WEST KERN COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

WEST KERN COMMUNITY COLLEGE DISTRICT
JUNE 30, 2012

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
West Kern Community College District
Taft, California

We have audited the accompanying basic financial statements of West Kern Community College District (the District) as of and for the year ended June 30, 2012, and its discretely presented component unit the Taft College Foundation (the Foundation) as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the District as of and for the year ended June 30, 2011, were audited by other auditors, whose reported dated January 26, 2012, expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District and its discretely presented component unit as of June 30, 2012, and the respective changes in financial position and 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 February 26, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A–133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The remaining supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Taft College/West Kern Community College District's (the District) Annual Financial Report presents management's discussion and analysis of the District's financial activities and programs during the fiscal year just ended as well as the overall financial condition of the District at June 30, 2012. Since this management's discussion and analysis is designed to focus on current activities, resulting change and currently known facts, please read it in conjunction with the District's basic financial statements and the accompanying notes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's management.

USING THIS ANNUAL REPORT

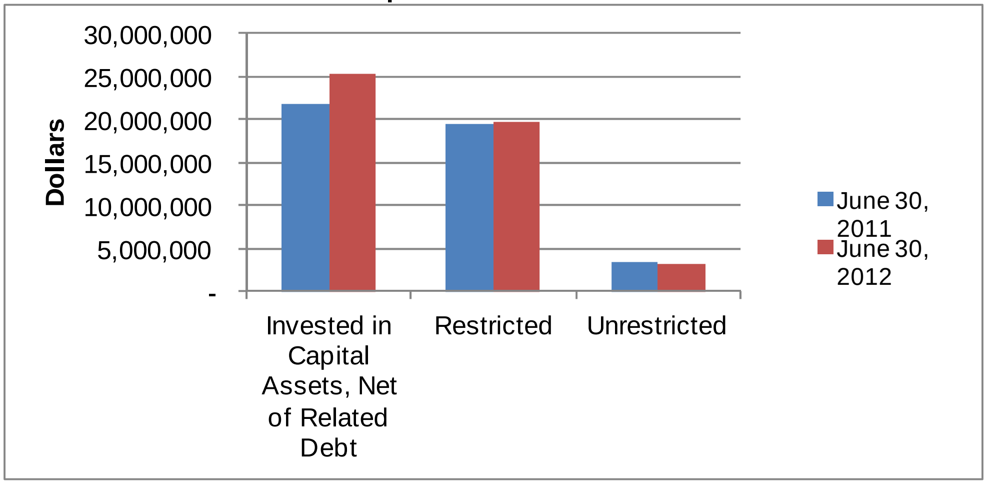
The current financial statement format, which incorporates Governmental Accounting Standards Board (GASB) principles, consists of three basic financial statements that focus on the District as a whole: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. The District's financial statements are designed to resemble corporate financial models whereby all District activities are consolidated into one set of totals. The focus of the Statement of Net Assets is designed to be similar to bottom line results for the District and reflect its financial position at a certain date. This statement combines and consolidates current spendable financial resources with capital assets. The Statement of Revenues, Expenses and Changes in Net Assets focuses on the gross costs and the net results of the District's operational activities which are supported mainly by student tuition and fees, as well as grants. Non-operating revenues such as property taxes and state apportionments make up the primary revenue source for the District. The Statement of Cash Flows provides an analysis of the District's sources and uses of the cash during the fiscal year. This approach is intended to summarize and simplify the user's analysis of costs of various District services to students and the public. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities in relation to its mission have been included.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

The California Community College Chancellors Office (CCCCO) calculates total apportionment to be received by the District each year. The calculation consists of establishing a specified full time equivalent students (FTES) level for the District and multiplying this total by predetermined amounts per FTES. Total apportionment payment consists of tuition fees, property taxes and state apportionment revenues. The District experienced a slight drop in total apportionment based on a system-wide reduction in funded FTES in 2011/12. With continuing high unemployment rates in the state and Kern County and despite another round of tuition fee increases at the UC, CSU and California community college levels, enrollment for the District continues to perform above the funded apportionment rates. The District served a student population 303 FTES over the funded rate in 2011/12 and 375 FTES over funding in 2010/11. With the limited funding, the District was still able to focus on curriculum offerings based on basic skills, transfer and workforce training in order to maintain its growing population and ensure success within the guidance of the Educational Master Plan.

Due to the weakness in the state economy, the District received no cost of living adjustment (COLA) for the fourth straight year. Despite these funding challenges, as demonstrated by the statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management.

Comparison of Net Assets



Analysis of Net Assets

The California Community College Chancellors Office (CCCCO) 2011/12 apportionment calculation was marked with a reduction in funded FTEs of approximately 2%. To help offset this reduction, the CCCCO implemented a $10 per unit increase in enrollment fees. This increase represented a 24% percent growth in enrollment fees per unit. Due to the fact that enrollment fees make up such a small percentage of the District's overall apportionment, this increase in enrollment fees did not increase the apportionment calculation for revenue to be received, but served as a mitigating factor to limit the decrease of apportionment revenue to $-391,000, or -1.8%. The District's deferrals of state apportionment funds increased to $1,782,767 in 2011/12. Restricted Net Assets experienced a slight increase of $200 thousand which was primarily created by awarding several new federal grants during the year to replace completed grants. The continued campus improvements funded by the 2004 Measure A funding is evident in Invested in Capital Assets, net of debt. The Invested in Capital Assets grew by over $2.4 million for the year just ended. The District did not incur any additional debt related to the long-term campus improvement construction occurring across campus in 2011/12.

Financial Position of the District

	Net Assets as of June 30, 2012	Net Assets as of June 30, 2011	Increase (Decrease) 2012-2011
Current Assets	$ 70,888,029	$ 71,557,893	-0.9%
Non-Current Assets			
Debt Issuance Costs, Unamortized	1,943,052	2,038,508	-4.7%
Capital Assets, Net of Depreciation	54,129,682	49,327,379	9.7%
Other Long-Term Assets	31,154	85,029	-63.4%
Total Assets	$ 126,991,917	$ 123,008,809	3.2%

	Net Assets as of June 30, 2012	Net Assets as of June 30, 2011	Increase (Decrease) 2012-2011
Current Liabilities	$ 5,542,695	$ 4,696,724	18.0%
Non-Curent Liabilities	73,315,981	73,704,900	-0.5%
Total Liabilities	78,858,676	78,401,624	0.6%
Net Assets			
Invested in Capital Assets, Net of Related Debt	25,250,909	21,758,599	16.1%
Restricted	19,603,090	19,414,887	1.0%
Unrestricted	3,279,242	3,433,699	-4.5%
Total Net Assets	48,133,241	44,607,185	7.9%
Total Liabilities and Net Assets	$ 126,991,917	$ 123,008,809	3.2%

This statement is prepared from the District's Statement of Net Assets which is presented on the accrual basis of accounting where capital assets are depreciated and long-term obligations are recognized.

Analysis of Assets

The District's Current Assets was reduced by $-670 thousand due to budgeted usage of reserves for operations during the year just ended despite increases in accounts receivable on state reimbursement funds tied to the long-term capital improvement project. Non-current assets increased $4.7 million mainly by the combination of capital assets growing by $3.4 million, net of accumulated depreciation as the long-term construction project continued to improve the face of the campus. Another $1.3 million in additions to non-depreciable capital assets increased the non-current asset valuation.

Analysis of Capital Assets

As of June 30, 2012, the District recorded $75.2 million invested in capital assets, $21.1 million in accumulated depreciation, totaling $54.1 million recorded in net capital assets. In addition to these investments, the District has also recorded $11.6 million in construction in progress (CIP). The CIP represents the ongoing expenditures of the long-term capital improvement projects related to the District's Facilities Master Plan. As individual projects are completed, they are listed as capital assets and depreciated accordingly. In the year ended June 30, 2012, 4 projects were moved from CIP to capitalized assets, totaling $5.5 million. The Maintenance / Operations facility at $3.1 million and the courtyard renovation at $2 million constituted the majority of the projects. $6.9 million of CIP was added in the year ended June 30, 2012, mainly tied to the Technical Arts building modernization and the Transition to Independent Living Facility.

Analysis of Liabilities

Current liabilities increased due mainly to an increase in deferred revenues tied to the increased enrollment fees as well as increases in the current portion of the District's long-term obligations. While absorbing these increasing obligations, the District was able to control other areas and experienced an accounts payable reduction by $-550 thousand. Non-current liabilities decreased marginally during the year.

Financial Activities of the District

	Activities Year ended June 30, 2012	Activities Year ended June 30, 2011	Increase (Decrease) 2012-2011
Revenues:			
Operating Revenues:			
Tuition and Fees (Less Discounts)	$ 1,898,733	$ 175,787	980.1%
Total Operating Revenues	1,898,733	175,787	980.1%
Operating Expenses			
Salaries and Benefits	22,321,519	22,560,535	-1.1%
Supplies, Materials, and Depreciation	10,495,863	12,075,030	-13.1%
Total Operating Expenses	32,817,382	34,635,565	-5.2%
Operating Loss	(30,918,649)	(34,459,778)	-10.3%
Non-Operating Revenues (Expenses)			
State Apportionments and Property Taxes	18,625,887	17,294,802	7.7%
Grants and Contracts	10,912,232	11,714,108	-6.8%
Investments, Other Revenues (Expenses)	262,300	1,148,613	-77.2%
Total Non-Operating Revenues (Expenses)	29,800,419	30,157,523	-1.2%
Other Revenues (Expenses)	4,644,286	2,996,802	55.0%
Increase (Decrease) in Net Assets	3,526,056	(1,305,453)	-370.1%
Net Assets, Beginning of Year	44,607,185	45,912,638	-2.8%
Net Assets, End of Year	$ 48,133,241	$ 44,607,185	7.9%

This statement is prepared from the District's Statement of Activities which is presented on the accrual basis of accounting, in which revenues and expenditures are recorded when incurred, regardless of the timing of the related cash flow.

Operating Results Fiscal Year 2012 Compared to 2011

Operating revenues reflect a material increase due to the District's treatment of student tuition fee revenue recognition. 2011/12 reflects the second year that the District has been implementing changes involving recording of student charges and receipts. As of June 2012, all major adjustments are considered implemented.

Salaries decreased slightly in 2012 due to such factors as vacated positions by employee retirements not being filled and reorganization of certain areas that created additional unfilled vacancies, thus decreasing salary and benefit expenditures despite continued increases in benefit costs for the District. Employee benefits continued their trend for material cost increases this year. For the second straight year, District employee benefit costs increased by an average of 11%. The Other Post Employment Benefits (OPEB) obligation increased $60 thousand from $1.722 million to $1.782 million in the current year. This is a requirement mandated annually to comply with GASB Statement No. 45 reporting standards. Other operating expenses experienced decreases of $1.6 million tied to such reductions as the timing of the capital improvement projects on the campus and reductions in course offerings and the related expenditures tied to the realignments. Projects such as the campus landscaping in the quad area and the maintenance / operations facility were completed in the prior year. Only one capital improvement project, the Transition to Independent Living Facility experienced major expenditures.

While the District experienced a $-350 thousand decrease in state apportionments and property taxes combined compared to the prior year, the biggest non-operating revenue changes in 2011/12 were the $1.7 million dollar increase in tuition and fees revenue due to the rework of the student receivable system in the District's finance software, the $900 thousand overall decrease in federal revenue due to the conclusion of several grants that were replaced by smaller awards and the $676 thousand increase in interest received from investments.

