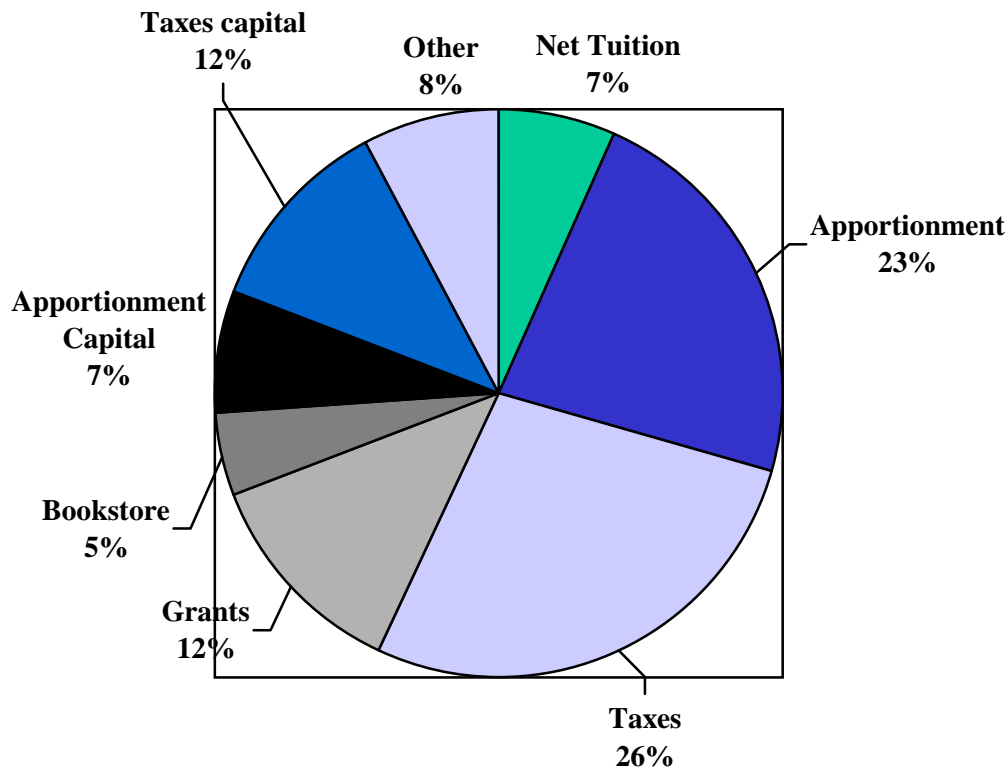
- ✦ Net tuition and fees increased by \$860 thousand which represents a \$1.08 million increase in tuition and fees, and a \$220 thousand increase in Scholarship Discounts and Allowances - the Board of Governor's fee waivers. Enrollment fees are set by the state legislature for all community colleges, and effective Fall 2003 semester, the enrollment fee was increased from \$11 to \$18 per unit, effectively increasing student cost by 61%.
- ✦ State categorical funding was decreased by \$2.1 million. Even though other operating funding sources were up there was an overall reduction in operating revenue of \$1.5 million.
- ✦ The effective average annual yield of the District's investments for the year, excluding the Foundation, ranged from 1%, for local money market accounts to 3.76% for County Treasury-directed investments.

Changes in non-operating revenues:

- ✦ The District participated in the California Community College League 2002 Tax Revenue Anticipatory Note (TRAN). The District qualified for \$2.5 million. The investment in a Guaranteed Investment Contract (GIC) yielded just a half of a basis point over the debt service. In 2003-04 the amount was \$2.2 million and generated only enough interest to break even. Because of careful cash management, the District did not experience a funding deficit in 2003-04 and consequently did not qualify for a TRANS in 2004-05.

- ✧ State apportionments were \$13 million in 2002-03 and \$12.5 million in 2003-04. State apportionment represents total general apportionment earned less regular enrollment fees and less property taxes. Both enrollment fees and property taxes increased in the 2003-04 fiscal year.
- ✧ Local property taxes increased by 3% in 2002-03 and again by 3.6% in 2003-04. As noted above, increases in property tax revenue result in a corresponding reduction in the district's State apportionment revenue.
- ✧ Property taxes for capital increased by \$6.2 million related to the tax receipts for the bond repayments.
- ✧ State apportionment related to capital increased by \$2.3 million related to the construction phase of the Child Development Center.
- ✧ State lottery revenue amounted to \$1 million in both fiscal years.
- ✧ Investment income decreased by \$374 thousand, due to reduced bond proceeds and lower levels of cash in county. Additionally, the overall county pool had a reduction in value of \$10 million.

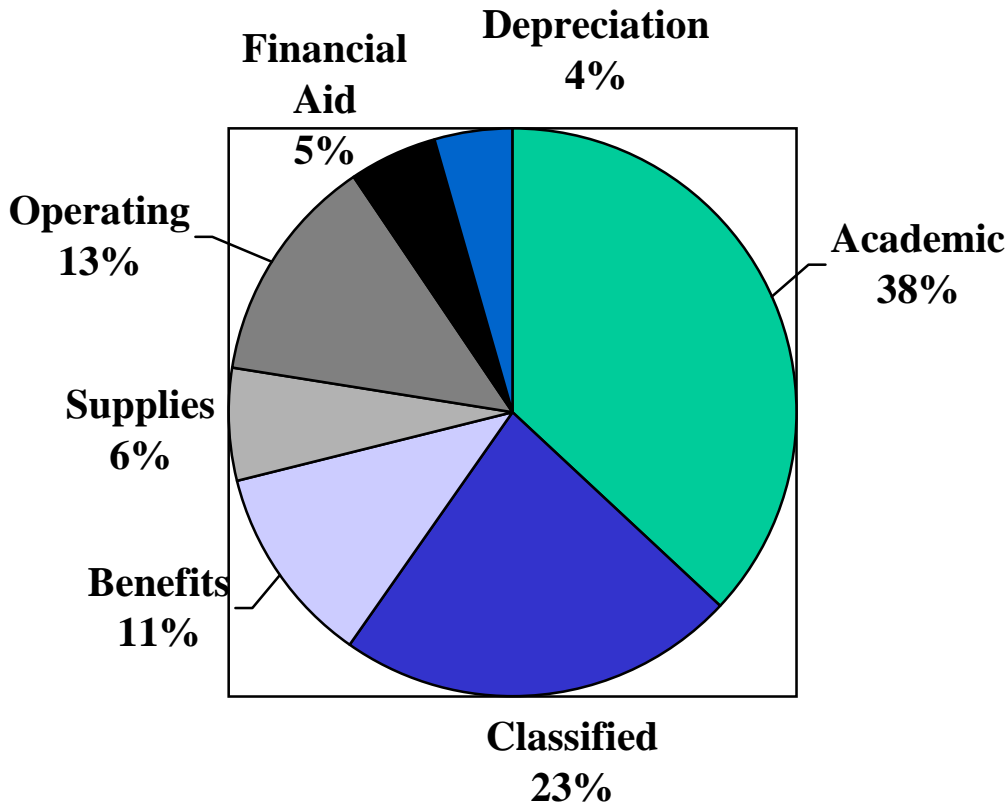
<u>Total Revenues for the Year Ended</u>	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Change</u>
Net tuition and fees	\$ 3,745,428	\$ 2,882,926	\$ 862,502
State apportionment non-capital	12,554,845	13,838,514	(1,283,669)
Local property taxes	15,162,188	14,639,080	523,108
Grants	6,668,965	8,831,713	(2,162,748)
Auxiliary enterprise (Bookstore)	2,737,272	2,956,099	(218,827)
State apportionment capital	3,750,012	1,381,156	2,368,856
Property taxes capital	6,383,831	1,091,241	5,292,590
Other	4,233,792	2,915,707	1,318,085
	<u>\$55,236,333</u>	<u>\$48,536,436</u>	<u>\$ 6,699,897</u>



