KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2006

KERN COMMUNITY COLLEGE DISTRICT

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INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.

To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.

To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.

To determine whether financial and financially related reports to state and federal agencies are presented fairly.

To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the year ended June 30, 2006, which comprise the District's basic financial statements as listed in the table of contents. We have also audited the financial statements of the District's fiduciary funds as of and for the year ended June 30, 2006, presented as supplementary information on pages 52 through 53. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2006, 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 addition, in our opinion, the fiduciary funds financial statements referred to above present fairly, in all material respects, the financial position of the District's fiduciary funds, as of June 30, 2006, and the changes in financial position 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 December 19, 2006, 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 should be considered when assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nystrom & Company LLP

December 19, 2006

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units*" which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.

- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.

- Capital assets are included in the statement presentations.

OVERVIEW

The District's financial position continues to strengthen. Fiscal Year 2005-06 saw the Districts total assets grow by $12.8 million. Annual revenues exceeded expenditures to increase the Districts net assets by $8.6 million. These changes were primarily driven by: 1.) ongoing construction programs as new and modernized assets are completed adding to the Districts net asset base; 2.) District investing a significant portion of cash into bonds and other debt securities; and 3.) revenues continuing to exceed expenditures. This was primarily due to revenues from state capital outlay funding and District investments.

Further demonstrating the District's strengthening financial position the General Fund's – Unrestricted fund balance grew by $3.1 million to an end of fiscal year balance of $9.9 million. The District's Unrestricted fund balance has grown to this level from a precarious balance of $802,000 at June 30, 2002. The Board of Trustees also adopted in 2005-06 a minimum of 5% unrestricted reserves policy to ensure that District's reserves do not fall below State recommended minimum requirements.

STATEMENT OF NET ASSETS

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

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

- Invested in capital assets, net of related debt – The District's equity in property, plant, and equipment.

- Restricted net assets (distinguishing between major categories of restriction) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

- Unrestricted net assets – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

	Fiscal Year 2006	Fiscal Year 2005	Change Inc/(Dec)
Assets			
Current assets:			
Cash	$ 99,085,103	$ 125,821,954	$ (26,736,851)
Accounts receivable	13,670,320	17,527,374	(3,857,054)
Prepaid expenses	559,411	836,677	(277,266)
Inventory costs	1,440,789	1,127,968	312,821
Total current assets	114,755,623	145,313,973	(30,558,350)
Noncurrent assets:			
Restricted investments	40,441,307	26,483,014	13,958,293
Capital assets, net	173,562,838	144,053,673	29,509,165
Debt issuance costs, net	4,193,820	4,298,683	(104,863)
Total noncurrent assets	218,197,965	174,835,370	43,362,595
Total Assets	$ 332,953,588	$ 320,149,343	$ 12,804,245
Liabilities			
Current liabilities:			
Accounts payable	$ 12,722,112	$ 13,778,160	$ (1,056,048)
Deferred revenue	2,689,189	2,312,080	377,109
Compensated absences, current	241,283	353,196	(111,913)
Long-term debt, current portion	3,701,792	3,210,432	491,360
Total current liabilities	19,354,376	19,653,868	(299,492)
Noncurrent liabilities:			
Compensated absences payable	2,021,184	2,150,554	(129,370)
Long-term debt, noncurrent portion	182,373,008	177,735,489	4,637,519
Total noncurrent liabilities	184,394,192	179,886,043	4,508,149
Total liabilities	203,748,568	199,539,911	4,208,657
Net Assets	129,205,020	120,609,432	8,595,588
Total Liabilities and Net Assets	$ 332,953,588	$ 320,149,343	$ 12,804,245

As of June 30, 2006, the District's total assets have increased from $12.8 million over the prior year to $333 million. This is attributed to growth in capital assets resulting from the District's ongoing construction activity. **Currents assets** decreased $30.6 million due primarily to cash used for construction projects, debt service and investments in debt securities. These investments will be utilized to meet future long term debt payment obligations. **Noncurrent assets** accordingly increased $43.4 million due to additions of facilities that were completed in the 2005-06 fiscal year and increases in District investments.

The Districts **Total Liabilities** increased $4.2 million over the prior year. **Current liabilities** decreased $299,492 due primarily to a decrease in accounts payable. This decrease is due to a reduction in construction payables as a number of construction projects are nearing completion. **Noncurrent liabilities** increased $4.5 million. This was primarily due to additional debt resulting from the partial refunding of the Districts initial Safety, Repair and Improvement District bonds Series 2003A.