FUNCTIONAL EXPENDITURE CALCULATIONS

In accordance with requirements set forth by the California State System's Office, the District reports operating expenses by object code. Operating expenses by functional classifications are as follows:

	Salaries and Benefits	Supplies Materials and Other Expenses and Services	Other Outgo	Depreciation	Total
Instructional activities	$ 8,323,110	$ 1,755,872	$ 410,297	$ -	$ 10,489,279
Academic support	2,396,072	172,749	37,195	-	2,606,016
Student services	2,871,720	514,399	211,358	-	3,597,477
Plant operations and maintenance	1,625,042	795,058	38,451	-	2,458,551
Instructional support services	2,368,799	740,624	37,094	-	3,146,517
Community services and economic development	-	10,232	-	-	10,232
Ancillary services and auxiliary operations	4,736,776	4,491,629	5,672,992	-	14,901,397
Depreciation expense-unallocated	-	-	-	2,015,300	2,015,300
Total Expenses	$ 22,321,519	$ 8,480,563	$ 6,407,387	$ 2,015,300	$ 39,224,769

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011/2012

Capital Improvement Project

To date the District has issued all three series of bonds, for $39.8 million, which were originally approved by the residents of the District in March 2004. The funds have been used for architectural work, licensing and permits and the acquisition and construction of swing space to be used as temporary housing of personnel and classrooms, as well as the main construction projects across the campus.

The District has completed several major projects to date. Completion of a new Child Development Center provides a permanent 9,400 square foot building that will support up to 75 children. It replaces portable buildings that were being used. It also serves as a base for future improvements to be focused around. The remodel of the Community Technology Center, complete as of December 2009 consists of the reconstruction of the current administration building and the addition of a new Library. In total the project provides a 45,000 square foot structure that houses the library, the learning resources center (LRC), the student services center, and administrative offices. The modernization of the Science building and the courtyard renovation between the science building and administration building projects were completed for use in the 2009/10 school year. The Science building project modernized approximately 11,000 square feet of classroom space used primarily for the instruction of science and math courses as well as adding offices within the building for the science and math faculty. The courtyard adds updated landscaping and revitalization of areas for students to use between classes. The most recently completed project was the modernization of the Tech Arts building. This project modernized approximately 10,000 square feet of classroom space used primarily for the instruction of Liberal Arts and Business courses. The newly remodeled building housed several classes during the Fall 2011 semester and was fully utilized beginning with the Spring 2012 semester.

The college broke ground on our Transition to Independent Living Facility for developmentally disabled individuals in summer 2011. This project will provide a 20,000 square foot live-in facility with offices and instructional space. Construction is scheduled to be completed in spring 2013. Also, dorm renovations of current facilities are scheduled to begin in spring 2013 and a Student Center housing a new cafeteria, bookstore and student union is in the design phase.

ECONOMIC FACTORS AFFECTING THE FUTURE

Economic Condition

The District is located in the western Kern County community of Taft with a population of approximately 17,000. The surrounding area brings the total population to about 22,000. The community is in the heart of the Midway-Sunset oilfield, one of the nation's best producing fields. While oil is the leading industry, the area is also rich in agriculture, light industry and recreation. The District contains 735 square miles and is composed of the Taft City, Midway, McKittrick, Elk Hills Elementary School Districts and the Maricopa Unified District. The District contains only one college campus, Taft College.

Prospects for the Future

Even with the passage of Proposition 30 in November 2012, the District's financial outlook for the future remains a challenge. California's financial landscape continues to force the state's education systems to increase focus in areas such as institutional efficiency while maintaining and improving student success. Federal unemployment dropped to 7.8 % for December, 2012 as compared to 8.5% for December, 2011. Comparatively, California's rate dropped to 9.8% for December, 2012 compared to 11.2% in 2011. There is a direct correlation between unemployment rates and enrollment in higher education. Sustained high unemployment rates increase college enrollment demand as individuals look to advance and diversify their skills for future employment opportunities. Even with the passage of Proposition 30, concerns are still present as to how Taft College and the entire California Community College System will be able to continue to respond to this trend.

Although Taft College experienced a slight decline in 2011/12 due to continued course offering adjustments related to funding, the District is continuing to experience increasing course demands due to the economic climate. The District has experienced FTES declines of almost -7.2% over the last two academic years due to the reduced funding challenges from the state.

The following table illustrates enrollments over the last five years:

	2007/08	2008/09	2009/10	2010/11	2011/12
Enrollment	2,486	2,783	2,944	2,853	2,733
% Increase (Decrease)	12.03%	11.95%	5.79%	-3.09%	-4.21%

2008 – 2012 (5-year) Average Increase in enrollment: 9.94%

The District's long term educational and facilities master plans are focused on ensuring that the campus will continue to be able to meet the needs of its students now and in the future. The projected demographic changes in the area will mean continued growth and the facilities plan will enable Taft College to meet those needs. The plan involves a combination of constructing new buildings and modernizing the existing structures so that the District's resources can be maximized.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the District's financial position and finances to the District's citizens, taxpayers, students and to all others who need this information. Questions concerning this report or requests for additional financial information should be directed to Dr. Dena P. Maloney, Superintendent/President or Jim Nicholas, CPA, Director of Business Services at Taft College, 29 Emmons Park Drive, Taft, CA 93268.

BASIC FINANCIAL STATEMENTS

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS – PRIMARY GOVERNMENT
JUNE 30, 2012 AND 2011

	2012 Governmental Activities	2011 Governmental Activities
ASSETS		
Current Assets:		
Unrestricted cash and investments	$ 3,358,938	$ 5,471,281
Restricted cash and investments	60,051,807	61,863,191
Accounts receivable	7,113,420	3,936,975
Inventory	240,441	255,720
Prepaid expenditures	123,423	30,726
Total Current Assets	70,888,029	71,557,893
Noncurrent Assets:		
Accounts receivable	31,154	85,029
Debt issuance costs, unamortized	1,943,052	2,038,508
Nondepreciable capital assets	12,832,244	11,397,615
Depreciable capital assets	62,440,954	57,057,980
Accumulated depreciation	(21,143,516)	(19,128,216)
Total Noncurrent Assets	56,103,888	51,450,916
TOTAL ASSETS	126,991,917	123,008,809
LIABILITIES		
Current Liabilities:		
Accounts payable	2,392,689	2,949,747
Deferred revenue	2,318,302	1,746,977
Other liabilities	831,704	-
Total Current Liabilities	5,542,695	4,696,724
Noncurrent Liabilities:		
Long-term debt - current portion	2,718,367	1,788,367
Long-term debt - noncurrent portions	70,597,614	71,916,533
Total Noncurrent Liabilities	73,315,981	73,704,900
TOTAL LIABILITIES	78,858,676	78,401,624
NET ASSETS		
Invested in capital assets, net of related debt	25,250,909	21,758,599
Restricted:		
Debt service	12,575,768	12,622,648
Legally restricted	3,791,176	5,349,813
Other activities	3,236,146	1,442,426
Unrestricted	3,279,242	3,433,699
TOTAL NET ASSETS	$ 48,133,241	$ 44,607,185

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

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS – PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	2012 Governmental Activities	2011 Governmental Activities
OPERATING REVENUES		
Tuition and fees	$ 3,488,653	$ 1,267,437
Less: Scholarship discounts and allowances	(1,589,920)	(1,091,650)
Net tuition and fees	1,898,733	175,787
TOTAL OPERATING REVENUES	1,898,733	175,787
OPERATING EXPENSES		
Salaries	16,322,738	17,006,623
Employee benefits	5,998,781	5,553,912
Supplies, materials, and other expenses	8,480,563	10,077,177
Depreciation	2,015,300	1,997,853
TOTAL OPERATING EXPENSES	32,817,382	34,635,565
OPERATING LOSS	(30,918,649)	(34,459,778)
NON-OPERATING REVENUE (EXPENSES)		
Grants and contracts, non-capital:		
Federal	5,509,627	6,445,071
State	5,186,057	5,216,643
Local	216,548	52,394
State apportionments, non-capital	5,302,721	6,399,524
Local property taxes	13,323,166	10,895,278
Local taxes, debt related	2,445,481	2,079,778
State taxes and other revenues	2,263,247	2,405,831
Investment income, non-capital	890,959	214,917
Investment expenses - capital asset related debt	(5,337,387)	(3,551,913)
TOTAL NON-OPERATING REVENUES (EXPENSES)	29,800,419	30,157,523
INCOME/(LOSS) BEFORE OTHER REVENUES AND EXPENSES	(1,118,230)	(4,302,255)
State revenues, Capital	4,644,286	2,996,802
CHANGE IN NET ASSETS	3,526,056	(1,305,453)
NET ASSETS, BEGINNING OF YEAR	44,607,185	45,912,638
NET ASSETS, END OF YEAR	$ 48,133,241	$ 44,607,185

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

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS – PRIMARY GOVERNMENT
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011

	June 30, 2012	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 1,898,733	$ 175,787
Payments to suppliers	(10,834,580)	(7,043,262)
payments to/(on behalf of) employees	(22,321,519)	(22,476,179)
Net Cash Used by Operating Activities	(31,257,366)	(29,343,654)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-capital grants and contracts	10,912,232	11,256,297
State apportionments	5,302,721	8,745,288
Property taxes	13,323,166	10,593,812
State taxes and other apportionments	2,263,247	2,405,831
Net Cash Provided by Noncapital Financing Activities	31,801,366	33,001,228
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(6,817,603)	(6,393,959)
State revenue, capital projects	4,644,286	3,007,837
Property tax collections for debt obligations	2,445,481	2,079,778
Accreted Interest & Other Proceeds on capital debt	2,791,237	-
Principal paid on capital debt	(3,180,156)	(1,677,937)
Interest paid on capital debt	(5,337,387)	(3,551,913)
Deferred issuance costs, net	95,456	93,858
Net Cash Used by Capital Financing Activities	(5,358,686)	(6,442,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received from investments	890,959	226,679
Net Cash Provided by Investing activities	890,959	226,679
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,923,727)	(2,558,083)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	67,334,472	69,892,555
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 63,410,745	$ 67,334,472
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (30,918,649)	$ (34,459,778)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	2,015,300	1,997,853
Changes in net assets and liabilities:		
(Increase) decrease in accounts receivable	(3,122,570)	2,086,945
(Increase) decrease in inventories	15,279	(11,429)
(Increase) decrease in prepaids and deferred issuance costs	(92,697)	(30,726)
Increase (decrease) in accounts payable and accrued liabilities	274,646	944,814
Increase (decrease) in deferred revenue	571,325	128,667
Total Adjustments	(338,717)	5,116,124
Net Cash Used by Operating Activities	$ (31,257,366)	$ (29,343,654)

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

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	Student Body Fund	Total Agency Funds	OPEB Trust	Total Fiduciary Funds
ASSETS				
Cash on hand and in banks	$ 100,945	$ 100,945	$ -	$ 100,945
Investments	-	-	1,621,278	1,621,278
TOTAL ASSETS	$ 100,945	$ 100,945	$ 1,621,278	$ 1,722,223
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to student groups	$ 100,945	$ 100,945	$ -	$ 100,945
TOTAL LIABILITIES	100,945	100,945	-	100,945
FUND BALANCE - RESTRICTED	-	-	1,621,278	1,621,278
TOTAL LIABILITIES AND FUND BALANCES	$ 100,945	$ 100,945	$ 1,621,278	$ 1,722,223

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

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – TRUST FUNDS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	2012 OPEB Trust
REVENUES	
Contributions	$ 574,571
Interest and dividends	32,278
Unrealized loss of investments	(37,439)
TOTAL REVENUES	569,410
EXPENDITURES	
Services and other operating expenditures	31,588
TOTAL EXPENDITURES	31,588
EXCESS OF REVENUES OVER EXPENDITURES	537,822
FUND BALANCE, BEGINNING	1,083,456
FUND BALANCE, ENDING	$ 1,621,278