Changes in Operating Expenses

- * Since no COLA was given in 2003-04, salaries increased only by employee changes on step and column. There was an overall reduction in salaries due to vacancies that were held open to assist with anticipated funding deficits. A portion of the reduction was offset by a penalty in the amount of \$172 thousand that the District received due to the timing of faculty retirements and their exclusion from the full-time faculty formula.
- * Benefits saw a sharp increase of 13.5%. This is primarily due to an increase in the PERS contribution rate to 10.42% from 2.771%, an 11% average increase in medical premiums and an increase in the medical cap for the classified units.
- * In 2003-04 supplies, materials, and other operating expenses were reduced by 14% through significant district wide effort.
- * Financial aid to students reported a 29% increase in 2002-03 reflecting the increased PELL awards from the Federal Government. 2003-04 saw another increase of 21% in PELL awards and a 91% increase in BOGG waivers. A portion of the increase is due to the 63% increase in fees.

Operating Expenditures for the Year Ended	6/30/2004	6/30/2003	Change
Academic and classified salaries	\$28,238,394	\$29,462,741	\$ (1,224,347)
Employee benefits	5,340,565	4,703,684	636,881
Supplies and other operating expenses	8,887,559	10,337,769	(1,450,210)
Depreciation	2,086,501	2,363,930	(277,429)
Student financial aid	2,367,451	1,902,917	464,534
	<u>\$46,920,470</u>	<u>\$48,771,041</u>	<u>\$ (1,850,571)</u>



The Statement of Cash Flows

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

	2004	2003	Change
Net Cash provided (used) by:			
Operating activities	(32,833,470)	(31,087,402)	(1,746,068)
Non-capital financing activities	31,670,876	31,952,616	(281,740)
Capital and related financing activities	(2,594,156)	(2,492,790)	(101,366)
Investment activities	256,751	494,990	(238,239)
Net increase (decrease) in cash	(3,499,999)	(1,132,586)	(2,367,413)
Cash - beginning of the year	26,490,144	27,622,730	(1,132,586)
Cash - end of the year	<u>\$22,990,145</u>	<u>\$ 26,490,144</u>	<u>\$ (3,499,999)</u>

- The primary cash receipts from operating activities consist of grants and contracts. The primary cash outlays include payment of wages, benefits, supplies, and contracts.
- General apportionment is the primary source of non-capital financing. The two main components of general apportionment are state apportionment and property taxes.
- The main capital financing activities are for the purchases and upgrades of capital assets (land, building, and equipment).
- Cash from investing activities is interest on investments.
- The reduction in cash is primarily related to the expensing of bond proceeds.

Economic Factors That May Affect the Future

State Economy

- ✦ The economic position of OCCD is closely tied to that of the State of California. The district receives 29% of its funding through State apportionments and 33% from local property taxes. These two sources, together with enrollment fees, essentially make up the district's general apportionment, its main support from the State.
- ✦ The news from Sacramento is favorable for the community college system as a whole on both the legislative front and tax generation. The change in California Governors has influenced the shift in the state's emphasis on funding for the community colleges as evidenced by the 7% increase in funding for fiscal year 2004-05 in spite of severe reductions in other areas of the state budget. There is however still a sizable state deficit funded heavily from borrowing against future years.
- ✦ As of the writing of this section, the State appears to be coming out of recession. However, the lag time between private earnings and State tax revenue is too long to expect major positive effects on the State community college budgets for the next few years.

2004-05 Budget

This is the first budget to be considered since the Board of Trustees adopted seven District wide goals and revised its educational master plan in light of planning for the new center in Newark.

Revenue Strategies

The Educational Master Plan assumes annual growth of 1.5% FTES for 2004-05 and the following two years. 80% of this enrollment growth, according to the plan, is to be directed toward the Newark Center. The State budget provides Ohlone with an allowable growth rate in 2004-05 of 4.4% (5.15% x .846). For 2005-06 the State will only fund a growth rate of 1.23%. Therefore, for 2004-05 Ohlone must earn at least 1.77% in enrollment growth to stay on target with the educational master plan.

Summer and Fall 2004 did not produce the enrollments needed to reach these target numbers. Even if OCCD cannot fully take advantage of available growth funding this year, it must not decline in enrollment. Declining enrollment would result in the State reducing general apportionment funding in 2005-06, thus making it exceedingly difficult for OCCD to meet ongoing commitments and goals.

In order to achieve at least 1.77% growth in 2004-05, the following strategies will be pursued:

1. Offer more evening sections at Newark Memorial High School (NMHS).
2. Rent classrooms near NMHS from University of Phoenix to offer more day sections.
3. Allocate funds for more advertising of Ohlone classes.
4. Provide faculty with more information that they can pass on to students.
5. Increase the number of offerings for Summer 2005.
6. Consider offering more classes on high school campuses for Spring 2005.

Enrollment of international students has declined in the past two years and fewer U.S. students are studying abroad. In order for OCCD to reverse this trend and in keeping with one of the District-wide goals, international student recruitment efforts will be mounted. A portion of revenues that are derived from the fees paid by these students will be earmarked for international programs.

A major District goal is to enhance revenue from sources other than the State budget. Strategies for revenue generation include:

1. Hiring a full-time grant writer. Currently we have a part-time grants consultant.
2. Requesting proposals from private developers to lease property owned by OCCD on Mission Boulevard. Private development leases would generate more than \$1 million in additional revenue for OCCD budget starting in 2006-07.
3. Securing approval to sell surplus property OCCD owns on the southern and northern boundaries of the Fremont campus so that private homes can be built. The revenue will be dedicated to constructing parking structures on the upper campus and new athletic fields and facilities.

Prioritizing Expenditures

With the adoption of the 2004-05 Final Budget, OCCD will have a more clearly demonstrated connection between its strategic planning goals and budget allocations. There is a provision of \$100,000 in the Final Budget to support the seven major goals. Programs and services that will be eligible for this funding include the following examples:

1. International and multi-cultural education programs and services.

2. The (new) Teaching and Learning Institute:
 - a. New methods and technologies for learning.
 - b. Staff development related to the Learning College.
3. Student development activities that promote full-time student enrollments.
4. Campus environmental education and improvements.
5. Campus health and safety.
6. Expansion of community outreach and college partnerships.

An allocation plan for the \$100,000 will be developed in consultation with the College Council and its new task force.

A close examination of the 2004-05 budget will reveal other expenditures already in the budget that directly support OCCD's major goals. These will be identified and given special priority.