Net Assets increased $8.6 million over the prior year to $129.2 million. The change is driven primarily by the Districts ongoing facilities program and investment returns.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	Fiscal Year 2006	Fiscal Year 2005	Change Inc/(Dec)
OPERATING REVENUES			
Tuition and fees	$ 13,580,091	$ 12,667,663	$ 912,428
Less: scholarship discount and allowance	(7,248,443)	(6,431,153)	(817,290)
Net tuition and fees	6,331,648	6,236,510	95,138
Grants and contracts, noncapital:			
Federal	22,939,405	23,562,415	(623,010)
State	17,429,044	21,135,211	(3,706,167)
Local	1,819,530	6,476,770	(4,657,240)
Auxiliary enterprise sales and charges	7,729,547	7,456,157	273,390
Other operating revenues	993,788	936,834	56,954
Total operating revenues	57,242,962	65,803,897	(8,560,935)
OPERATING EXPENSES			
Salaries	69,182,428	67,487,737	1,694,691
Employee benefits	23,859,161	24,161,385	(302,224)
Payments to students	20,676,711	20,838,049	(161,338)
Supplies, materials and other	18,128,949	18,469,920	(340,971)
Utilities	3,127,226	3,153,667	(26,441)
Depreciation and amortization expense	4,586,046	4,003,122	582,924
Total operating expenses	139,560,521	138,113,880	1,446,641
OPERATING LOSS	(82,317,559)	(72,309,983)	(10,007,576)
NON-OPERATING REVENUES (EXPENSES)			
State apportionments, non-capital	43,243,104	34,947,966	8,295,138
Local property taxes	34,830,249	38,343,254	(3,513,005)
State taxes and other revenues	3,585,297	3,737,473	(152,176)
Investment income, non-capital	5,440,660	5,401,769	38,891
Interest expense on capital asset, related debt	(8,995,522)	(7,978,406)	(1,017,116)
Other non-operating expenses	(1,048,745)	(1,310,713)	261,968
Total non-operating revenues (expenses)	77,055,043	73,141,343	3,913,700
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(5,262,516)	831,360	(6,093,876)
State apportionments, capital	6,842,532	7,625,373	(782,841)
Local property taxes and revenues, capital	7,015,572	6,590,959	424,613
INCREASE IN NET ASSETS	8,595,588	15,047,692	(6,452,104)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	120,609,432	105,561,740	15,047,692
NET ASSETS, END OF YEAR	$ 129,205,020	$ 120,609,432	$ 8,595,588

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The District ended the fiscal year with an annual change in **Net assets (net income)** of $8.6 million. This represented a decline of $6.5 million over the prior year annual change in **Net assets**. This decline was primarily due to a $4.3 million decrease in revenues combined with a $2.2 million increase in expenses over the prior fiscal year.

Total Revenue (operating and non-operating) decreased $3.9 million dollars from the prior fiscal year. **Operating revenues** decreased $8.6 million. This was primarily due to the effect of one-time revenue of $3.5 million received from Southern California Edison in fiscal year 2005 for the implementation of the photo voltaic solar field at Cerro Coso Community College. **Operating revenues** also saw a shift of $2.4 million of income from state grants to **Non-operating revenues** ---State apportionments, non-capital. This was due to the rolling of Partnership for Excellence revenue into the base state apportionment. **Non-operating revenues** increased $3.9 million. This was primarily associated with an increase in State apportionments, non-capital of $8.3 million. This change was due to the shift in Partnership for Excellence revenue into the base state apportionment as well as increases for COLA and tax loss backfill associated with the shifting of ERAF tax collections to the State. The increase was offset by a decline in State taxes and other revenues of $3.5 million due primarily to the loss of ERAF tax revenue. **Other Revenues** decreased over prior year by $358,228 due to several capital outlay projects nearing completion.