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

WEST KERN COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
TAFT COLLEGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012 Foundation Fund	2011 Foundation Fund
ASSETS		
Cash on hand and in banks	$ 420,809	$ 602,157
Investments	1,317,002	936,140
Accounts receivable	54,610	54,845
TOTAL ASSETS	$ 1,792,421	$ 1,593,142
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 8,900	$ 437
Associated Student Body general	-	17,699
Associated Student Body athletics	-	34,219
Oil worker monument	98,257	176,518
TOTAL LIABILITIES	107,157	228,873
FUND BALANCES	1,685,264	1,364,269
TOTAL LIABILITIES AND FUND BALANCES	$ 1,792,421	$ 1,593,142

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

WEST KERN COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
TAFT COLLEGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012 Foundation Fund	2011 Foundation Fund
REVENUES		
Other Income	$ 565,220	$ 1,011,860
TOTAL REVENUES	565,220	1,011,860
EXPENDITURES		
Services and other operating expenditures	244,225	662,872
TOTAL EXPENDITIRES	244,225	662,872
EXCESS OF REVENUED OVER EXPENDITURES	320,995	348,988
NET CHANGE IN FUND BALANCE	320,995	348,988
FUND BALANCE, BEGINNING	1,364,269	1,015,281
FUND BALANCE, ENDING	$ 1,685,264	$ 1,364,269

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

WEST KERN COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNIT
TAFT COLLEGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	June 30, 2012	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers	$ (365,706)	$ (940,802)
Other operating receipts/payments	565,220	1,083,860
Net Cash Provided by Operating Activities	199,514	143,058
NET CHANGE IN CASH AND CASH EQUIVALENTS	199,514	143,058
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,538,297	1,395,239
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,737,811	$ 1,538,297
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	$ 320,995	$ 348,988
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	235	72,000
Increase (decrease) in accounts payable and accrued liabilities	(121,716)	(277,930)
Total Adjustments	(121,481)	(205,930)
Net Cash Flows from Operating Activities	$ 199,514	$ 143,058

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

NOTE 1 – ORGANIZATION

The West Kern Community College District (the District) was established in 1922 as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected five-member Board of Trustees (the Board) form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college with one campus located within Kern County in the City of Taft. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units.* This statement amends GASB Statement No. 14, *The Financial Reporting Entity,* to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit"; the "environment and ability to access/influence reporting," and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by GASB, the financial reporting entity consists of the primary government, the District, and the following component units:

- Taft College Foundation

  The Taft College Foundation (the Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation acts primarily as a fundraising organization to provide grants and scholarships to students and support to employees, programs, and departments of the District. The board of the Foundation consists of community members, alumni, and other supporters of the Foundation. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is considered a component unit of the District with the inclusion of the statements as a discretely presented component unit. The Foundation is reported in separate financial statements because of the difference in its reporting model, as further described below.

  The Foundation is a not-for-profit organization under Internal Revenue Code (IRC) Section 501(c)(3) that reports its financial results in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codifications. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the District's financial reporting entity for these differences.

NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

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

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

- Management's Discussion and Analysis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

- Basic Financial Statements for the District as a whole including:
  - Statements of Net Assets - Primary Government
  - Statements of Revenues, Expenses, and Changes in Net Assets - Primary Government
  - Statements of Cash Flows - Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statements of Fiduciary Net Assets
    - Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2012 and 2011, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants and contributions to be set aside by the District for the purpose of satisfying certain requirements of the debt issuance and program funding requirements.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students.

Inventories

Inventories consist primarily of bookstore merchandise and cafeteria food and supplies held for resale to the students and faculty of the District. Inventories are stated at cost, utilizing the first in-first out method. The cost is recorded as an expense as the inventory is consumed.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 5 to 10 years, vehicles 5 to 10 years.

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs and Premiums

Bond and Certificates of Participation (COP) premiums, as well as issuance costs if applicable, are deferred and amortized over the life of the bonds using the straight line method. See Note 10 regarding unamortized premiums. The debt issuance costs of $1,943,052 and $2,038,508 related to the General Obligation Bonds and Certificates of Participation, respectively, are being amortized over the life of the bonds.

Compensated Absences

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

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Noncurrent Liabilities

Noncurrent liabilities include bonds and certificates of participation, compensated absences, capital lease obligations and Other Postemployment Benefits (OPEB) obligations with maturities greater than one year.

Net Assets

GASB Statements No. 34 and No. 35 report equity as “Net Assets” and represent the difference between assets and liabilities. Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

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

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

None of the District’s restricted net assets have resulted from enabling legislation adopted by the District.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District’s practice to use restricted resources first and the unrestricted resources when they are needed.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed General Obligation Bonds for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenditures, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students’ behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, Federal Supplemental Opportunity Grants (SEOG), and Federal Work-Study, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and the related *Compliance Supplement.*

Estimates

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

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the government-wide financial statements.

Foundation Presentation

The Foundation presents its financial statements in accordance with FASB Accounting Standards Codifications. Under these reporting requirements, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the codification, the Foundation does not use fund accounting.

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions.

Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. Revenues are reported as increases in the unrestricted net assets classification unless use of the related assets is limited by donor imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions for in-kind gifts from outside sources are recorded at their fair market value on the date of the donation.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are reported at fair value in accordance with FASB Topic ASC 820, *Fair Value Measurements and Disclosures.*

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and related California Franchise Tax Codes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Accounting Pronouncements

The provisions of GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, are to be implemented as of June 30, 2012; however, this provision is not applicable to the District.

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 60 will not have an effect on the District.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.* The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. GASB Statement No. 61 will not have an effect on the District.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the District's accounting or financial reporting upon the statement's implementation.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The District does not expect the implementation of this statement to have a material effect on the financial statements.

The provisions of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53,* are to be implemented as of June 30, 2012; however, this provision is not applicable to the District.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The District does not expect the implementation of this statement to have a material effect on the financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* This statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The District does not expect the implementation of this statement to have a material effect on the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Accounting Pronouncements (Continued)

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. This statement improves financial reporting by state and local governmental pension plans. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2013. GASB Statement No. 67 will not have a material effect on the District's financial statements.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement improves accounting and financial reporting by state and local governments for pensions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2014. The District has not yet determined the effect of GASB Statement No. 68 on the financial statements.

Comparative Financial Information

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers' acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, and Warrants	5 years	None	None
Registered State Bonds, Notes and Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of Base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2012 and 2011, consist of the following:

2012	
Government activities	$ 63,410,745
Fiduciary funds	1,722,223
The Foundation	1,737,811
Total Deposits and Investments	$ 66,870,779
2011	
Government activities	$ 67,334,472
Fiduciary funds	1,140,369
The Foundation	1,538,297
Total Deposits and Investments	$ 70,013,138

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Summary of Deposits and Investments (Continued)

Deposits and investments as of June 30, 2012 and 2011, consist of the following:

2012

Cash on hand and in banks	$ 3,349,621
Cash in revolving	15,415
Investments with fiscal agent	2,937,454
Investments	60,568,289
Total Deposits and Investments	$ 66,870,779

2011

Cash on hand and in banks	$ 2,228,306
Cash in revolving	3,630
Investments with fiscal agent	2,019,596
Investments	65,761,606
Total Deposits and Investments	$ 70,013,138

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's and the Foundation's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's and the Foundation's investments by maturity $62,188,741 and $1,317,002, respectively:

2012

Investment Type	Fair Value	12 Months or Less	13-24 Months	25-60 Months	More Than 60 Months
Certificates of Deposit	$ 6,555,399	$ 261,669	$ 1,423,652	$ 4,870,078	$ -
Corporate Notes	33,702,462	3,877,767	3,541,506	18,724,191	7,558,998
County Pool	11,364,957	11,364,957	-	-	-
Money Market	1,434,849	1,434,849	-	-	-
U.S. Treasuries	10,353,078	30,567	10,322,511	-	-
Total	$ 63,410,745	$ 16,969,809	$ 15,287,669	$ 23,594,269	$ 7,558,998

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Segmented Time Distribution (Continued)

Investment Type	Fair Value	12 Months or Less	13-24 Months	25-60 Months	More Than 60 Months
Certificates of Deposit	$ 6,043,085	$ 767,472	$ 199,422	$ 5,076,191	$ -
Corporate Notes	10,450,476	1,672,076	2,717,124	4,180,190	1,881,086
County Pool	14,008,390	-	14,008,390	-	-
Mutual Funds	6,599,534	6,599,534	-	-	-
U.S. Treasuries	28,599,031	2,264,371	2,368,744	20,856,896	3,109,020
Money Market	2,080,686	2,080,686	-	-	-
Total	$ 67,781,202	$ 13,384,139	$ 19,293,680	$ 30,113,277	$ 4,990,106

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County Pool are not required to be rated, nor have they been rated as of June 30, 2012 and 2011.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year-End		
			AAA	Aa+-	Unrated
Certificates of Deposit	$ 6,555,399	N/A	$ -	$ -	$ 6,555,399
Corporate Notes	33,702,462	N/A	17,441,878	15,873,572	387,012
County Pool	11,364,957	N/A	-	-	11,364,957
Money Market	1,434,849	N/A	-	-	1,434,849
U.S. Treasuries	10,353,078	N/A	-	-	10,353,078
Total	$ 63,410,745		$ 17,441,878	$ 15,873,572	$ 30,095,295

2011

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year-End		
			AAA	Aa+-	Unrated
Certificates of Deposit	$ 6,043,085	N/A	$ -	$ -	$ 6,043,085
Corporate Notes	10,450,476	N/A	-	9,957,700	492,776
County Pool	14,008,390	N/A	-	-	14,008,390
Mutual Funds	6,599,534	N/A	-	-	6,599,534
U.S. Treasuries	28,599,030	N/A	19,447,340	5,433,816	3,717,874
Money Market	2,080,687	N/A	-	-	2,080,687
Total	$ 67,781,202		$ 19,447,340	$ 15,391,516	$ 32,942,346

NOTE 3 – <u>DEPOSITS AND INVESTMENTS</u> (Continued)

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in anyone issuer beyond the amount stipulated by the California Government code. Investments in anyone issuer that represent five percent or more of the total investments are as follows:

Investment Type	Issuer	Reported Amount
Corporate Notes	Morgan Stanley	$ 4,923,425
Corporate Notes	Wells Fargo Advisors	1,381,062
		$ 6,304,487

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District's and the Foundation's combined bank balance of $440,754 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, neither the District nor the Foundation will be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Corporate Notes of $33,702,462, the District and the Foundation have a custodial credit risk exposure of $6,304,487, because the related securities are uninsured, unregistered, and held by the brokerage firm which is also the counterparty for these securities. The District and the Foundation do not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government 2012	Primary Government 2011
Federal Government		
Categorical aid	$ 215,013	$ 149,272
State Government		
Appointment	1,782,767	34,916
Categorical aid	264,125	496,549
Lottery	214,920	183,843
Other State sources	2,678,922	1,324,478
Local Sources		
Interest	23,602	35,491
Housing Loan *	31,154	85,029
Student receivables	1,848,500	1,585,619
Other local sources	85,571	126,807
Total	$ 7,144,574	$ 4,022,004

***** Long-term accounts receivable.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital Assets Not Being Depreciated				
Land	$ 896,398	$ 378,864	$ -	$ 1,275,262
Construction in progress	10,501,217	6,547,498	5,491,733	11,556,982
Total Capital Assets Not Being Depreciated	11,397,615	6,926,362	5,491,733	12,832,244
Capital Assets Being Depreciated				
Land and building improvements	1,006,702	2,055,721	-	3,062,423
Buildings	48,120,733	3,129,538	-	51,250,271
Furniture and equipment	7,930,545	197,715	-	8,128,260
Total Capital Assets Being depreciated	57,057,980	5,382,974	-	62,440,954
Total Capital Assets	68,455,595	12,309,336	5,491,733	75,273,198
Less Accumulated Depreciation				
Land and building improvements	448,076	95,324	-	543,400
Buildings	15,350,419	1,145,895	-	16,496,314
Furniture and equipment	3,329,721	774,081	-	4,103,802
Total Accumulated Depreciation	19,128,216	2,015,300	-	21,143,516
Net Capital Assets	$ 49,327,379	$ 10,294,036	$ 5,491,733	$ 54,129,682

Depreciation expense for the year ended June 30, 2012, was $2,015,300.