Finally the strongest link between the budget and goal priorities are our faculty, staff and management since more than 85% of the annual budget is earmarked for their salaries and benefits. Agreements with classified staff unions will enable a broader participation of staff in college task forces, and developmental activities; reassigned time for faculty will be closely connected to goals and priorities; and administrators will have assignments to support goals and task force activities.

Additional information and analysis of the Foundation can be found in its separately issued financial statements, which can be obtained at the District office at 43600 Mission Blvd., Fremont, California.

OHLONE COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Primary Institutor	Foundation
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,198,412	\$ 447,121
Accounts receivable	4,592,371	55,880
Stores inventory	486,497	
Prepaid expenditures	218,976	987
Total current assets	<u>14,496,256</u>	<u>503,988</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	13,791,733	
Investments		1,282,563
Assets held in trust		890,297
Capital assets, net	81,331,151	30,675
Total noncurrent assets	<u>95,122,884</u>	<u>2,203,535</u>
TOTAL ASSETS	<u>109,619,140</u>	<u>2,707,523</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,015,397	266
Deferred revenue	2,238,954	
Accrued payroll and benefits	1,120,373	16,058
Payable to other affiliated organizations	20,561	
Other accrued liabilities	380,399	
Liability to beneficiaries		65,316
Long-term liabilities due within one year:		
Compensated absences payable	295,139	
Post-employment health benefits	131,049	
Capital lease payable	95,053	
Bonds payable	4,730,000	
Total current liabilities	<u>11,026,925</u>	<u>81,640</u>
Noncurrent liabilities:		
Liability to beneficiaries		480,432
Compensated absences payable	743,641	
Post-employment health benefit	504,988	
Capital lease payable	183,833	
Bonds payable	31,490,000	
Total noncurrent liabilities	<u>32,922,462</u>	<u>480,432</u>
TOTAL LIABILITIES	<u>43,949,387</u>	<u>562,072</u>
NET ASSETS		
Invested in capital assets, net of related debt	57,895,987	30,675
Restricted:		239,518
Nonexpendable:		
Endowments		1,191,717
Annuity and life income funds		344,549
Expendable:		
Scholarships and loans	7,525	
Capital projects	575,769	
Debt service	500,887	
Other special purposes	271,634	
Endowments		247,919
Unrestricted	<u>6,417,951</u>	<u>91,075</u>
TOTAL NET ASSETS	<u>\$ 65,669,753</u>	<u>\$ 2,145,453</u>

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

OHLONE COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	\$ 4,218,383	
Less: Scholarship discounts and allowances	(472,955)	
Net tuition and fees	3,745,428	
Grants and contracts/gifts, noncapital:		
Federal	3,324,054	
State	2,691,173	
Local	653,738	\$ 576,696
Auxiliary enterprise sales and charges	2,737,272	
Change in value of split-interest agreements		(14,214)
TOTAL OPERATING REVENUES	13,151,665	562,482
OPERATING EXPENSES		
Academic and classified salaries	28,238,394	
Employee benefits	5,340,565	
Supplies, materials, and other operating expenses and services	8,887,559	254,980
Depreciation	2,086,501	
Student financial aid and scholarships	2,367,451	133,056
TOTAL OPERATING EXPENSES	46,920,470	388,036
OPERATING (LOSS)GAIN	(33,768,805)	174,446
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, noncapital	12,554,845	
Local property taxes	15,162,188	
State taxes and other revenues	2,739,808	
Investment income - noncapital	152,896	182,899
Investment income - capital	256,751	
Investment expense - noncapital		(44,597)
Interest expense on capital asset-related debt	(1,767,324)	
Other non-operating revenues	1,084,337	
Other uses	(7,575)	
TOTAL NON-OPERATING REVENUES (EXPENSES)	30,175,926	138,302
(LOSS) GAIN BEFORE CAPITAL REVENUES	(3,592,879)	312,748
State apportionments, capital	3,750,012	
Local property taxes and revenues, capital	6,383,831	
CHANGE IN NET ASSETS	6,540,964	312,748
NET ASSETS -- BEGINNING OF YEAR	59,128,789	1,832,705
NET ASSETS -- END OF YEAR	\$ 65,669,753	\$ 2,145,453

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

OHLONE COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004**

	Primary <u>Institution</u>	<u>Foundation</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,213,971	
Federal grants and contracts	3,324,054	
State grants and contracts	3,714,234	
Local grants and contracts	653,738	
Received from private donors		\$ 491,311
Received from other sources		8,174
Payments to suppliers for goods and services	(9,708,672)	(236,974)
Payment to/on behalf of employees	(33,410,744)	(13,158)
Payment to/on behalf of students	(2,357,323)	(133,056)
Auxillary enterprise sales and charges	2,737,272	
Other receipts and payments		
Net cash (used) provided by in operating activities	<u>(32,833,470)</u>	<u>116,297</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments and receipts	12,554,845	
State taxes and other revenue	2,739,808	
Property taxes	15,162,188	
Other receipts	1,214,035	
Net cash provided by noncapital financing activities	<u>31,670,876</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments for capital purposes	3,750,012	
Purchases of capital assets	(7,094,290)	(15,000)
Proceeds from sale of capital assets	4,000	
Principal paid on capital debt	(3,870,378)	
Interest paid on capital debt	(1,767,331)	
Local property taxes and other revenues for capital purposes	6,383,831	
Net cash (used) by capital and related financing activities	<u>(2,594,156)</u>	<u>(15,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(198,272)
Proceeds from sales/maturities of investments		159,379
Investment income	256,751	84,883
Investment expense		(44,597)
Net cash provided by investing activities	<u>256,751</u>	<u>1,393</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(3,499,999)	102,690
CASH AND CASH EQUIVALENTS -- BEGINNING OF YEAR	<u>26,490,144</u>	<u>344,431</u>
CASH AND CASH EQUIVALENTS -- END OF YEAR	<u>\$ 22,990,145</u>	<u>\$ 447,121</u>

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

OHLONE COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS (Continued)
YEAR ENDED JUNE 30, 2004

	<u>Primary</u>	<u>Foundation</u>
	<u>Institution</u>	<u>Foundation</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating (loss) income	\$ (33,768,805)	\$ 174,446
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Loss on disposal of property and equipment		9,332
Depreciation	2,086,501	4,375
Change in value of split-interest agreements		14,214
Changes in:		
Accounts receivable	(1,531,457)	(47,211)
Inventory and prepaids	(80,050)	(987)
Accounts payable	(744,764)	(23,928)
Deferred revenue	1,023,061	(30,000)
Accrued payroll	(128,647)	16,056
Other accrued liabilities	3,700	
Payable to other affiliated organizations	10,129	
Retiree health benefits	236,017	
Compensated absences	60,845	
Net cash (used) provided by operating activities:	<u>\$ (32,833,470)</u>	<u>\$ 116,297</u>

NONCASH FINANCING ACTIVITIES:

A vehicle with a fair value of \$10,000 was donated to the District.

The net increase in capital assets acquired by capital lease was \$41,613.

The net decrease in fair value of the Foundation's charitable remainder trusts was \$98,016.