Total expenses (operating and non-operating) increased $2.2 million over the prior fiscal year. **Operating expenses** increased $1.4 million. This was primarily due to a $1.7 million increase in salaries and $582,924 increase in depreciation expense. The increase in salaries was due to the addition of regular faculty, instructional administrators and an increase in the adjunct faculty and overload hourly rate of compensation. Depreciation expenses increased due to the completion of many large facilities projects. These increases were somewhat offset by decreases in statutory PERS, workers compensation and state unemployment insurance benefit costs of $302,224. In addition, decreases in payments to students, materials, supplies, other operating expenses and services and utility costs of $528,750 further offset increases in salary and depreciation costs.

Non-operating expenses increased $755,148 over the prior fiscal year. This increase was primarily due to a $1.0 million increase in interest costs associated with the Districts outstanding debt. This increase was offset by a decrease in other non-operating expenses.

STATEMENT OF CASH FLOWS

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

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and fees	$ 6,481,608
Federal grants and contracts	24,831,800
State grants and contracts	18,762,619
Local grants and contracts	1,399,988
Payments to/on behalf of employees	(70,299,640)
Payments for benefits	(23,859,161)
Payments for scholarships and grants	(20,676,711)
Payments to suppliers	(15,707,402)
Payments for utilities	(3,127,226)
Auxiliary enterprise sales and charges	7,885,645
Other receipts (payments)	406,907
Net cash used by operating activities	(73,901,573)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
State apportionments, non-capital	41,015,250
Local property taxes	34,830,249
State taxes and other revenues	3,585,297
Other receipts	(1,048,745)
Net cash provided by non-capital financing activities	78,382,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
State apportionments, capital	6,842,532
Purchases of capital assets	(34,269,699)
Interest paid on capital debt	(8,156,460)
Principal paid on capital debt	(54,275,000)
Proceeds from capital debt	60,143,359
Local property taxes, capital	7,015,572
Net cash used by capital and related financing activities	(22,699,696)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments	11,253,482
Purchase of investments	(25,211,775)
Interest on investments	5,440,660
Net cash used by investing activities	(8,517,633)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,736,851)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	125,821,954
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 99,085,103

COMPONENTS OF CASH AND CASH EQUIVALENTS:	
Cash and cash equivalents	$ 9,879,672
Restricted cash (current)	89,205,431
Total cash and cash equivalents	$ 99,085,103

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	$ (82,317,559)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization expense	4,586,046
Write-off of previous construction in progress	174,488
(Increase) decrease in:	
Accounts receivable	6,084,908
Prepaid expenses	277,266
Inventory	(312,821)
Increase (decrease) in:	
Accounts payable	(2,529,727)
Deferred revenue	377,109
Compensated absences	(241,283)
Net cash used by operating activities	$ (73,901,573)

The District's cash levels declined $26.7 million from the prior fiscal year. This change in cash levels was primarily driven by spending on capital construction projects and increase in cash invested in debt securities.

DISTRICT'S FIDUCIARY RESPONSIBILITY

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Balance Sheet – Fiduciary Funds and Statement of Revenues, Expenditures, and Changes in Fund Balances – Fiduciary Funds . These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS	
Current Assets:	
Cash and cash equivalents	$ 9,879,672
Restricted cash	89,205,431
Accounts receivable, net	13,670,320
Prepaid expenses	559,411
Inventories	1,440,789
Total current assets	114,755,623
Noncurrent assets:	
Restricted investments	40,441,307
Depreciable capital assets, net	127,267,797
Nondepreciable capital assets	46,295,041
Deferred costs, net	4,193,820
Total noncurrent assets	218,197,965
Total assets	$ 332,953,588
LIABILITIES	
Current liabilities:	
Accounts payable	$ 12,722,112
Deferred revenue	2,689,189
Compensated absences, current portion	241,283
Long-term debt, current portion	3,701,792
Total current liabilities	19,354,376
Noncurrent liabilities:	
Compensated absences, noncurrent portion	2,021,184
Long-term debt, noncurrent portion	182,373,008
Total noncurrent liabilities	184,394,192
Total liabilities	203,748,568
NET ASSETS	
Investments in capital assets, net of related debt	51,689,011
Restricted - expendable	24,806,903
Unrestricted	52,709,106
Total net assets	129,205,020
Total liabilities and net assets	$ 332,953,588