NOTE 5 – CAPITAL ASSETS (Continued)

Capital asset activity for the District for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Capital Assets Not Being Depreciated				
Land	$ 896,398	$ -	$ -	$ 896,398
Construction in progress	5,424,794	5,221,966	145,543	10,501,217
Total Capital Assets Not Being Depreciated	6,321,192	5,221,966	145,543	11,397,615
Capital Assets Being Depreciated				
Land and building improvements	1,006,702	-	-	1,006,702
Buildings	47,200,800	919,933	-	48,120,733
Furniture and equipment	7,678,485	252,060	-	7,930,545
Total Capital Assets Being depreciated	55,885,987	1,171,993	-	57,057,980
Total Capital Assets	62,207,179	6,393,959	145,543	68,455,595
Less Accumulated Depreciation				
Land and building improvements	356,372	91,704	-	448,076
Buildings	14,220,310	1,130,109	-	15,350,419
Furniture and equipment	2,553,681	776,040	-	3,329,721
Total Accumulated Depreciation	17,130,363	1,997,853	-	19,128,216
Net Capital Assets	$ 45,076,816	$ 4,396,106	$ 145,543	$ 49,327,379

Depreciation expense for the year ended June 30, 2011, was $1,997,853.

NOTE 6 – ACCOUNTS PAYABLE

	Primary Government	
	2012	2011
Vendor payable	$ 2,392,689	$ 2,949,747

NOTE 7 – SHORT-TERM BORROWING

On July 26, 2011, the District issued $2,470,000 Tax and Revenue Anticipation Notes bearing interest at 0.661 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 26, 2012. By June 26, 2012, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

	Outstanding June 30, 2011	Additions	Deletions	Outstanding June 30, 2012
2010 1.181% TRANS	$ -	$ 2,470,000	$ 2,470,000	$ -

NOTE 8 – DEFERRED REVENUE

Deferred revenue consisted of the following:

	Primary Government 2012	Primary Government 2011
Federal financial assistance	$ 1,763,326	$ 62,683
Unapplied cash	236,341	600,000
Enrollment fees	318,635	1,084,294
Total	$ 2,318,302	$ 1,746,977

NOTE 9 – INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund balances at June 30, 2012 and 2011, have been eliminated in the consolidation process and totaled $7,107,003 and $5,542,948 respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process and totaled $1,306,763.

NOTE 10 – LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

	Balance June 30, 2011	Accreted Interest	Issued/ Additions	Deductions	Balance June 30, 2012	Due in One Year
General Obligation Bonds:						
2004, Series A *	$ 2,444,057	$ -	$ -	$ 525,000	$ 1,919,057	$ 545,000
2005 Refunding - Current Interest	5,510,000	-	-	-	5,510,000	-
2005 Refunding - Capital Appreciation	4,043,679	445,795	-	905,000	3,584,474	940,000
2006 B - Current Interest	385,000	-	-	-	385,000	-
2006 B - Capital Appreciation	14,642,051	746,482	-	35,000	15,353,533	125,000
2007 C - Current Interest	11,235,000	-	-	-	11,235,000	-
2007 C - Capital Appreciation	1,433,223	167,233	-	165,000	1,435,456	225,000
Unamortized Premium on Bond Issuances	2,848,839	-	-	142,722	2,706,117	142,722
Certificates of Participation - 2008	28,930,000	-	-	-	28,930,000	725,000
Capital Leases	34,683	-	7,037	15,645	26,075	15,645
Other Postemployment Benefit Obligations	1,722,357	-	1,424,690	1,364,848	1,782,199	-
Compensated Absences	476,011	-		26,941	449,070	-
	$ 73,704,900	$ 1,359,510	$ 1,431,727	$ 3,180,156	$ 73,315,981	$ 2,718,367

***** Principal and interest payments are being made through the Bank of New York by the Escrow Agent.

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

Summary (Continued)

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund with local property tax revenues. Payments on the Certificates of Participation are paid by the Debt Service Fund. The Capital Lease was paid by the General Fund. The Other Post Employment Benefits are paid by the General Fund. The Compensated Absences are paid by the fund for which the employee worked.

The changes in the District's long-term obligations during the 2011 fiscal year consisted of the following:

	Balance June 30, 2010	Accreted Interest	Issued/ Additions	Deductions	Balance June 30, 2011	Due in One Year
General Obligation Bonds:						
2004, Series A *	$ 2,949,057	$ -	$ -	$ 505,000	$ 2,444,057	$ 525,000
2005 Refunding - Current Interest	6,060,000	-	-	550,000	5,510,000	-
2005 Refunding - Capital Appreciation	3,881,936	461,743	-	300,000	4,043,679	905,000
2006 B - Current Interest	385,000	-	-	-	385,000	-
2006 B - Capital Appreciation	13,997,912	714,139	-	70,000	14,642,051	35,000
2007 C - Current Interest	11,235,000	-	-	-	11,235,000	-
2007 C - Capital Appreciation	1,374,618	163,605	-	105,000	1,433,223	165,000
Unamortized Premium on Bond Issuances	2,991,561	-	-	142,722	2,848,839	142,722
Certificates of participation - 2008	28,930,000	-	-	-	28,930,000	-
Capital Leases	-	-	39,898	5,215	34,683	15,645
Other Postemployment Benefit Obligations	1,788,775	-	1,424,690	1,491,108	1,722,357	-
Compensated Absences	325,237	-	150,774	-	476,011	-
Total Long-Term Obligations	$ 73,919,096	$ 1,339,487	$ 1,615,362	$ 3,169,045	$ 73,704,900	$ 1,788,367

***** Principal and interest payments are being made through the Bank of New York by the Escrow Agent.

General Obligation Bonds

Description of Debt

On March 2, 2004, the District issued bonds in the principal amount of$14,999,058 to be used for the purpose of financing college facilities improvements. The bonds were issued in two types: Current Interest Bonds in the sum of $14,800,000 and Capital Appreciation Bonds in the sum of $199,058.

On October 20, 2005, the District refinanced $12,841,051 of the Series A bond issuance through USB Financial Services, Inc. This amount refinanced all of the currently issued bonds with the exception of certain non-callable United States governmental obligations. This reduced the time period in which the bonds will be paid, thereby reducing the amount of interest to be paid by the taxpayers. In addition, this created an overall cash inflow to the District of $2,001,400.

On December 21, 2006, the District issued bonds in the principal amount of $12,500,856 to be used for the purpose of financing college facilities improvements. The bonds were issued in two types: Current Interest Bonds in the sum of $385,000 and Capital Appreciation Bonds in the sum of $12,115,856.

In October of 2007, the District issued bonds in the principal amount of $12,297,305 to be used for the purpose of financing college facilities improvements and expansion. The bonds were issued in two types: Current Interest Bonds in the sum of $11,235,000 and Capital Appreciation Bonds in the sum of $1,062,305. These bonds represent a general obligation of the District. The payment of principal and interest is to be funded by property taxes assessed on real property within the District.

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds (Continued)

Debt Maturity:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2012
2004*	11/1/2029	2-5.98%	$ 14,999,058	$ 2,444,057	$ -	$ 525,000	$ 1,919,057
2005	11/1/2019	3-5%	10,829,299	9,553,679	445,795	905,000	9,094,474
2006	11/1/2031	3.7-4.86%	12,500,856	15,027,051	746,482	35,000	15,738,533
2007	11/1/2032	3.6-6.68%	12,297,305	12,668,223	167,233	165,000	12,670,456
Total				$ 39,693,010	$ 1,359,510	$ 1,630,000	$ 39,422,520

* A portion of the original issuance was defeased with proceeds from the 2005 Refunding issuance.

2004 Issuance:

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ 545,000	$ 86,000	$ 631,000
2014	575,000	58,750	633,750
2015	600,000	30,000	630,000
2016	-	-	-
2017-2021	-	-	-
2022-2026	-	-	-
2027-2030	199,057	3,160,942	3,359,999
Total	$ 1,919,057	$ 3,335,692	$ 5,254,749

2005 Refunding – Current Interest:

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ -	$ 241,150	$ 241,150
2014	-	241,151	241,151
2015	-	241,150	241,150
2016	-	241,150	241,150
2017	1,720,000	241,150	1,961,150
2018-2020	3,790,000	253,200	4,043,200
Total	$ 5,510,000	$ 1,458,951	$ 6,968,951

NOTE 10 – **LONG-TERM OBLIGATIONS** (Continued)

General Obligation Bonds (Continued)

2005 Refunding – Capital Appreciation:

Fiscal Year	Fully Accreted Amount	Long-Term Debt Extended Obligation	Unaccreted Obligation
2013	$ 940,000	$ 886,787	$ 53,213
2014	975,000	818,620	156,380
2015	1,015,000	758,459	256,541
2016	1,685,000	1,120,609	564,391
Total	$ 4,615,000	$ 3,584,475	$ 1,030,525

2006 B – Current Interest:

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ -	$ 17,325	$ 17,325
2014	-	17,325	17,325
2015	-	17,325	17,325
2016	-	17,325	17,325
2017	-	17,325	17,325
2018-2020	385,000	51,975	436,975
Total	$ 385,000	$ 138,600	$ 523,600

2006 B – Capital Appreciation:

Fiscal Year	Fully Accreted Amount	Long-Term Debt Extended Obligation	Unaccreted Obligation
2013	$ 125,000	$ 104,951	$ 20,049
2014	120,000	89,670	30,330
2015	115,000	76,481	38,519
2016	115,000	68,067	46,933
2017	110,000	57,946	52,054
2018-2022	6,430,000	4,185,644	2,244,356
2023-2027	11,980,000	6,652,586	5,327,414
2028-2032	9,675,000	4,118,188	5,556,812
Total	$ 28,670,000	$ 15,353,533	$ 13,316,467

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

General Obligation Bonds (Continued)

2007 C – Current Interest:

Fiscal Year	Principal		Interest to Maturity		Total	
2013	$	-	$	520,731	$	520,731
2014		-		520,731		520,731
2015		-		520,731		520,731
2016		-		520,731		520,731
2017		-		520,731		520,731
2018-2022		-		2,603,656		2,603,656
2023-2027		2,615,000		2,422,228		5,037,228
2028-2032		4,715,000		1,652,825		6,367,825
2033		3,905,000		178,979		4,083,979
Total	$	11,235,000	$	9,461,343	$	20,696,343

2007 C – Capital Appreciation:

Fiscal Year	Fully Accreted Amount		Long-Term Debt Extended Obligation		Unaccreted Obligation	
2013	$	225,000	$	212,263	$	12,737
2014		130,000		109,149		20,851
2015		160,000		119,560		40,440
2016		195,000		129,685		65,315
2017		225,000		133,175		91,825
2018-2022		1,640,000		675,736		964,264
2023		190,000		55,889		134,111
Total	$	2,765,000	$	1,435,457	$	1,329,543

Certificates of Participation

2008 Issuance:

Fiscal Year	Principal		Total*	
2013	$	725,000	$	725,000
2014		750,000		750,000
2015-2019		4,245,000		4,245,000
2020-2024		5,330,000		5,330,000
2025-2029		6,845,000		6,845,000
2030-2034		8,935,000		8,935,000
2035		2,100,000		2,100,000
Total	$	28,930,000	$	28,930,000

* Interest due on the Certificates is based on the auction rate at the time of sale.

NOTE 10 – LONG-TERM OBLIGATIONS (Continued)

Capital Leases

The District's liability on lease agreements with option to purchase is summarized below:

Year Ending June 30,	Lease Payment
2013	$ 15,645
2014	10,430
Present Value of Minimum Lease Payments	$ 26,075

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2012, amounted to $449,070.