OHLONE COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 824,848
Accounts receivable	<u>19,065</u>
TOTAL ASSETS	<u>\$ 843,913</u>
LIABILITIES	
Accounts payable	\$ 28,659
Deferred revenue	30,313
Amounts held in trust for others	<u>784,941</u>
TOTAL LIABILITIES	<u>\$ 843,913</u>

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

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

1. ORGANIZATION AND REPORTING ENTITY

The Ohlone Community College District (the District), formerly known as Fremont-Newark Community College District, was established July 1, 1966 with the founding of Ohlone College. The District operates a main campus in the city of Fremont and a satellite in Newark.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39. The District, based on its evaluation of this criteria, identified the Ohlone College Foundation (the Foundation) as a component unit.

The District, based on its evaluation of the criteria listed above, has determined the following represent its component units:

Discretely Presented Component Unit – The Ohlone College Foundation (Foundation) is a separate not-for-profit organization. A majority of its Board of Directors are elected independent of any District Board of Trustees appointments. The Foundation Board is responsible for approving its own budget and accounting and finance related activities. The District provides in-kind contributions to the Foundation in the form of salaries, facility use, equipment, supplies, and utilities. The value of these in-kind contributions for the year ended June 30, 2004 was estimated to be \$207,072.

Complete financial statements for the Foundation may be obtained from the District Office at 43600 Mission Boulevard, Fremont, California.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants and, where applicable, Financial Accounting Standards Board (FASB) Statements issued through 1989.

Basis of accounting – For financial reporting purposes, the District is considered a special-purpose government engaged only in business type activities. Accordingly, the District and Foundation financial statements have been presented using economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when an obligation has been incurred. All significant interfund transactions have been eliminated.

The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Chancellor's Office of the California Community College's Budget and Accounting Manual*, which is consistent with generally accepted accounting principles.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

In addition to the District's business type activities, the District maintains fiduciary funds. These funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are accounted for using the economic resources measurement focus. The District reports the following fiduciary funds.

Agency Funds – This fund includes the Associated Students and the Other Agency Funds:

The Associated Students Fund accounts for the funds of the Associated Students. The amounts reported for student body funds represent the combined totals of all accounts for the various student body clubs and activities within the District. Individual totals, by club, are maintained within the Associated Students accounting system.

Other Agency Funds account for the funds of the clubs maintained for the benefit of the student body.

Budgets and budgetary accounting – By state law, the District's governing board must approve a tentative budget no later than July 1st and adopt a final budget no later than September 15th of each year. A hearing must be conducted for public comment prior to adoption. The District's governing board satisfied these requirements.

The budget is revised during the year to incorporate categorical funds which are awarded during the year and miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's governing board.

Estimates used in financial reporting – 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents – The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Restricted cash and investments – Cash and investments that are externally restricted per contractual obligations are classified as non-current assets in the statement of net assets.

Assets held in trust - Charitable remainder trust assets include the estimated fair value of various irrevocable charitable trusts in which the Foundation is both the trustee and secondary beneficiary. The net present values of these assets were determined using investment returns consistent with the composition of the asset portfolios, life expectancies, and relevant discount rate. Irrevocable charitable trusts whose use by the Foundation is limited due to donor-imposed restrictions increase restricted net assets.

Stores inventory - Bookstore Fund inventories are stated at cost, determined using the retail inventory method.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Capital assets – All capital assets other than buildings and improvements are those assets purchased or acquired with an original cost of \$5,000 or more. Buildings and improvements purchased or acquired with an original cost of \$50,000 or more are capital assets. These assets are reported at historical cost or estimated historical cost if historical cost is not readily available. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Improvement of Sites	20
Buildings and Improvements	50
Vehicles	8
Restricted Programs - Machinery	5-15
Machinery and Equipment	5-15

Deferred revenue – Cash received for federal and state projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Compensated absences – Employee vacation pay is accrued at year-end for financial statement purposes based on vacation time accrued and current rate of pay. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets and as a component of employee benefits. It is the District’s policy to record sick leave in the period taken, since the employee’s right to sick leave payment does not vest upon termination.

Pension costs – Pension costs are funded currently (see Note 11).

Non-current liabilities – Non-current liabilities include estimated amounts for accrued compensated absences and post-employment benefits that will not be paid within the next fiscal year.

Liability to beneficiaries - Liability to beneficiaries represents the present value of the liability due to primary beneficiaries of the irrevocable charitable remainder trusts for which the Foundation is both trustee and secondary beneficiary. On an annual basis, the Foundation reviews its actuarial assumptions and the need to revalue the liability for future distributions to the designated beneficiaries based upon any changes in the actuarial assumptions. The present value of the estimated future payments is calculated using discount rates ranging from 7.0% to 7.8% and applicable life expectancy tables.

Net assets – The District's net assets are classified as follows:

- Invested in capital assets, net of related debt – This represents the District's total investment in capital assets, net of 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.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

- Restricted net assets – expendable – Restricted expendable net assets include resources that the District is legally or contractually obligated to spend 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.

Classification of revenues – The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

- Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State, and local grants and contracts and Federal appropriations.
- Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as State Appropriations and investment income.

Scholarship discounts and allowances and financial aid – Student tuition and fee revenues are reported net of scholarship discounts and allowances in the statement of activities. The District offers Board of Governor’s Grants (BOGG) to qualified students and these tuition waivers are reported as scholarship discounts and allowances. Grants, such as Federal, State, or non-governmental programs, are recorded as operating or non-operating revenues in the District’s financial statements. Pell grants are recorded as non-operating revenue.

Property taxes – Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of Alameda bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

Implementation of new accounting policies – For the year ended June 30, 2004, the District implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement 14 to provide guidance for determining and reporting whether certain organizations are component units. GASB 39 provides guidance for presenting component units, such as Foundations, as discretely presented component units from the primary institution in the financial statements.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Future GASB statement implementation - In July of 2004, the GASB issued GASB Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented by the District during the fiscal year ending June 30, 2009. The new statement will significantly change the way state and local governments report their "other postemployment benefits" to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer's cash flow.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Alameda County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the Treasury are not required to be categorized by credit risk.

The Treasury is restricted by Government Code Section 53635, pursuant to Section 53601, to invest in time deposits; U.S. government securities; state registered warrants, notes, or bonds; the State Treasurer's investment pool; bankers' acceptances; commercial paper; negotiable certificates of deposit; and repurchase or reverse repurchase agreements.

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2004, the carrying amount of the District's and the Foundation's bank deposits was \$6,272,705 and \$311,423, respectively and the bank balance was \$6,313,421 and \$307,149, respectively. Balances in excess of the FDIC limits and money market funds are fully insured or collateralized by the financial institution.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. The remainder of the District's cash deposits of \$6,213,421 was covered by collateral held in the pledging financial institutions' trust departments in the District's name. The Foundation has not experienced any losses on its accounts.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Restricted Cash

Included in the District's restricted cash and cash equivalents are unspent bond proceeds from the Measure A general obligation bonds issued in 2002 in the amount of \$13,743,481. The use of the bond proceeds is restricted to the acquisition, construction, and modernization of property and school facilities. Also included in the restricted cash and cash equivalents are Student Financial Aid funds in the amount of \$48,252.

Investments

The Foundation holds investments classified as Category 1, which includes insured or registered investments for which the securities or collateral are held by the Foundation or its agent in the Foundation's name, in the amount of \$1,232,563.

Derivative Investments

The District did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the Treasury was not available.