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

OPERATING REVENUES	
Tuition and fees	$ 13,580,091
Less: scholarship discount and allowance	7,248,443
Net tuition and fees	6,331,648
Grants and contracts, non-capital:	
Federal	22,939,405
State	17,429,044
Local	1,819,530
Auxiliary enterprise sales and charges	7,729,547
Other operating revenues	993,788
Total operating revenues	57,242,962
OPERATING EXPENSES	
Salaries	69,182,428
Employee benefits	23,859,161
Payments to students	20,676,711
Supplies, materials, other operating expenses and services	18,128,949
Utilities	3,127,226
Depreciation and amortization expense	4,586,046
Total operating expenses	139,560,521
OPERATING LOSS	(82,317,559)
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	43,243,104
Local property taxes, non-capital	34,830,249
State taxes and other revenues	3,585,297
Investment income, non-capital	5,440,660
Interest expense, capital asset-related debt	(8,995,522)
Other non-operating expenses	(1,048,745)
Total non-operating revenues (expenses)	77,055,043

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2006

LOSS BEFORE OTHER REVENUES AND EXPENSES	(5,262,516)
State apportionments, capital	6,842,532
Local property taxes and revenues, capital	7,015,572
INCREASE IN NET ASSETS	8,595,588
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	120,609,432
NET ASSETS, END OF YEAR	$ 129,205,020

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and fees	$ 6,481,608
Federal grants and contracts	24,831,800
State grants and contracts	18,762,619
Local grants and contracts	1,399,988
Payments to/on behalf of employees	(70,299,640)
Payments for benefits	(23,859,161)
Payments for scholarships and grants	(20,676,711)
Payments to suppliers	(15,707,402)
Payments for utilities	(3,127,226)
Auxiliary enterprise sales and charges	7,885,645
Other receipts (payments)	406,907
Net cash used by operating activities	(73,901,573)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
State apportionments, non-capital	41,015,250
Local property taxes	34,830,249
State taxes and other revenues	3,585,297
Other receipts (payments)	(1,048,745)
Net cash provided by non-capital financing activities	78,382,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
State apportionments, capital	6,842,532
Purchases of capital assets	(34,269,699)
Interest paid on capital debt	(8,156,460)
Principal paid on capital debt	(54,275,000)
Proceeds from capital debt	60,143,359
Local property taxes, capital	7,015,572
Net cash used by capital and related financing activities	(22,699,696)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Sale of investments	11,253,482
Purchase of investments	(25,211,775)
Interest on investments	5,440,660
Net cash used by investing activities	(8,517,633)

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,736,851)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	125,821,954
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 99,085,103

COMPONENTS OF CASH AND CASH EQUIVALENTS:	
Cash and cash equivalents	$ 9,879,672
Restricted cash (current)	89,205,431
Total cash and cash equivalents	$ 99,085,103

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	$ (82,317,559)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization expense	4,586,046
Write-off of previous construction in progress	174,488
(Increase) decrease in:	
Accounts receivable	6,084,908
Prepaid expenses	277,266
Inventories	(312,821)
Increase (decrease) in:	
Accounts payable	(2,529,727)
Deferred revenue	377,109
Compensated absences	(241,283)
Net cash used by operating activities	$ (73,901,573)

NON-CASH CAPITAL FINANCING ACTIVITIES:	
Debt proceeds withheld from District for issuance costs.	$ 805,251

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

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, fiduciary funds are excluded from the entity-wide financial statements. Accordingly, the entity-wide statements of the District include all of the funds of the District with the exception of the following trust and agency funds which have been determined to be fiduciary in nature: Associated Student Body Fund; Student Rep Fee Fund; and Student Body Center Fee Fund.

The Student Financial Aid Fund and Other Trust Fund were determined not to be a fiduciary fund due to the significant administrative responsibility placed on the District. Accordingly, these funds have been included in the entity-wide statements.

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District’s annual financial statements using the blending method.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY (Continued)

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

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING (Continued)

Exceptions to the accrual basis of accounting are as follows:

> In accordance with industry standards provided by the California Community Colleges Chancellor's Office, summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominantly conducted.

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

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of operations.

RESTRICTED CASH AND INVESTMENTS

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance of $514,000 has been recorded as of June 30, 2006.