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was $1,331,486, and contributions made by the District during the year were $1,364,848. Interest on the net OPEB obligation was $36,749, which resulted in a increase to the net OPEB obligation of $59,842. As of June 30, 2012, the net OPEB obligation was $1,782,199. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The West Kern Community College District Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 61 retirees and beneficiaries currently receiving benefits and 181 active Plan members.

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2011/12, the District contributed $1,401,597 to the Plan, of which $827,026 was used for current premiums and $574,571 was paid into the Plan's trust account.

NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION (Continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 1,331,486
Interest on net OPEB obligation	93,204
Annual OPEB cost	1,424,690
Benefits paid	(827,026)
Trust deposits	(574,571)
Investment earnings net of expenses	36,749
Total Contributions made	(1,364,848)
Increase in net OPEB obligation	59,842
Net OPEB obligation, July 1, 2011	1,722,357
Net OPEB obligation, June 30, 2012	$ 1,782,199

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	$ 1,424,690	$ 1,364,848	95.80%	$ 1,782,199
2011	$ 1,424,690	$ 1,491,108	104.66%	$ 1,722,357
2010	$ 1,817,071	$ 1,369,757	75.38%	$ 1,788,775
2009	$ 2,025,559	$ 684,098	33.77%	$ 1,341,461

Actuarial Methods and Assumptions

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

In the February 1, 2011, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a seven percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rates were four percent per year. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2011, was 27 years. At July 1, 2012, the Plan held net assets in the amount of $1,621,278.

NOTE 12 – RISK MANAGEMENT

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2012, the District contracted with the Self Insured Schools of California II (SISC II) Joint Powers Authority for property and liability insurance coverage, health and welfare benefits as well as workers compensation coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2011/12, the District participated in the Self Insured Schools of California I (SISC I) Joint Powers Authority (JPA), an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Employee Medical Benefits

The District has contracted with Self Insured Schools of California III (SISC III) to provide employee medical benefits. SISC III is a shared risk pool comprised of members of participating districts in California. Rates are set through an annual calculation process. The District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of the claim's flow. The Board of Trustees has the right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of CalSTRS and classified employees are members of CalPERS.

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active members are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011/12 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were $585,565, $615,140, and $656,453, respectively, and equal 100 percent of the required contributions for each year.

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2011/12 was 10.923 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2012, 2011, and 2010, were $764,036, $735,595, and $605,890, respectively, and equaled 100 percent of the required contributions for each year.

Deferred Compensation

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board of Administration controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board of Administration, for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

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

The District is a member of the Self Insured Schools of California (SISC) JPA. The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and SISC is such that it is not a component unit of the District for financial reporting purposes.

SISC has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, transactions between SISC and the District are included in these statements. Audited financial statements are available from SISC.

The District has appointed no Board members to the Governing Board of SISC.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2012, the District made payments of $3,522,309, $124,439, and $108,808 to SISC for health and welfare, workers compensation, and property and liability coverage, respectively.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

The cost of the Student access cards were incorrectly listed in the Inventory tracking system, due to this fact a prior period adjustment of $7,996 was posted to correct the current year inventory and to correctly present June 30, 2011, fund balance for the Bookstore fund.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

Litigation

The District is not currently a party to any legal proceedings.

Related Party Transactions

WESTEC

Taft Community College and WESTEC share administrative and other costs and are considered to be related parties. Certain data processing, administrative services, and purchases are performed on behalf of, or for Taft Community College by WESTEC. WESTEC also has a relation with Taft Community College in that the North Kern Training Center (NKTC) was purchased by Taft College. In turn, WESTEC maintains the center and incurs costs such as betterments and improvements. As is the case with WESTEC's original Taft facility, NKTC use charges are based on a per student per class fee payable to Taft College.

President Housing Assistance

The District and the prior President have entered into a loan agreement to assist the President in obtaining housing within the community. The loan amount totals $85,209 and is accruing interest on an annual basis currently at the interest rate earned at the Kern County Treasurer's Office. The agreement was entered into mutually by both parties to better serve the District by the President being a resident of the community in which he was serving. The amount is reflected in accounts receivables.

Impounded Property Taxes

Each year several property tax assessments are protested. Accordingly, the District impounds monies in order to repay the assessments in the event the District should lose any of the protests.

NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Tech Arts Modernization	$ 248,296	March 2012
Transition to Independent Living Center	8,001,872	March 2013
Technology Upgrade	204,920	June 2013
Dormitory Parking	200,000	August 2013
CEQA / Master Planning	(92,089)	December 2013
Campus Center/Culinary	10,412,825	June 2016
Land Acquisition (Phase 3)	197,500	Pending
Field / Sports Maintenance	1,200,000	Pending
Vocational Center	23,273,201	Pending
Gymnasium Repairs / Modernization	5,850,000	Pending
Energy / Solar	500,000	Pending
Dormitory Repairs	1,642,229	Pending DSA Approval
Total	$ 51,638,754	

The projects are funded through a combination of General Obligation Bonds, Certificates of Participation, and capital project apportionments from the California Community College Chancellor's Office.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 26, 2013, which is the date the financial statements were available to be issued.

The District issued $3,865,000 of Tax and Revenue Anticipation Notes dated August 16, 2012. The notes mature on June 28, 2013, and yield 0.37 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent until 100 percent of principal and interest due is on account by June 25, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

WEST KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Normal Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Estimated Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
August 28, 2008	$ -	$ 19,527,376	$ 19,527,376	0.00%	$ 19,225,000	101.57%
May 1, 2010	$ 492,776	$ 14,460,596	$ 13,967,820	3.41%	$ 19,225,000	72.65%
February 1, 2011	$ 827,321	$ 19,542,306	$ 18,714,985	4.23%	$ 16,322,738	114.66%

SUPPLEMENTARY INFORMATION SECTION

WEST KERN COMMUNITY COLLEGE DISTRICT
DISTRICT ORGANIZATION
JUNE 30, 2012

Board of Trustees

Member	Office	Term Expires
Billy White	President	2016
Kal Vaughn	Secretary	2016
Carolyn Hosking	Member	2014
Dawn Cole	Member	2014
Michael Long	Member	2014

Administration

Dena P. Maloney, Ed.D.	Superintendent/President
Patti Bench	Interim Vice-President of Instruction
Brock McMurray	Vice-President of Student Services
Ronald M. Errea	Vice-President of Administrative Services

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Programs		CFDA Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department Education:			
Child Care Food Program		10.558	$ 150,307
U.S. DEPARTMENT OF EDUCATION			
Direct Programs:			
HEOA - IPSID Grant	*	84.407A	438,409
TRIO Student Support Services Grant		84.042A	224,338
Student Financial Aids Cluster:			
SEOG	*	84.007	33,329
Federal Work Study	*	84.033	46,725
Pell Grants	*	84.063	3,351,546
Subtotal Student Financial Aid Cluster			3,431,600
Passed through California Department of Education:			
Higher Education Institutional		84.031S	1,159,432
Career and Technical Education - Basic Grants		84.048	99,721
Subtotal U.S. Department of Education			5,353,500
U.S. DEPARTMENT OF VERTERANS AFFAIRS			
Veteran Education		64.120	300
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Care Services:			
Medical Administrative Activities		93.778	5,250
Subtotal			5,250
Total Federal Programs			$ 5,509,357

* Denotes major program.

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program	Program Entitlements Current Year	Program Revenues Cash Received	Accounts Receivable	Total Revenue	Program Expenditures
STATE					
Basic Skills	$ 90,000	$ 90,000	$ -	$ 90,000	$ 75,117
Cal Grant	196,976	191,546	5,430	196,976	196,976
Cal Work	115,709	115,709	-	115,709	115,709
Cooperative Agencies Resources of Education (CARE)	23,314	23,314	-	23,314	12,214
Child Development Center	1,973,161	1,971,620	1,541	1,973,161	1,855,476
Dent-Cal	31,545	30,501	1,044	31,545	31,545
Disabled Student Program and Services	204,077	204,077	-	204,077	431,246
Extended Opportunity Program and Services	202,595	202,595	-	202,595	283,612
Lottery	342,062	172,774	169,288	342,062	361,822
Matriculation - Credit	395,288	395,288	-	395,288	471,290
Matriculation - Non-Credit	25,148	25,148	-	25,148	25,148
Other Categorical Allowances:					
Enrollment Fee Administration	67,609	67,609	-	67,609	67,609
Part-Time Faculty Allocation					
Proposition 10 Grant	1,343,936	1,086,700	257,236	1,343,936	1,343,936
Staff Development	3,921	3,921	-	3,921	3,921
Student Financial Aid Administration (SFAA)	138,374	138,374	-	138,374	138,374
Temporary Assistance to Needy Families (TANF) - State allocation	32,342	32,342	-	32,342	32,342
Total State Programs	$ 5,186,057	$ 4,751,518	$ 434,539	$ 5,186,057	$ 5,446,337

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
JUNE 30, 2012

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (2011 only)			
1. Noncredit	0.94	-	0.94
2. Credit	141.79	-	141.79
B. Summer Intersession (2012 only)			
1. Noncredit	7.17	-	7.17
2. Credit	185.42	-	185.42
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contract Hours	1,220.63	-	1,220.63
(b) Daily Census	40.11	-	40.11
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	51.78	-	51.78
(B) Credit	195.87	-	195.87
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	556.07	-	556.07
(b) Daily Census Contact Hours	154.46	-	154.46
D. Total FTES	2,554.24	-	2,554.24
E. Basic Skills Courses and Immigration Education (FTES)			
1. Noncredit	5.38	-	5.38
2. Credit	173.49	-	173.49
	178.87	-	178.87

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements are summarized below.

	General Fund Unrestricted	General Fund Restricted	Total General Fund	Debt Service Fund	Child Development Fund	Capital Improvement Fund	Bond Improvement Fund
June 30, 2012, Annual Financial and Budget Report (CCFS-311)							
Reported Fund Balance *	$ 3,585,198	$ 5,560,427	$ 9,145,625	$ 36,440,186	$ (626,097)	$ (66,891)	$ 16,398,468
Adjustments to Fund Balance:							
Increase (Decrease) to:							
Cash and investments	205,094	-	205,094	(23,881,277)	1	-	-
Other current assets - prepaid expenditures	-	-	-	-	-	-	-
Accounts receivable	-	-	-	(3,141)	-	-	1
Due from other funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
(Increase) Decrease to:							
Accounts payable	-	-	-	20,000	(2,246)	-	-
Deferred revenue	1,337,333	(1,763,326)	(425,993)	-	-	-	-
Compensated absences	-	-	-	-	-	-	-
Other liabilities	(831,704)	-	(831,704)	-	-	-	-
Due to other funds	(205,094)	-	(205,094)	-	-	-	-
Net Adjustments	505,629	(1,763,326)	(1,257,697)	(23,864,418)	(2,245)	-	1
Audited Fund Balance	$ 4,090,827	$ 3,797,101	$ 7,887,928	$ 12,575,768	$ (628,342)	$ (66,891)	$ 16,398,469

* The Parking, Restricted Purpose, and Impound Funds are not reported on the District's Financial and Budget Report (CCFS-311).