Investment Income

The District and Foundation earned \$409,647 and \$20,916, respectively of investment income during the year ended June 30, 2004. The Foundation's net realized gain on investments was \$5,767 and the net unrealized gains was \$111, 619 for the year ended June 30, 2004.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004:

	<u>Primary Institution</u>	<u>Foundation</u>
Federal grants and contracts	\$ 445,410	
State grants and contracts	1,909,623	
Local grants and contracts	1,157,916	
State-capital	541,121	
Auxiliaries	298,553	
Tuition and fees	72,891	
Other	<u>166,857</u>	<u>\$ 55,880</u>
Totals	<u>\$ 4,592,371</u>	<u>\$ 55,880</u>

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land and land improvements	\$ 35,592,032			\$ 35,592,032
Construction in progress	2,397,534	\$ 6,894,087	\$ 4,753,340	4,538,281
Total capital assets, not being depreciated	<u>37,989,566</u>	<u>6,894,087</u>	<u>4,753,340</u>	<u>40,130,313</u>
Capital assets, being depreciated:				
Buildings and improvements	45,948,803	4,753,340		50,702,143
Machinery and equipment	7,182,082	251,816	127,755	7,306,143
Bookstore equipment	306,189			306,189
Total capital assets, being depreciated	<u>53,437,074</u>	<u>5,005,156</u>	<u>127,755</u>	<u>58,314,475</u>
Less accumulated depreciation for:				
Buildings and improvements	11,645,483	1,301,795		12,947,278
Machinery and equipment	3,194,446	772,218	87,768	3,878,896
Bookstore equipment	274,975	12,488		287,463
Total accumulated depreciation	<u>15,114,904</u>	<u>2,086,501</u>	<u>87,768</u>	<u>17,113,637</u>
Total capital assets, being depreciated, net	<u>38,322,170</u>	<u>2,918,655</u>	<u>39,987</u>	<u>41,200,838</u>
Capital assets, net	<u>\$ 76,311,736</u>	<u>\$ 9,812,742</u>	<u>\$ 4,793,327</u>	<u>\$ 81,331,151</u>

Discretely presented component unit

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Capital assets				
Computer software	\$ 21,873	\$ 15,000		\$ 36,873
Vehicle	10,000		\$ 10,000	
Total capital assets	<u>31,873</u>	<u>15,000</u>	<u>10,000</u>	<u>36,873</u>
Less accumulated depreciation for:				
Computer software	1,823	4,375		6,198
Vehicle	667		667	
Total accumulated depreciation	<u>2,490</u>	<u>4,375</u>	<u>667</u>	<u>6,198</u>
Capital assets, net	<u>\$ 29,383</u>	<u>\$ 10,625</u>	<u>\$ 9,333</u>	<u>\$ 30,675</u>

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

6. SPLIT-INTEREST AGREEMENTS

The Foundation's split-interest agreements with donors consist of irrevocable charitable remainder unitrusts where the Foundation serves as both trustee and beneficiary. Assets invested under these trusts and payments made to beneficiaries are based on the terms of the trust agreements. As of June 30, 2004, assets held in trust under unitrust agreements total \$890,297 and the associated liability to beneficiaries of \$545,748 are recorded in the statement of financial position.

7. LONG-TERM LIABILITIES

Changes In Long-Term Liabilities

A schedule of changes in general long-term debt for the year ended June 30, 2004 is shown below:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Due Within</u> <u>One Year</u>	<u>Non</u> <u>Current</u>
Primary Institution						
Compensated Absences	\$ 966,657	\$ 72,123		\$ 1,038,780	\$ 295,139	\$ 743,641
Capital Lease Obligations	369,264		\$ 90,378	278,886	95,053	183,833
Post-Employment Health Benefits	400,020	236,017		636,037	131,049	504,988
General Obligation Bonds	<u>40,000,000</u>		<u>3,780,000</u>	<u>36,220,000</u>	<u>4,730,000</u>	<u>31,490,000</u>
	<u>\$ 41,735,941</u>	<u>\$ 308,140</u>	<u>\$ 3,870,378</u>	<u>\$ 38,173,703</u>	<u>\$ 5,251,241</u>	<u>\$ 32,922,462</u>

Capital Lease Obligations

In February 2003, the District entered into a capital lease obligation for computer equipment and software. Future payments relating to capital lease obligation were as follows at June 30, 2004:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 96,053	\$ 14,932	\$ 110,985
2006	102,085	8,900	110,985
2007	<u>80,748</u>	<u>2,490</u>	<u>83,238</u>
Totals	<u>\$ 278,886</u>	<u>\$ 26,322</u>	<u>\$ 305,208</u>

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

General Obligation Bonds

In June 2002, the District issued general obligation bonds in the amount of \$40,000,000. These bonds were issued to finance the acquisition, construction, and modernization of property and school facilities.

A summary of activity for general obligation bonds during the year ended June 30, 2004 is as follows:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Amount of Original Issue</u>	<u>Bonds Outstanding June 30, 2003</u>	<u>Redeemed During Year</u>	<u>Bonds Outstanding June 30, 2004</u>
2002	3.00-5.375%	\$ <u>40,000,000</u>	\$ <u>40,000,000</u>	\$ <u>3,780,000</u>	\$ <u>36,220,000</u>

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 4,730,000	\$ 1,580,925	\$ 6,310,925
2006	1,000,000	1,493,725	2,493,725
2007	1,100,000	1,459,600	2,559,600
2008	1,100,000	1,422,475	2,522,475
2009	1,100,000	1,383,975	2,483,975
2010-2014	5,850,000	6,263,313	12,113,313
2015-2019	6,690,000	4,658,500	11,348,500
2020-2024	8,545,000	2,663,175	11,208,175
2025-2026	<u>6,105,000</u>	<u>463,875</u>	<u>6,568,875</u>
Total	\$ <u>36,220,000</u>	\$ <u>21,389,563</u>	\$ <u>57,609,563</u>

Post-Employment Health Benefits

In addition to the pension benefits described in Note 11, the District provides post-employment health care benefits to all employees who retire from the District and meet the requirements of the union contracts. As of June 30, 2004, there were 32 retirees who met the eligibility requirements.

The District provides full or partial payment of health premiums for all eligible retired employees (ages 55-65), based on retirement date. The District's recorded liability for post-employment benefits represents the amount outstanding for those retirees currently receiving benefits in the amount of \$636,037, which differs from the actuarial determined liability. As of June 30, 2004, the actuarial determined liability was \$1,636,661. Expenditures of \$160,322 were recognized on a pay-as-you-go basis for premiums paid by the District during the year.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

8. FUNCTIONAL EXPENSES

For the year ended June 30, 2004, operating expenses are charged by function as follows:

<u>Function</u>	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Supplies, Materials & Other Operating Expenses & Services</u>	<u>Depreciation</u>	<u>Student Aid</u>	<u>Total</u>
Instructional Activities	\$ 14,657,749	\$ 1,772,967	\$ 495,671			\$ 16,926,387
Instructional Support	2,458,174	498,948	412,598			3,369,720
Student Services	3,164,449	591,057	563,786			4,319,292
Plant Operations & Maintenance	1,464,706	531,315	1,787,486			3,783,507
Institutional Support	4,084,814	1,533,032	2,536,631			8,154,477
Community Services & Economic Development	1,111,687	214,893	975,357			2,301,937
Ancillary & Auxiliary Services	1,194,985	196,948	2,116,030			3,507,963
Student Aid	101,830	1,405			\$ 2,367,451	2,470,686
Depreciation Expense				\$ 2,086,501		2,086,501
Total	<u>\$ 28,238,394</u>	<u>\$ 5,340,565</u>	<u>\$ 8,887,559</u>	<u>\$ 2,086,501</u>	<u>\$ 2,367,451</u>	<u>\$ 46,920,470</u>

Amount to be provided

The Foundation had operating expenses charged by function to institutional support in the amount of \$197,247 for the year ended June 30, 2004.