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

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

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 1,139,640

DEFERRED REVENUE

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NET ASSETS

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

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2007 will be recorded in the year computed by the State.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ESTIMATES

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

PROPERTY TAXES

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

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2006, are displayed on the statement of net assets as follows:

Cash and cash equivalents	$ 9,879,672
Restricted cash and cash equivalents	89,205,431
Total cash and cash equivalents	$ 99,085,103

<u>Deposits</u> – At June 30, 2006 the carrying amount of the District's deposits is summarized as follows:

Cash in County Treasury	$ 64,288,381
Cash on hand and in banks	4,062,471
Cash held by Trustees	30,734,251
Total deposits	$ 99,085,103

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. At June 30, 2006 the County Treasury's Pooled Money Investment accounts weighted average maturities was 1.26 years.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

As of the date of these financial statements, the County of Kern's 2006 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $200,000 of the District bank balances at June 30, 2006, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

Securities of the U.S. Government and its Sponsored Agencies
Small Business Administration Loans
Certificates of Deposit and or FDIC-Insured Passbook Savings
Bankers Acceptances
Commercial Paper
Local Agency Investment Fund (LAIF)
Repurchase Agreements

As of June 30, 2006, the District's investments and deposits are as follows:

Investments in LAIF	$ 766,797
Bank clearing account	3,382,931
Certificates of Deposit	6,123,612
Money Market	2,650,842
Corporate Bonds and Notes	7,573,314
Government Bonds and Notes	19,943,811
Total investments	$ 40,441,307

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 766,797	$ 766,797	$ -	$ -
Bank clearing account	3,382,931	3,382,931	-	-
Certificates of Deposit	6,123,612	803,747	5,319,865	-
Money Market	2,650,842	2,650,842	-	-
Corporate Bonds and Notes	7,573,314	583,693	6,989,621	-
Government Bonds and Notes	19,943,811	2,491,731	17,452,080	-
Total investments	$ 40,441,307	$ 10,679,741	$ 29,761,566	$ -

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

		Investment Maturities (In Years)				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 766,797	$ -	$ -	$ -	$ -	$ 766,797
Bank clearing account	3,382,931	3,382,931	-	-	-	-
Certificates of Deposit	6,123,612	6,123,612	-	-	-	-
Money Market	2,650,842	2,650,842	-	-	-	-
Corporate Bonds and Notes	7,573,314	-	2,440,509	5,132,805	-	-
Government Bonds and Notes	19,943,811	19,943,811	-	-	-	-
Total investments	$ 40,441,307	$ 32,101,196	$ 2,440,509	$ 5,132,805	$ -	$ 766,797

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District’s investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2006, consist of the following:

Tuition and fees	$ 1,394,060
Less allowance for doubtful accounts	514,240
Tuition and fees, net	879,820
Federal grants and contracts	1,454,506
State grants and contracts	1,727,799
Local grants and contracts	610,269
State apportionment, taxes and other revenues	6,218,694
Unbilled construction receivables	630,381
Auxiliaries	545,353
Other	1,603,498
Total	$ 13,670,320

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 2,739,429	$ -	$ -	$ -	$ 2,739,429
Joint use facilities agreements	-	5,139,640	-	-	5,139,640
Construction in progress	49,269,617	28,003,346	(174,488)	(38,682,503)	38,415,972
Total nondepreciable assets	$ 52,009,046	$ 33,142,986	$ (174,488)	$ (38,682,503)	$ 46,295,041
Depreciable capital assets:					
Site improvements	$ 6,161,067	$ 33,430	$ -	$ 189,769	$ 6,384,266
Buildings	111,207,588	119,464	-	32,256,153	143,583,205
Equipment	7,667,898	639,104	-	4,541,256	12,848,258
Computer equipment	6,082,523	283,059	-	1,695,325	8,060,907
Vehicles	1,751,029	51,656	-	-	1,802,685
	132,870,105	1,126,713	-	38,682,503	172,679,321
Less accumulated depreciation:					
Site improvements	3,232,634	293,694	-	-	3,526,328
Buildings	25,969,263	2,522,213	-	-	28,491,476
Equipment	5,246,684	792,527	-	-	6,039,211
Computer equipment	5,275,312	838,146	-	-	6,113,458
Vehicles	1,101,585	139,466	-	-	1,241,051
	40,825,478	4,586,046	-	-	45,411,524
Total depreciable assets, net	$ 92,044,627	$ (3,459,333)	$ -	$ 38,682,503	$ 127,267,797

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, consist of the following:

Accrued payroll and related liabilities	$ 3,417,990
Construction payables	1,766,615
Interest payable	3,295,109
Other	4,242,398
Total	$ 12,722,112