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Restricted Purpose Fund	Bookstore Fund	Cafeteria Fund	Revenue Bond Fund	Parking Fund	TIL Fund	Impounds Fund
June 30, 2012, Annual Financial and Budget Report (CCFS-311)							
Reported Fund Balance *	$ -	$ 1,394,410	$ 233,137	$ 1,057,948	$ -	$ 133,269	$ -
Adjustments to Fund Balance:							
Increase (Decrease) to:							
Cash and investments	23,881,277	-	-	-	68,349	-	2,023,324
OCA-Prepaid Expenditures	-	-	-	-	1,146	-	-
Accounts receivable	3,141	-	-	-	-	-	-
Due from other funds	-	1	(1)	-	145	-	-
Inventories	-	(14,452)	(827)	-	-	-	-
(Increase) Decrease to:							
Accounts payable	(20,000)	-	1	1	-	-	-
Deferred revenue	-	-	-	-	-	-	-
Compensated Absences	-	-	-	-	-	-	-
Other Liabilities	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	(383)	-	-
Net Adjustments	23,864,418	(14,451)	(827)	1	69,257	-	2,023,324
Audited Fund Balance	$ 23,864,418	$ 1,379,959	$ 232,310	$ 1,057,949	$ 69,257	$ 133,269	$ 2,023,324

* The Parking, Restricted Purpose, and Impound Funds are not reported on the District's Financial and Budget Report (CCFS-311).

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
PROPOSITION 10 GRANTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Revenues	
State Grant Funds	$ 1,343,936
Expenditures	
Personnel Services	$ 743,823
Services and Supplies	545,914
Indirect Overhead	54,199
Total Expenditures	1,343,936
Excess of Revenues Over Expenditures	$ -

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

	General Fund Unrestricted	General Fund Restricted	Total General Fund	Debt Service Fund	Child Development Fund	Capital Improvement Fund	Bond Improvement Fund	Restricted Purpose Fund
ASSETS								
Cash in county treasury	$ 1,441,594	$ 3,568,025	$ 5,009,619	$ -	$ 102,555	$ 592,788	$ 533,529	$ 1,636,894
Cash on hand and in banks	1,216,293	-	1,216,293	3	5,708	-	-	-
Investments	-	-	-	12,575,765	-	-	16,003,636	22,244,383
OCA - Prepaid Expenditures	112,462	5,925	118,387	-	-	3,890	-	-
Accounts receivable	3,897,624	488,090	4,385,714	-	31,249	2,540,772	1,450	3,141
Dues from other funds	3,067,699	1,940,194	5,007,893	-	-	736,965	59,340	-
Inventories	-	-	-	-	-	-	-	-
TOTAL ASSETS	$ 9,735,672	$ 6,002,234	$ 15,737,906	$ 12,575,768	$ 139,512	$ 3,874,415	$ 16,597,955	$ 23,884,418
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	$ 495,711	$ 366,430	$ 862,141	$ -	$ 34,479	$ 1,163,166	$ 188,229	$ 20,000
Compensated absences	290,725	71,288	362,013	-	34,270	-	-	-
Deferred revenue	554,976	1,763,326	2,318,302	-	-	-	-	-
Other Liabilities	831,704	-	831,704	-	-	-	-	-
Due to other funds	3,471,729	4,089	3,475,818	-	699,105	2,778,140	11,257	-
TOTAL LIABILITIES	5,644,845	2,205,133	7,849,978	-	767,854	3,941,306	199,486	20,000
FUND BALANCES								
Non-spendable fund balance	112,462	5,925	118,387	-	-	3,890	-	-
Restricted fund balance	-	3,791,176	3,791,176	-	-	-	16,398,469	-
Assigned fund balance	-	-	-	12,575,768	-	-	-	23,864,418
Unassigned fund balance	3,978,365	-	3,978,365	-	(628,342)	(70,781)	-	-
TOTAL FUND BALANCE	4,090,827	3,797,101	7,887,928	12,575,768	(628,342)	(66,891)	16,398,469	23,864,418
TOTAL LIABILITIES AND FUND BALANCE	$ 9,735,672	$ 6,002,234	$ 15,737,906	$ 12,575,768	$ 139,512	$ 3,874,415	$ 16,597,955	$ 23,884,418

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET (Continued)
JUNE 30, 2012

	Bookstore Fund	Cafeteria Fund	Revenue Bond Fund	Parking Fund	TIL Fund	Impounds Fund	Total Governmental Funds
ASSETS							
Cash in county treasury	$ 490,944	$ 200,751	$ 683,303	$ 68,349	$ 22,901	$ 2,023,324	$ 11,364,957
Cash on hand and in banks	-	-	-	-	-	-	1,222,004
Investments	-	-	-	-	-	-	50,823,784
OCA - Prepaid Expenditures	-	-	-	1,146	-	-	123,423
Accounts receivable	606	266	1,713	145	179,518	-	7,144,574
Dues from other funds	711,027	71,765	379,365	-	140,648	-	7,107,003
Inventories	215,277	25,164	-	-	-	-	240,441
						-	
TOTAL ASSETS	$ 1,417,854	$ 297,946	$ 1,064,381	$ 69,640	$ 343,067	$ 2,023,324	$ 78,026,186
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	$ 37,205	$ 57,236	$ 6,432	$ -	$ 23,801	$ -	$ 2,392,689
Compensated absences	602	8,400	-	-	43,785	-	449,070
Deferred revenue	-	-	-	-	-	-	2,318,302
	-	-	-	-	-	-	831,704
Due to other funds	88	-	-	383	142,212	-	7,107,003
TOTAL LIABILITIES	37,895	65,636	6,432	383	209,798	-	13,098,768
FUND BALANCES							
Non-spendable fund balance	215,277	25,164	-	1,146	-	-	363,864
Restricted fund balance	-	-	1,057,949	68,111	133,269	2,023,324	23,472,298
Assigned fund balance	1,164,682	207,146	-	-	-	-	37,812,014
Unassigned fund balance	-	-	-	-	-	-	3,279,242
TOTAL FUND BALANCE	1,379,959	232,310	1,057,949	69,257	133,269	2,023,324	64,927,418
TOTAL LIABILITIES AND FUND BALANCE	$ 1,417,854	$ 297,946	$ 1,064,381	$ 69,640	$ 343,067	$ 2,023,324	$ 78,026,186

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund Unrestricted	General Fund Restricted	Total General Fund	Debt Service Fund	Child Development Fund	Capital Improvement Fund	Bond Improvement Fund	Restricted Purpose Fund
REVENUES								
Federal sources	$ 4,450	$ 5,467,164	$ 5,471,614	$ -	$ 19,294	$ -	$ -	$ -
State sources	5,779,919	2,677,689	8,457,608	-	2,087,172	3,542,487	-	1,582,204
Local Sources	11,226,817	339,026	11,565,843	4,160,298	22,381	6,235	373,934	469,891
Other financing	(625,000)	625,000	-	-	-	-	-	-
TOTAL REVENUES	16,386,186	9,108,879	25,495,065	4,160,298	2,128,847	3,548,722	373,934	2,052,095
EXPENDITURES								
Certified salaries	6,557,562	1,050,132	7,607,694	-	221,665	-	-	-
Classified salaries	3,948,002	1,918,935	5,866,937	-	1,080,442	-	-	-
Employee benefits	3,827,965	1,061,567	4,889,532	-	468,810	-	-	-
Books and supplies	453,368	439,271	892,639	-	190,449	56	5,115	-
Services and other operating expenditures	3,031,250	1,590,573	4,621,823	-	61,158	586,245	770,781	98,937
Capital outlay	114,489	575,366	689,855	-	12,600	4,829,135	1,023,865	-
Other outgoing	153,818	45,437	199,255	4,207,178	-	-	-	1,496,679
TOTAL EXPENDITURES	18,086,454	6,681,281	24,767,735	4,207,178	2,035,124	5,415,436	1,799,761	1,595,616
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,700,268)	2,427,598	727,330	(46,880)	93,723	(1,866,714)	(1,425,827)	456,479
OTHER FINANCING SOURCES (USES)								
Discretionary transfers	2,673,547	(3,980,310)	(1,306,763)	-	-	-	-	-
Proceeds from capital leases	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,673,547	(3,980,310)	(1,306,763)	-	-	-	-	-
NET CHANGE IN FUND BALANCE	973,279	(1,552,712)	(579,433)	(46,880)	93,723	(1,866,714)	(1,425,827)	456,479
FUND BALANCES, BEGINNING OF YEAR	3,117,548	5,349,813	8,467,361	12,622,648	(722,065)	1,799,823	17,824,296	23,407,939
Prior Period Adjustment	-	-	-	-	-	-	-	-
FUND BALANCES, END OF YEAR	$ 4,090,827	$ 3,797,101	$ 7,887,928	$ 12,575,768	$ (628,342)	$ (66,891)	$ 16,398,469	$ 23,864,418

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – TRUST FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2012

	Bookstore Fund	Cafeteria Fund	Revenue Bond Fund	Parking Fund	TIL Fund	Impounds Fund	Total Governmental Funds
REVENUES							
Federal sources	$ -	$ -	$ 2,699	$ -	$ 16,020	$ -	$ 5,509,627
State sources	-	-	-	-	1,726,840	-	17,396,311
Local Sources	1,201,121	694,152	211,302	1,131	68,599	-	18,774,887
Other financing	-	-	-	-	-	-	-
TOTAL REVENUES	1,201,121	694,152	214,001	1,131	1,811,459	-	41,680,825
EXPENDITURES							
Certified salaries	-	-	-	-	118,602	-	7,947,961
Classified salaries	152,800	291,696	-	-	982,902	-	8,374,777
Employee benefits	64,286	129,103	-	-	387,208	-	5,938,939
Books and supplies	517,710	408,966	15,143	81	69,866	-	2,100,025
Services and other operating expenditures	117,247	1,940	42,850	-	79,557	-	6,380,538
Capital outlay	2,836	612	2,003	-	327	-	6,561,233
Other outgoing	5,985	-	1,750	-	1,278	-	5,912,125
TOTAL EXPENDITURES	860,864	832,317	61,746	81	1,639,740	-	43,215,598
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	340,257	(138,165)	152,255	1,050	171,719	-	(1,534,773)
OTHER FINANCING SOURCES (USES)							
Discretionary transfers	-	-	-	-	-	-	(1,306,763)
Proceeds from capital leases	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	-	(1,306,763)
NET CHANGE IN FUND BALANCE	340,257	(138,165)	152,255	1,050	171,719	-	(2,841,536)
FUND BALANCES, BEGINNING OF YEAR	1,047,698	370,475	905,694	68,207	(38,450)	716,561	66,470,187
Prior Period Adjustment	(7,996)	-	-	-	-	-	(7,996)
FUND BALANCES, END OF YEAR	$ 1,379,959	$ 232,310	$ 1,057,949	$ 69,257	$ 133,269	$ 716,561	$ 63,620,655

See accompanying notes to supplementary information.

WEST KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Amounts reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance - All District Funds		$ 64,927,418
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 75,273,198	
Accumulated depreciation is	(21,143,516)	54,129,682
Amortization of debt issue premium: In governmental funds, if debt is issued at premium or discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium for the period is:		
Premium on Bond	(2,848,839)	
Amortization of Premium	142,722	(2,706,117)
Expenditures relating to issuance of debt are not recognized in the modified accrual basis, but should be recognized in the accrual expenditures.		
Debt Issuance Cost	2,038,508	
Amortization of Issuance Cost	(95,456)	1,943,052
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
Bonds payable	39,422,520	
Certificates of participation	28,930,000	
Capital leases payable	26,075	
OPEB-GASB Statement No. 45	1,782,199	(70,160,794)
Total Net Assets		**$ 48,133,241**

WEST KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balance - Governmental Funds		$ (1,534,773)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Outlay	$ 6,818,215	
Depreciation	(2,015,300)	4,802,915
Net Other Postemployment Benefit Obligation		(59,842)
Repayment of long-term debt is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of activities.		1,630,000
Accreted Interest - Increase on Debt		(1,359,510)
Issuance of long-term debt provides current resources to the governmental funds, but issuance of increases long-term liabilities in the statement of activities.		(95,456)
Amortization of bond premium		142,722
Changes in Net Assets		$ 3,526,056

See accompanying notes to supplementary information.