9. JOINT VENTURES (Joint Powers Agreements)

The District participates in three joint ventures under joint powers agreements (JPAs) with the Alameda County Schools Insurance Group (ACSIG), the Bay Area Community College Districts Joint Powers Agency (BACCDJPA), and the South Bay Regional Public Safety Training Consortium (SBRPSTC). The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

A. Alameda County Schools Insurance Group

ACSIG arranges for and provides workers' compensation insurance for its members, which include various school districts in the East Bay. ACSIG is governed by a board consisting of a representative from each member district. The board controls the operations of ACSIG, 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 ACSIG.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Annual audited financial statements are prepared and filed with the State Controller's Office. Condensed unaudited financial information of ACSIG at June 30, 2004 the most recent year available, is as follows:

Total Assets	\$ <u>23,922,978</u>
Total Liabilities	\$ 19,739,097
Net Assets	<u>4,183,881</u>
Total Liabilities and Net Assets	\$ <u>23,922,978</u>
Total Revenue	\$ 74,424,906
Total Expenses	<u>73,747,762</u>
Change in Net Assets	\$ <u>677,144</u>

B. Bay Area Community College Districts Joint Powers Agency

BACCDJPA arranges for and provides property and liability insurance for its members. BACCDJPA is governed by a board consisting of a representative from each member district. The board controls the operations of BACCDJPA, 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 BACCDJPA.

Annual audited financial statements are prepared and filed with the State Controller's Office. Condensed audited financial information of BACCDJPA at June 30, 2003, the most recent year available, is as follows:

Total Assets	\$ <u>5,398,221</u>
Total Liabilities	\$ 2,177,941
Retained Earnings	<u>3,220,280</u>
Total Liabilities and Retained Earnings	\$ <u>5,398,221</u>
Total Revenue	\$ 4,049,478
Total Expenses	<u>3,012,722</u>
Net Income	\$ <u>1,036,756</u>

C. South Bay Regional Public Safety Training Consortium

SBRPSTC provides for the educational and training needs of public safety students in the areas represented by the participating community college districts. SBRPSTC is governed by a board consisting of a representative from each member district. The board controls the operations of SBRPSTC, including selection of management and approval of operating budgets, independent of any influence by the member boards beyond their representation on the board.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Annual audited financial statements are prepared and filed with the State Controller's Office. Condensed audited financial information of the SBRPSTC General Fund at June 30, 2003, the most recent year available, is as follows:

Total Assets	\$ <u>5,577,827</u>
Total Liabilities	\$ 1,164,881
Fund Balance	<u>4,412,946</u>
Total Liabilities and Fund Balance	\$ <u>5,577,827</u>
Total Revenue	\$ 5,960,598
Total Expenditures	<u>5,450,482</u>
Net Increase in Fund Balance	\$ <u>510,116</u>

Complete separate financial statements for the JPAs may be obtained at the District Office, at 43600 Mission Blvd., Fremont, California.

10. COMMITMENTS AND CONTINGENCIES

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 disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

Litigation

Various claims and litigation involving the District are currently outstanding. However, based on consultation with legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Construction Commitments

Outstanding commitments on partially completed construction contracts totaled approximately \$655,668 at June 30, 2004. These commitments will be primarily funded from Measure A funds.

11. EMPLOYEE RETIREMENT SYSTEMS

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

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

CalPERS:

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. 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% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2003-04 was 10.42% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contribution to CalPERS for the fiscal years ending June 30, 2004 and 2003 were \$1,041,148 and \$293,944, respectively, which equals 100% of the required contribution for each year. The District made no contributions to CalPERS for the fiscal year ending June 20, 2002, as none were required.

STRS:

Plan Description

The District contributes to STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-04 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2004, 2003, and 2002 were \$1,132,299, \$1,202,713, and \$906,381, respectively, and equals 100% of the required contributions for each year.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

Other Information

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

12. ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the indirect recipient of on-behalf payments made by the State of California to STRS for community colleges. These payments consist of state general fund contributions to STRS in the amount of \$310,055 (2.28% of salaries subject to STRS). Had this amount been reflected in the Districts financial statements, both revenues and expenditures would have been increased by \$310,055.

SUPPLEMENTARY INFORMATION SECTION



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

**Members of the Board of Trustees
Ohlone Community College District
Fremont, California**

We have audited the financial statements of the Ohlone Community College District (the District), its discretely presented component unit, and fiduciary net assets as of and for the year ended June 30, 2004, and have issued our opinion thereon dated October 27, 2004. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is not a required part of the financial statements and is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Schedule of State Financial Assistance and other supplemental financial and statistical information is not a required part of the financial statements and is presented for purposes of additional analysis as required by the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion; such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, District management, the Board of Trustees, and 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 27, 2004

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Program Expenditures</u>
U.S. Department of Education:			
Student Financial Assistance Programs Cluster:*			
Pell Grant Program	84.063	N/A	\$ 1,865,871
Supplemental Educational Opportunity Grant Program	84.007	N/A	126,200
Work-Study Program	84.033	N/A	<u>103,235</u>
Subtotal Student Financial Assistance Programs Cluster			<u>2,095,306</u>
Passed Through California Community Colleges Chancellor's Office (CCCCO):			
Vocational Education Cluster:			
Title I-C	84.048	03-C01-061	91,461
Title II-E: Technical Preparation	84.048	00-021-23	<u>71,871</u>
Subtotal Vocational Education Cluster			<u>163,332</u>
Passed Through California Department of Rehabilitation:			
WorkAbility III	84.264	22572	<u>245,911</u>
Total U.S. Department of Education			<u>2,504,549</u>
U.S. Department of Labor:			
Passed Through Alameda County Workforce Investment Board:			
WIA Adult Program*	17.258	C95-0263-0931	<u>880,895</u>
Total U.S. Department of Labor			<u>880,895</u>
U.S. Department of Health and Human Services:			
Passed Through CCCCCO:			
Temporary Assistance to Needy Families	93.558	None	<u>4,288</u>
Total Expenditures of Federal Awards			<u>\$ 3,389,732</u>

* Tested as a major program.