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2005 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

Short-term debt activity for the year ended June 30, 2006 was as follows:

	June 30, 2005 Balance	Drawn	Repaid	June 30, 2006 Balance
Participation in California Community College Financing Authority 2005 Tax and Revenue Anticipation Bonds	$ -	$ 4,975,000	$ 4,975,000	$ -

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of participation	$ 85,437,643	$ -	$ 406,418	$ 85,031,225
Limited obligation improvement bonds	7,060,353	-	505,106	6,555,247
General obligation bonds	88,330,787	60,948,610	54,837,773	94,441,624
Lease obligations	117,138	-	70,434	46,704
Total	$ 180,945,921	$ 60,948,610	$ 55,819,731	$ 186,074,800
Compensated absences	$ 2,503,750	$ 860,998	$ 1,102,281	$ 2,262,467
Memo total	$ 183,449,671	$ 61,809,608	$ 56,922,012	$ 188,337,267

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2006:

Certificates of Participation	
1998 Refunding Certificates of Participation issued in the original amount of $48,000,000 by the Corporation. Final maturity 2028. Interest rates 4.10% to 5.00%.	$ 45,610,000
2004 Certificates of Participation issued in the original amount of $39,950,000 by the Corporation. Final maturity 2034. Interest rates at applicable Dutch Auction Rates until the Fixed Rate Conversion Date (to be determined).	39,950,000
Total certificates of participation	85,560,000
Discount on 1998 certificates of participation	(528,775)
Net certificates of participation	85,031,225
Limited Obligation Improvement Bonds	
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	6,605,000
Total limited obligation improvement bonds	6,605,000
Discount on limited obligation improvement bonds	(49,753)
Net limited obligation improvement bonds	6,555,247
General Obligation Improvement Bonds	
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,224,413
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	3,999,979
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	20,101,548

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

General Obligation Improvement Bonds (Continued)

Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	54,025,132
Total general obligation bonds	85,351,072
Premium on general obligation bonds	9,090,552
Net general obligation bonds	94,441,624

Lease Obligations

The District leases equipment with a cost of $81,528 and accumulated depreciation of $57,661 under lease/purchase agreements, which provide for title to pass upon expiration of the lease period.

Future minimum lease payments are as follows:

Year Ended June 30,	
2007	$ 20,350
2008	20,350
2009	11,874
Total	52,574
Less: Amount representing interest	5,870
Present value of net minimum lease payments	46,704
Total long-term debt	186,074,800
Less current portion	3,701,792
Total long-term debt, noncurrent portion	$ 182,373,008

Refunded Debt

The 2005 General Obligation Improvement Bonds were issued to refund the Measure G Bonds. The District completed the refunding to reduce its debt service payments over the next 12 years by $775,000 and obtain an economic gain of $413,194. The District recognized a financial statement loss of $1,739,101 on the refunding and it is being amortized over the life of the new debt.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

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

Year Ended June 30,	Bonds Principal	Bonds Interest	Bonds Total	Bond Premium	Total
2007	$ 3,685,000	$ 7,437,591	$ 11,122,591	$ 514,286	$ 11,636,877
2008	4,220,000	7,339,999	11,559,999	514,286	12,074,285
2009	4,695,000	7,198,945	11,893,945	514,286	12,408,231
2010	4,835,000	7,012,991	11,847,991	514,286	12,362,277
2011	5,420,000	6,816,958	12,236,958	514,286	12,751,244
2012 – 2016	29,070,132	39,339,038	68,409,170	2,571,431	70,980,601
2017 – 2021	55,537,686	23,091,507	78,629,193	2,595,084	81,224,277
2022 – 2026	42,841,727	13,570,779	56,412,506	600,332	57,012,838
2027 – 2031	15,761,527	17,362,473	33,124,000	173,747	33,297,747
2032 – 2036	11,450,000	956,000	12,406,000	-	12,406,000
Total	$ 177,516,072	$ 130,126,281	307,642,353	8,512,024	316,154,377
Less interest			130,126,281	-	130,126,281
Net principal			$ 177,516,072	$ 8,512,024	$ 186,028,096

NOTE 8 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases were $378,005 for the year ended June 30, 2006.