NOTE 1 – PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing Board of Trustees and administration members.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Expenditures of State Awards

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

Schedule of Workload Measures for State General Apportionment

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

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

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-3II to the District's internal fund financial statements.

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of West Kern Community College District (the District) and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the basic financial statements. The information is not a required component of the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 and is presented at the request of the District management.

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

This schedule provides a reconciliation of the adjustments necessary to bring the District's fund financial statements, prepared on a modified accrual basis of accounting, to the accrual basis of accounting required under GASB Statement No. 35.

OTHER INDEPENDENT AUDITOR'S REPORTS

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BROWN ARMSTRONG
Certified Public Accountants

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

Board of Trustees
West Kern Community College District
Taft, California

We have audited the basic financial statements and its discretely presented component unit the Taft College Foundation of West Kern Community College District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 26, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as 2012-01 through 2012-03 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as 2012-04 through 2012-08 to be significant deficiencies.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2012-SC-01.

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

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the Districts Federal and State awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 26, 2013

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

Board of Trustees
West Kern Community College District
Taft, California

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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 of the District's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the Districts Federal and State awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 26, 2013

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
West Kern Community College District
Taft, California

We have audited the basic financial statements of West Kern Community College District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 26, 2013.

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 of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of the District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the the District's compliance with the State laws and regulations applicable to the following items:

Section 421	Salaries of Classroom Instructors: 50 Percent Law:
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Required Data Elements
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 431	Gann Limit Calculation
Section 432	Enrollment Fee
Section 433	CalWORKS – Use of State and Federal TANF Funding
Section 435	Open Enrollment
Section 437	Student Fee – Instructional Materials and Health Fees
Section 473	Economic and Workforce development (EWD)
Section 474	Extended Opportunity Programs and Services (EOPS)
Section 475	Disabled Student Programs and Services (DSPS)
Section 477	Cooperative Agencies Resources for Education (CARE)
Section 478	Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs
Section 479	To Be Arranged Hours (TBA)

Based on our audit, we found that for the items tested, the District complied with the State laws and regulations referred to above except for the finding SC-01 regarding the 50 percent law. Our audit does not provide a legal determination on the District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges Chancellor's Office, and the Districts Federal and State awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
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Brown Armstrong
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Bakersfield, California
February 26, 2013

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE PROPOSITION 10 BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
West Kern Community College District
Taft, California

We have audited the financial statements of the Proposition 10 Program of West Kern Community College District (the District), as of and for the year ended June 30, 2012, which collectively comprise the District's Proposition 10 basic financial statements and have issued our report thereon dated February 26, 2013. 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
The District is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Proposition 10 Program. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's Proposition 10 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the West Kern Community College District, management, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
February 26, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WEST KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	X Yes	____ No
• Significant deficiencies identified that are not considered to be material weaknesses?	X Yes	____ None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	____ Yes	X No
• Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None reported
Noncompliance material to federal awards?	____ Yes	X No
Type of auditor's report issued on compliance for major federal programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	____ Yes	X No

Identification of major programs

CDFA Number(s)	Name of Federal Program or Cluster
84.007, 84.033, 84.063	Student Financial Aid Cluster
84.407A	Transition and Postsecondary Programs for Students with Intellectual Disabilities

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	____ Yes	X No

State Awards

Internal control over state programs:		
• Material weakness(es) identified?	____ Yes	X No
• Reportable condition(s) identified that are not considered to be material weaknesses?	X Yes	____ None reported
Type of auditor's report issued on compliance for state programs:	Unqualified	

II. Internal Control

None.

III. Financial Statement Findings

The following findings represent significant deficiencies and material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards.*

2012-01 Annual Financial and Budget Report (CCFS-311) – Material Weakness

Finding

The District's Annual Financial and Budget Report (CCFS-311) is used to report the District's ending financial reporting totals in such areas as revenues, expenditures, fund balance, assets, and liabilities. The CCFS-311 should be prepared as accurately as possible after the District has closed the year, with possible minimal post-closing entries. Due to the implementation of the Banner Finance Software System (Banner) for the 2007/08 fiscal year and because Banner is still not fully implemented, not all year-end closing entries were incorporated in Banner. Additionally, the District has not determined the accounts payable, deferred revenues, or accounts receivable balances by the time the CCFS-311 was due. Also, at the time the CCFS-311 report was submitted material cash and investment balances were excluded from the CCFS-311 report because the transactions related to those balances are normally not tracked through Banner. Basic annual financial balances were extracted and input into excel financial statements and a CCFS-311 worksheet. These amounts were then adjusted within the worksheets to adjust for various year-end adjustments including cash and investments, accounts receivable, deferred revenue and accounts payables. Once Banner incorporates all accounts and all accounting transactions, including year-end adjustments, the state reporting, board reporting, and audit process will go much more efficiently for the District staff.

Recommendation

All financial transactions, including closing entries such as receivable accruals, should be accounted for within the District's general ledger system. This creates a reporting and audit trail for all account balances and allows for management's review of those balances within the general ledger system. If additional entries are discovered after the books are closed and the CCFS-311 is prepared, post closing entries should be prepared for audit purposes. The entries would then be reflected as reconciling items between the audited financial statements and the CCFS-311 and posted into the subsequent fiscal year and audit adjustments.

District Response

The District agrees with the recommendations of the audit finding regarding the addition of the financial institutions that the District conducts business with. The District does not agree with the statement that at the time of issuance of the CCFS-311A report that accounts payable, deferred revenues, and accounts receivable amounts had not been determined. The reconciliation of accounts payables from the CCFS-311A to the audited financial statements were adjusted by a total of $3,141. Deferred revenues and accounts receivable had slightly larger adjustments, but review of the CCFS-311A report shows balances for all areas audited, which were the District's most accurate information at the time the report was issued. Although acknowledging that improvement is always to be targeted, the District is using Banner in a manner that allows reports to be issued correctly and accounts payable, deferred revenues and accounts receivable are being tracked in Banner. Investments were reported on the CCFS-311A report in the debt service fund instead of the Restricted Purpose Fund since the CCFS-311A report does not have an option to report the Restricted Purposes Fund. The amounts were included to maintain the full financial picture for the District. The amounts were merged in Excel to maintain thorough notes as to the combination so it could be adjusted for the audited financials. This adjustment is also identified in the Reconciliation of the CCFS-311A report to the audited financial statements.

2012-02 Year-End Close Process Finding – Material Weakness

During our audit we noted material amounts of unrecorded transactions on the District's general ledger, as the trial balance provided during fieldwork did not incorporate the numerous year-end accruals and closing journal entries. Several material audit adjustments were required and additional procedures were needed to be performed in order to verify the information. These adjustments included but were not limited to, recording the cash and investment balances that are kept track of outside of Banner, adjustments to accounts payables, deferred revenues, inventories, inter-fund transfers, as well as revenues and expense accounts.

We also noted that certain funds, accounts, and activities are separately maintained in different general ledger systems and are then manually adjusted to be recorded in the District's financial statements and general ledger. As a consequence of following this policy, the manual adjustments are becoming more complex, and there is an increasing risk of misstating or omitting certain accounts or transactions. Misstatement of the financial statements could result in serious misrepresentations of District's financial position and results of operations as well as causing delays in issuing the financial statements.

Recommendation

We recommend a training program be implemented for the staff involved in preparation of the financial reports. We also recommend that the District's accounting department develop policies and procedures for the year-end close process as well as a financial report checklist to assist them in the year-end closing process. The year-end closing process should be completed with the majority of the closing entries being posted prior to the CCFS-311 filing due date, and should be entirely completed prior to providing the auditors the trial balance at the start of final field work. In addition, we recommend all funds, accounts, and activities be recorded and maintained within Banner.

District Response

The District is still working toward full implementation of Banner. It is understood that this will make reporting more timely and accurate. While acknowledging that there were adjustments made to the trial balance due to discovery during the audit field work, the majority of all accruals and other entries were made prior to the issuance of the CCFS-311A report.

2012-03 – Limitations of the Banner General Ledger System – Material Weakness

Finding

During our audit, we noted that the District's Banner general ledger system and the chart of accounts had several limitations in maintaining and reporting detailed information necessary in order to prepare the District's financial statements. We believe the District management would benefit from an expanded and more clarified general ledger and chart of accounts structure.

Some of the limitations of Banner noted during our audit included the following:

- We noted numerous bank and investment accounts maintained by the District in which the transactions related to such accounts were not reported and kept track of in Banner.

- Certain accounts included in the general ledger don't have enough detail. For example, in order to obtain the total cash held in county for one fund, three different accounts had to be combined together.

- We noted that there were limited number of accounts to report the revenues from State and local sources. The accounts included in the chart of accounts generally were not descriptive enough to determine the breakdown of the revenues as they should be reported in the Statements of Revenues, Expenses, and Changes in Net Assets.

- Currently, Banner does not have the capability to run a trial balance as of a specified date. Therefore, a trial balance was manually created by District's accounting staff by combining the asset, liability, and revenue and expense accounts and their year-end balance on a spreadsheet. As a consequence of the inability to generate a trial balance there is an increasing risk of misstating or omitting certain accounts balances. Misstatement of the financial statements could result in serious misrepresentations of District's financial position and results of operations.

- We noted that the activities and transactions related to the Debt Service fund, Associated Students Body fund, and OPEB trust fund was not recorded in Banner. Instead of reporting the activities related to those funds within Banner, the District's accounting department keeps track of the activities manually in excel spreadsheets.

Recommendation

In order to overcome the limitations of Banner we recommend the following:

- We recommend that the management will modify the District's chart of accounts to expand and clarify certain accounts to be suitable for the District's financial reporting needs.

- We strongly recommend that the District record all of its activity and accounts through the general ledger and such "statement adjustments" be kept at a minimum. This will ensure that the District is maintaining complete records of their fund activity.

- We recommend that the District hire a contractor to resolve the limitations in Banner and train the District's accounting staff in utilizing the System's financial reporting tools.

- We recommend that the District accounting staff receive training in the use of software reporting functions, specifically in creating comparative balance sheets, comparative income statements (current and prior year, and current year and budget), and detailed reports of receivables and payables from the trial balance.

District Response

The District is always looking for ways to improve recording and reporting of financial information. The chart of accounts in use by the District is in compliance with the California Community College Chancellor's Office (CCCCO) Budget and Accounting Manual (BAM). Any future changes will be made in order to improve reporting while not deviating from the CCCCO requirements. The auditors were provided with comparative balance sheets and income statements upon request. A trial balance was also made available from the software, but it proved to be insufficient for audit procedures. A trial balance and other reports were created in Excel for the audit team's use due to the fact that these requests had not been made in previous audits and, therefore, the District did not have established queries in Banner to produce these reports. Upon completion of the audit, the District will begin looking into creation of the reports within Banner in order to make them readily available in the future.

2012-04 – Vacation Accruals – Significant Deficiency

Findings

We noted during our audit that there are numerous employees carrying a substantial amount of vacation hours. We noted several employees whose obligations were between $10,000 and $40,000. Employees should be strongly encouraged to use their vacation time during the year. Within the business services area, this is a key part of any internal control process over fraud and irregularities.

Recommendation

The administration should look into this situation and determine if it warrants further consideration to possibly implement policies to require vacation to be taken or work with the bargaining units to limit the amount of hours that can be carried over and subsequently, paid out at higher rates than were originally earned.

District Response

The District negotiates the amount of vacation hours that may be accrued and carried over from year to year for employees with the appropriate union. The 2011-14 contract between the District and the CSEA, Taft College, Chapter 543 stipulates that if an employee has more than 15 unused vacation days as of June 30, he/she will be compensated for the extra unused days at the rate of pay in effect at the time the vacation was earned. It also indicates that upon separation from employment, vacation time accrued and not used will be paid at the employee's salary in effect at the time the vacation was earned. The District will explore limiting excessive vacation accruals for its management employees. The District was in compliance with all terms of vacation accruals given each employee's representation. The District does support the employee's request to utilize vacation hours whenever possible. The District would also note that accrued vacation was reduced by 6% from the previous fiscal year.