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2004

<u>Program Title</u>	<u>Entitlements</u>	<u>Program Revenues</u>			<u>Program Expenditures</u>	
	<u>Current Year</u>	<u>Cash Received</u>	<u>Accounts Receivable</u>	<u>Deferred Revenue</u>		<u>Total</u>
Articulation	\$ 5,000	\$ 5,000		\$ 4,650	\$ 350	\$ 350
Cal Grants		235,227			235,227	235,227
Cal Works Assessment	40,568	28,600			28,600	28,600
CalWorks	75,026	124,504		80,829	43,675	43,676
Child Development Consortium	9,250	8,813			8,813	4,661
Child Development Center		155,746			155,746	155,163
Cooperative Agency Resource Education	50,798	50,798		1,033	49,765	50,918
Disabled Student Program & Services	801,738	810,898		13,775	797,123	797,123
Economic Development		22,794		22,794		
Extended Opportunity Program and Services	328,977	328,977		25,247	303,730	303,730
Faculty and Staff Diversity	13,291	13,291		13,291		
Fee Waiver Admin	7,169	7,169			7,169	7,169
Instructional Equipment (On-Going)	178,538	178,538		108,307	70,231	70,231
Lottery - Prop. 20	99,732	122,660		23,818	98,842	98,842
Matriculation (Credit)	348,023	348,023		94,799	253,224	253,224
Nursing	49,882	50,370			50,370	50,370
Part-Time Faculty Allocation	366,647	366,647			366,647	366,647
Prop. 10	30,000	11,373		4,849	6,524	6,524
Student Financial Aid Administration	236,110	236,110		95,232	140,878	141,178
Students Towards a Rapid Smoke	48,025	16,373	\$ 17,160		33,533	33,533
Telecommunications and Technology	64,234	64,234		15,885	48,349	48,349
Total	\$ 2,753,008	\$ 3,186,145	\$ 17,160	\$ 504,509	\$ 2,698,796	\$ 2,695,515

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULES OF STATE GENERAL APPORTIONMENT
AND APPRENTICESHIP HOURS OF INSTRUCTION
YEAR ENDED JUNE 30, 2004

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Full-Time Equivalent Students</u>
Summer Intersession:	
Noncredit	5.39
Credit	1,133.26
Census Procedure Courses:	
Weekly Census Contact Hours	5485.24
Daily Census Contact Hours	710.63
Actual Hours of Attendance Courses:	
Noncredit	92.93
Credit	351.80
Independent Study/Work Experience:	
Weekly Census Procedure Courses	268.07
Daily Census Procedure Courses	0
Noncredit Independent Study	0
Total Full-Time Equivalent Students	8,047.32
Gross Square Footage:	
Existing Facilities	446,196
New Facilities	12,799
FTES in Leased Facilities	0

APPRENTICESHIP HOURS OF INSTRUCTION

The District did not claim apprenticeship hours in 2003-2004.

Note: There were no adjustments between the reported FTES on Form CCFS-320 and the audited FTES.

OHLONE COMMUNITY COLLEGE DISTRICT

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

YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ 3,895,272
Adjustments:	
Decrease the fund balance:	
For amounts recorded as prepaid expenses in prior years	<u>(305,577)</u>
June 30, 2004 Audited Financial Statement Fund Balance	\$ <u>3,589,695</u>
	<u>Bond Interest & Redemption Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ (33,115)
Adjustments:	
Increase the fund balance:	
For amounts recorded as revenue bond payable	<u>534,002</u>
June 30, 2004 Audited Financial Statement Fund Balance	\$ <u>500,887</u>
	<u>Capital Outlay Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ 980,799
Adjustments:	
Increase the fund balance:	
To record interest earnings	<u>22,072</u>
June 30, 2004 Audited Financial Statement Fund Balance	\$ <u>1,002,871</u>

OHLONE COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

	Revenue Bond Construction <u>Fund</u>
June 30, 2004 Annual Financial and Budget Report Fund Balance	\$ 12,624,120
Adjustments:	
Increase the fund balance:	
Beginning balance reported incorrectly	<u>12,500</u>
June 30, 2004 Audited Financial Statement Fund Balance	<u>\$ 12,636,620</u>

AUDITOR'S COMMENTS:

All other fund balances agreed to the audited financial statements.

OHLONE COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2004

1. PURPOSE OF SCHEDULES

The audit of the District for the year ended June 30, 2004 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, the Schedule of Expenditures of Federal Awards is presented.

The California Community Colleges Chancellor's Office requires disclosure of the financial activities of all state funded programs. To comply with this requirement, the Schedule of State Financial Assistance is presented.

The Schedules of State General Apportionment and Apprenticeship Hours of Instruction present the basis of apportionment for the District's annual source of funding.

OTHER INDEPENDENT AUDITOR'S REPORTS



Gilbert Associates, Inc.
CPAs and Advisors

**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***

**Members of the Board of Trustees
Ohlone Community College District
Fremont, California**

We have audited the financial statements of the Ohlone Community College District (the District), its discretely presented component unit, and fiduciary net assets as of and for the year ended June 30, 2004, and have issued our report thereon dated October 27, 2004. 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

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

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

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 that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Findings and Recommendations Section as items 04-1 and 04-2.

**Members of the Board of Trustees
Ohlone Community College District
Page 2**

This report is intended solely for the information of and use of the audit committee, Board, management, and 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 27, 2004



Gilbert Associates, Inc.
CPAs and Advisors

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

**Members of the Board of Trustees
Ohlone Community College District
Fremont, California**

Compliance

We have audited the compliance of the Ohlone 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 are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the Summary of Auditor's Results included in the accompanying Findings and Recommendations Section. 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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our audit procedures disclosed an instance of noncompliance with the requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Findings and Recommendations section as item 04-2.

Internal Control Over Compliance

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

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

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

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 27, 2004



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

**Members of the Board of Trustees
Ohlone Community College District
Fremont, California**

We have audited the financial statements of the Ohlone Community College District (the District), its discretely presented component unit, and fiduciary net assets as of and for the year ended June 30, 2004, and have issued our opinion thereon dated October 27, 2004, which was unqualified. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we performed an audit for compliance for those programs identified in Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. The objective of the compliance audit was to determine with reasonable assurance that the following requirements had been met:

Salaries of Classroom Instructors

The District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education in accordance with Section 84362 of the Education Code.

Apportionment for Instructional Service Agreements/Contracts

The District shall fulfill the requirements of Title 5 of the California Code of Regulations in order to claim FTES and obtain state funding for classes given through instructional service agreements/contracts.

Required Data Elements

The District shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

- Credit Full-Time Equivalent Students (FTES) in weekly census, daily census, actual hour of attendance, and apprenticeship courses.
- Noncredit FTES in actual hour of attendance and distant education courses.
- Credit Student Headcount Data.
- Gross Square Footage and FTES in less than 100% leased space.

Residency Determination for Credit Courses

The District shall ensure that state apportionment for credit courses is only claimed for student attendance allowed by statute and registration. Student residence is a major factor for allowing districts to claim state apportionment for credit courses.

**Members of the Board of Trustees
Ohlone Community College District
Page 2**

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

Community college districts are authorized to claim full-time equivalent students (FTES) for concurrent enrollment of K-12 pupils meeting certain requirements.

Uses of Matriculation Funds

The District is required to use local funds to support at least 75% of the matriculation activities, with the remaining expenditures claimable against the state matriculation allocation. In addition, all expenditures related to the allocation, both state and local funded portions, must be consistent with the District's state-approved matriculation plan and identifiable within the ten allowable activities. Also, the state allocation may not be used to supplant District-funded services, including personnel costs that existed in 1986-87 or before.

Allocation of Costs (DSP&S and EOP&S)

Salaries of instructors teaching FTES-generating classes, school counselors providing advisement, student services at the dean level or above, and financial aid officers conducting need analysis are not considered supportable charges against either Extended Opportunity Programs and Services (EOP&S) or Disabled Student Programs and Services (DSP&S) accounts unless their activities require them to perform additional functions for the EOP&S or DSP&S programs that are beyond the scope of services provided to all students in the normal performance of their regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S and DSP&S.

EOP&S Administrator/Director Requirements

The District is required to contribute from non-EOP&S sources the salary of the EOP&S administrator/director at the rate of 100% of salary and benefits for formal program activities associated with the implementation and operation of EOP&S specific activities over and above general supervision of EOP&S activities.

Gann Limit Calculation

The District shall calculate an appropriation limit annually and adopt it in a public meeting.

Enrollment Fees

The District is required to report the total amount charged to students, including paid and receivable, for purposes of calculating the District's annual apportionment.

Scheduled Maintenance Program

The District is required to use funds provided by the state to supplement, not supplant, District deferred maintenance funds. This is defined as the amount spent in fiscal year 1995-96 for operation and maintenance of plant increased by an amount equal to the State's contribution and the District's match for the scheduled maintenance program for the year being audited.

Open Enrollment

The District must comply with the Title 5 provisions of the California Code of Regulations related to open enrollment by the general public for all courses being submitted for state apportionment funding.

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements for the state programs listed and tested above. The results of our audit procedures disclosed an instance of noncompliance with the terms and conditions of state-assisted educational programs requirements that is described in the accompanying Findings and Recommendations section as item 04-1.

This report is intended solely for the information and use of the audit committee, the Board of Trustees, District management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 27, 2004

FINDINGS AND RECOMMENDATIONS SECTION

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? _____ Yes X No
 Reportable conditions identified not
 considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial
 statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ Yes X No
 Reportable conditions identified not
 considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on
 compliance for major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with OMB
 Circular A-133, Section .510(a)? X Yes _____ No

Identification of major programs

<u>CFDA Numbers</u> 84.007, 84.033, and 84.063 17.258	<u>Name of Federal Program or Cluster</u> Student Financial Assistance Programs Cluster Workforce Investment Act (WIA) Adult Program
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Dollar threshold used to distinguish between
 Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

State Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Reportable conditions identified not
considered to be material weaknesses?

 X Yes None Reported

Type of auditor's report issued on
compliance for state programs:

Unqualified

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROLS – REPORTABLE CONDITIONS

No matters were reported.

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION III – STATE COMPLIANCE

04-1. EOP&S ADVISORY COMMITTEE

Finding:

During our State Compliance testing for Allocation of Costs for EOP&S, it was noted that the EOP&S Advisory Committee did not meet during the 2003-04 academic year as required.

Recommendation:

We recommend the District implement procedures to ensure compliance with state regulations that require the EOP&S Program to form an advisory committee, which should meet at least once per year.

District Response:

The District concurs. Presently, EOP&S is in the process of finding new members to meet the criteria and serve. They expect to have a finalized list by December 2004 and will have at least one meeting before June 30, 2005.

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

SECTION IV - FEDERAL COMPLIANCE-IMMATERIAL INSTANCE OF NON-COMPLIANCE

04-2. RETURN OF TITLE IV FUNDS

Federal Agency: U.S. Department of Education

Award Year: 2003-04

Catalog Number: 84.032

Specific Requirement That Was Not Complied With:

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance (not including Federal Work-Study or the non-Federal share of FSEOG awards if an institution meets its FSEOG matching share by the individual recipient method or the aggregate method) that the student earned as of the student's withdrawal date.

Finding:

We selected a sample of 8 students receiving financial aid who had withdrawn during the period under audit. For all 8 students, the financial aid office did not perform a "Return Calculation" to determine the amount of Title IV aid earned by the student.

Reference:

34 CFR 668.22 - Treatment of Title IV Funds when a Student Withdraws

Cause of Condition:

The District had turnover at the Financial Aid Director level and as a result, the calculations were missed. However, because of the District's financial aid payment cycles there is generally very little financial aid remaining to be refunded.

Effect of Condition:

Because the calculations were not performed timely, any refund that may have been due would be considered late and any post-withdrawal disbursements may not have been made.

Amount of Questioned Costs and How Computed:

Based on the District's policy for payment to students, we expect that there is an immaterial amount of refunds and that it is below the \$10,000 threshold for reporting instances of noncompliance. As a result, the finding is an immaterial instance of noncompliance.

OHLONE COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Perspective of Finding:

Population	#	<u>8</u>	\$	<u>434</u>
Sample Size:	#	<u>8</u>	\$	<u>434</u>
Findings	#	<u>8</u>	\$	<u>434</u>

Recommendation:

We recommend the institution establish procedures to prepare the Title IV “Return Calculations” each time a student withdraws or drops all classes. For students who are due post-withdrawal disbursements, the District should provide written notification within the 30-day time frame. For return of Title IV assistance, funds should be deposited to the SFA accounts or returned to the appropriate FFEL lender within the 30-day time frame.

District Response:

The District concurs and has established and implemented new procedures to check on financial aid students who drop all classes. Additional programming has been developed to recalculate awards for students who drop all classes.

OHLONE COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2004

<u>Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
INTERNAL CONTROL – REPORTABLE CONDITIONS		
03-1. CASH DISBURSEMENT – BOOKSTORE We recommend that the District establish procedures to ensure each invoice is marked “posted” or “paid” when a warrant is written for payment. Purchase orders should be created and attached to each invoice. Receiving reports should be utilized, or the purchase order/invoice should be marked with a signature and date verifying the receipt of merchandise.	Implemented	
03-2. COMPENSATED ABSENCES We recommend that procedures be established to ensure that vacation accruals are being calculated accurately and any exceptions are resolved in a timely manner. Vacation reports should be reviewed on a monthly basis.	Implemented	
03-3. VENDOR CREDITS We recommend the District establish procedures to follow up on delinquent bookstore vendor credits of six months or more. The District should establish policies and procedure to write off bookstore vendor credits that are determined to be uncollectible.	Implemented	

OHLONE COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

YEAR ENDED JUNE 30, 2004

03-4. RETAINAGE PAYABLE

We recommend the District implement procedures to record retainage payable for all construction projects. The District should record all escrow accounts in the District's name as Cash with a Fiscal Agent and Retainage Payable.

Substantially
Implemented -
Comment Not
Repeated

FEDERAL COMPLIANCE

03-5. WORKFORCE INVESTMENT ACT (WIA)
ADULT PROGRAM

Implemented

The District business office should designate an employee to be responsible for ensuring that time studies or semi-annual certifications are properly collected from each employee charged to a federal program. This involves creating a list of employees charged to federal programs, notifying them of the need for submitting the time documentation, and following up with employees who fail to submit the documentation in a timely manner. Semi-annual certifications should be collected each semester for employees who work solely on one federal program or cost objective. Time studies should be collected three times per year for employees who work on multiple activity or cost objectives. The responsible employee should compare these time studies to budget allocations at least quarterly and prepare journal entries for differences between the actual time worked and the budget allocations. The budget allocations should also be revised at that time, if necessary. The responsible employee should also ensure that all proper signatures are obtained.