2012-05 – Purchase Card Controls and Policy – Significant Deficiency

Condition

During testing of credit card transactions, we noted 10 out of 20 credit card transactions did not have a signed approval signature on the receipts. We noted 5 out of the 20 transactions did not have any supporting documentation. We also noted 5 out of the 20 transactions did not include the account coding on the supporting documentation, so we were unable to verify whether the transaction was coded to the correct account. We believe the main cause of this condition is that the District lacks a formal credit card policy.

Recommendation

We recommend that management implement a formal written policy for credit card purchases, which would include procedures requiring the transactions to be reviewed by appropriate supervisors, and requiring supporting documents to be maintained.

District Response

The District reviewed past credit card usage and had developed written procedures regarding credit card use in 2011/12. These written procedures were further strengthened in 2012/13. An official District policy for credit card use will be developed and presented to the Board of Trustees.

2012-06 – Journal Entry and Bank Reconciliation Review – Significant Deficiency

Condition

During our audit we noted several instances where we were unable to determine if management performed the appropriate oversight function on the accounting records. The instances noted were as follows:

- During our testing of the District's adjusting journal entries, we noted 12 out of 28 journal entries were prepared and approved by the same employee. Therefore, we were unable to determine whether management reviewed the entries for accuracy.
- During our analysis of the bank reconciliations, we noted no evidence of review of the reconciliations by appropriate level of management. We also noted the District did not perform reconciliations for cash held in the Kern County Treasury, and instead the account balance was corrected to agree Kern County records via adjusting entries.

Recommendation

We recommend management to implement written and clear policies and procedures to ensure appropriate segregation of duties for the journal entry preparation and review. The policies should segregate the preparing and review functions of journal entries.

We also recommend that a member of management, review all bank reconciliations for any unusual items, investigate and fully resolve any such items, and document their approval by initialing the form. We also recommend the District and management ensure that monthly reconciliations are performed between the accounting records maintained at the District and the reports of cash balances maintained by Kern County.

District Response

All journal entries must be approved by the Director of Business Services (management) position prior to being posted into the finance software. This is done through an electronic process within the System. During reconciliation and review processes, there are times where the Director of Business Services will make journal entries to correct the District's recorded information. The District acknowledges the lack of evidence regarding management review of the reconciliation process. A procedure will be implemented. The reconciliation with Kern County funds does require journal entries to be made occasionally, as some revenues and expenditures are not previously disclosed to the District but are debited or credited directly to the appropriate Kern County fund. The journal entries post the additional entries into the finance software to allow for full reconciliation.

2012-07 – Understanding of GAAP / Financial Reporting Training – Significant Deficiency

Finding

During our audit, we believe that the District accounting staff did not possess an adequate understanding of financial reporting, internal controls, accounting principles generally accepted generally accepted in the United States of America (GAAP) and OMB Circular A-133. Also, District staff with financial reporting responsibilities have not received adequate training. The District is required to produce several types of reports, communications, and financial statements in order to comply with local, state, and federal requirements. To achieve the goal of providing reliable, useful, and timely information for accountability of government programs and their operations, District staff should be adequately trained. Training has not been provided in the following areas:

- Governmental Accounting Standards Board (GASB) pronouncements
- Accounting Principles Generally Accepted in the United States of America
- OMB Circular A-133

- *Government Auditing Standards*
- The financial reporting and internal control systems of the District

Recommendation

In order for the District to provide accurate, reliable, and timely information, District employees with financial reporting responsibilities must be trained. In addition, as the District has a small staff, cross training is very important. The District must develop and implement a training program which covers all financial and regulatory areas for District staff.

District Response

The District is reviewing this finding in comparison with the California Community Colleges Budget and Accounting Manual (BAM), 2012 edition. While the BAM does state that California Community Colleges are required to present their financial statements in accordance with generally accepted accounting principles (GAAP) for state and local governments, it does not mandate the GASB or GAAP reporting must be maintained in the operational level of financial operations. Historically, the District has maintained the financial ledgers using a fund level of accounting. The financial information is adjusted for GASB standards for financial presentation for the annual financial report only. The District will review the level of expertise necessary for District employees, the level of expertise possessed by the District's employees, and establish a plan to address any deficiencies that are uncovered.

2012-08 – Lack of Review of Long-Term Debt balances and Calculation of the Bond Accretion, Premium and Debt Issuance Costs – Significant Deficiency

Finding

During our examination of the District's long-term debt we noted that management did not prepare or review the general obligation bond's interest accretion calculation or current year amortization of the bond's premium or debt issuance costs.

Recommendation

We recommend that the interest accretion, premiums, and debt issuance costs be prepared or reviewed by management or an outside consultant to determine the amounts are accurately maintained and properly recorded at year-end. This is especially important regarding the accretion of interest on the Capital Appreciation bonds as the calculations are very complicated.

District Response

The long-term debt balances, accreted interest on capital appreciation bonds and amortization of debt-issuance costs are all accounting practices for GASB and GAAP reporting. Historically, the District has maintained the financial ledgers using a fund level of accounting. The financial information is adjusted for GASB standards for financial presentation for the annual financial report only. The District will review what the requirements as well as the best practices are in relation to the long-term debt created by the general obligation bonds issued in the name of the District, and take appropriate steps to satisfy all expectations.

Compliance – Findings – State Awards

IV. State Award Findings and Questioned Costs

2012-SC-01 – 50 Percent Law

Finding

Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the District's current expense on education expended during each fiscal year are for "Salaries of Classroom Instructors".

During our audit and analysis of the 50 percent calculations, we determined that the District's salaries of classroom instructors was less than 50 percent of the District's current expense of education in accordance with Education Code Section 84362.

Recommendation

In order to assist the District to ensure that correct figures are used to calculate the 50 percent law compliance, we recommend annual budgets are set-up, and budgets to actual costs are reviewed on a timely basis by senior management.

District Response

The District acknowledges the calculation on the 50 Percent Law Requirement calculation resulted in a 49.39 percent result. The District has already taken steps to correct this deficiency. A committee has been established to better educate the District with the 50 Percent Law requirements, identify ways that the District can become more efficient with current practices and how to establish future practices that are consistent with the intent of the Law. The District is implementing this new knowledge in the current budget creation process for the 2013/14 fiscal year, as well as using the reporting to monitor the performance of the 2012/13 fiscal year.

V. Federal Award Findings and Questioned Costs

None.

WEST KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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

Financial Statement Findings

2011-01 Annual Financial and Budget Report (CCFS-311)

Finding

The West Kern Community College District's (the District) Annual Financial and Budget Report (CCFS-311) is used to report the District's ending financial reporting totals in such areas as revenues, expenditures, fund balance, assets, and liabilities. The CCFS-311 should be prepared as accurately as possible after the District has closed the year, with possible minimal post-closing entities. Due to the implementation of the Banner general ledger system for the 2007/08 fiscal year and the system still not being fully implemented, not all year-end closing entries were incorporated in Banner. Additionally, the District had not determined the accounts payable or accounts receivable balances by the time the CCFS-311 was due. Basic annual financial balances were extracted and input into excel financial statements and a CCFS-311 worksheet. These amounts were then adjusted within the worksheets to adjust for various year-end adjustments including cash and investments and accounts receivable. Once the Banner system incorporates all accounting transactions including year-end adjustments, the state reporting, Board of Trustees reporting and audit process will go much more efficiently for the college staff.

Recommendation

All financial transactions, including closing entries such as receivable accruals, should be accounted for within the District's general ledger system. This creates a reporting and audit trail for all account balances as well as allows for management's review of those balances within the general ledger system. The District is continuing to work towards this goal however the timeliness of the closing entries being determined so late did not allow for their incorporation or reporting on the CCFS-311 reports. If additional entries are discovered after the books are closed and the CCFS-311 is prepared, post closing entries should be prepared for audit purposes. The entries would then be reflected as reconciling items between the audited financial statements and the CCFS-311 and posted into the subsequent fiscal year and audit adjustments.

District Response

The District continues work on developing a procedure to recognize and book accruals more timely. 2010/11 was the first year since the implementation of Banner that all accrua1s were booked into Banner by the District prior to the ending of the auditors' field work. The CCFS-311A has an early October due date as compared to the December 31 completion deadline for the independent annual audit. To better serve the CCFS-311A report timing, the procedure being developed is incorporating the accrual recognition in the annual closing process which uses an August 31 completion date.

Current Year Finding

See current year findings and recommendations, 2012-01.

2011-02 Year End Accruals

Finding

During our audit we found a material amount of both accounts payables and accounts receivable that we not set up as accruals as of June 30, 2011. The payables balances are generated through the Banner system based on transaction dates entered in for individual invoices or amounts due to vendors. Once the purchase order and or District invoice is created the accounts payable account is credited. The problem regarding year-end accruals is when invoices are received subsequent to June 30, if they are not "back dated" in Banner, the system will treat them as a subsequent year transaction rather than properly accruing the amount into the fiscal year that ended on June 30. Receivable accruals are all manually entered into Banner from worksheets prepared based on subsequent deposits and grants close-outs. The entries were not entered into Banner by the time our audit fieldwork began but based on testing of the planned accruals, several were noted, especially related to grants, that were not on the preliminary list to enter as accruals. As stated above in the previous finding, none of the receivable accruals were determined by the time the CCFS-311 was due. The unaccrued items were material to the financial statements and were subsequently adjusted for.

Recommendation

Training has occurred regarding the analysis of subsequent payments to determine whether they meet the criteria to be an account payable as of June 30 and the process to trigger the accrual to be reflected in Banner. We feel this training should be repeated annually towards the end of the fiscal year at least for a few years. Also, subsequent payments should be spot checked especially during July and August to verify that the process is being followed. Construction billings tend to be the largest payments and typically come in late compared to when the work was performed which would be a likely error in not accruing the payments. The accounts receivable, outside of the system generated "student receivables" balance is mainly generated from grant year-end closing and possibly state apportionment adjustments. The process of analyzing the grants and preparing the grant summary to determine accounts receivables as well as deferred revenue that must be posted should be done prior to the CCFS-311 being filed/due.

District Response

The District continues work on developing a procedure to recognize and book accruals in a more timely manner. 2010-11 was the first year since the implementation of Banner that all accruals were booked into the Banner software by the District prior to the ending of the auditors' field work. The District acknowledges several auditor adjustments to book construction and grant accounts payable expenditures. Once the general accrual procedure is developed a second tier procedure is slated to more closely analyze construction and grant expenditures as they do not have a June 30 fiscal year end to parallel the District.

Current Year Finding

Partially implemented. See current year findings and recommendations, 2012-01.

2011-03 Vacation Accruals

Findings

We noted during our audit that there are numerous employees carrying over a substantial amount of vacation hours. The obligation, as it is tied directly to the rate of pay at the time the hours are taken and/or paid out, increases annually per hour due to raises, promotions, etc. We noted seven employees whose obligations were between $10,000 and $20,000, five employees whose obligations were between $20,000 and $40,000 and one employee whose obligation was over $40,000. Employees should be strongly encouraged to use their vacation time during the year. Within the business services area, this is a key part of any internal control process over fraud and irregularities.

Recommendation

The administration should look into this situation and determine if it warrants further consideration to possibly implement policies to require vacation being taken or work with the bargaining units to limit the amount of hours that can be carried over and subsequently, paid out at elevated rates over which they were earned at.

District Response

The District negotiates the amount of vacation hours that can be accrued and carried over from year to year for employees with the appropriate union. The District was in compliance with all terms of vacation accruals given each employee's representation. The District does support the employee's request to utilize vacation hours whenever possible.

Current Year Finding

See current year findings and recommendations, 2012-04.