The future minimum lease payments as of June 30, 2006, are as follows:

Year Ended June 30,	Amount
2007	$ 257,592
2008	143,271
2009	127,477
2010	7,596
Total	$ 535,936

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member’s employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

At June 30, 2006, the District employed 436 certificated employees with a total annual payroll of $36,121,289.

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a “cost-sharing” pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members’ accumulated contributions are refundable with interest credited through the date of separation.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)* (Continued)

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal year ended June 30, 2006, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2006, was 9.116% of annual payroll. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2004	2005	2006
STRS	$ 2,913,987	$ 3,226,198	$ 3,406,446
PERS	2,016,098	1,910,658	1,797,436
Total	$ 4,930,085	$ 5,136,856	$ 5,203,882

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

NOTE 10 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

NOTE 11 RISK MANAGEMENT

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 RISK MANAGEMENT
(Continued)

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2006		September 30, 2005
	SISC I	SISC II	SISC III
Total assets	$ 87,031,972	$ 25,446,753	$ 128,700,034
Total liabilities	69,285,255	23,596,341	68,541,093
Fund balance	$ 17,746,717	$ 1,850,412	$ 60,158,941
Total revenues	$ 28,143,828	$ 15,788,108	$ 586,148,243
Total expenditures	19,305,587	20,543,088	549,272,961
Net increase (decrease) in fund balance	$ 8,838,241	$ (4,754,980)	$ 36,875,282

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2006 and September 30, 2005, respectively.

Financial statements are available from SISC upon request.

NOTE 12 POST-RETIREMENT HEALTH CARE

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. The District recognizes the cost of providing these benefits on a pay-as-you-go basis. On June 30, 2006, 200 employees were eligible to receive those benefits. The amount of benefit expenses recognized during the year ended June 30, 2006 for retired employees was $4,687,489.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 13 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 995,947	$ 416,342	$ 56,010	$ -	$ 1,468,299
Ancillary services	4,954,038	1,760,475	6,573,513	-	13,288,026
Auxiliary services	30,237	4,736	-	-	34,973
Community services and economic development	15,210	4,676	10,302	-	30,188
Depreciation expense	-	-	-	4,586,046	4,586,046
Institutional support	6,701,453	4,523,840	6,490,165	-	17,715,458
Instructional administration	5,052,844	1,459,379	1,314,682	-	7,826,905
Instructional activities	37,781,645	11,315,795	2,437,720	-	51,535,160
Instructional support services	1,534,048	538,252	451,403	-	2,523,703
Long-term debt	-	-	61,138	-	61,138
Other	-	-	-	-	-
Physical property and related acquisitions	213,134	38,634	(1,510,384)	-	(1,258,616)
Planning policy making	1,528,145	523,121	597,288	-	2,648,554
Plant operations and maintenance	2,553,691	1,121,255	3,941,316	-	7,616,262
Student counseling and guidance	2,365,775	635,671	69,940	-	3,071,386
Student services	5,456,261	1,516,985	763,082	-	7,736,328
Transfers, student aid and other outgo	-	-	20,676,711	-	20,676,711
Total	$ 69,182,428	$ 23,859,161	$ 41,932,886	$ 4,586,046	$ 139,560,521

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 14 COMMITMENTS

As of June 30, 2006, the District had unfinished construction contracts under the following project categories:

Bakersfield College Applied Science and Technology Modernization	$ 666,000
Bakersfield College Planetarium Modernization	24,745
Bakersfield College Southwest Center Modernization	1,161,735
Cerro Coso Community College Fine Arts Modernization	332,696
Cerro Coso Community College Administration Building Asbestos Abatements	33,000
Porterville College Child Development Center Relocatables	1,252,850
Porterville College Library Expansion	744,322
Porterville College Science Modernization	489,893
Porterville College Wellness Center Modernization	511,466
	$ 5,216,707

NOTE 15 PRIOR PERIOD ADJUSTMENT

A. CHANGES IN ACCOUNTING PRINCIPLES

In the year ended June 30, 2006, the District changed its policy related to the year in which summer session enrollment fees are reported. Past practice had reported these fees in the year in which the summer session began. In order to comply with the industry standard as provided by the California Community Colleges Chancellor's Office (Chancellor) summer session fees are now recorded in the year in which the summer session ends. This correction decreased beginning net assets by $499,761. The effect on prior year's change in net assets was not material.

B. PRIOR PERIOD ADJUSTMENT

During the June 30, 2004 fiscal year, the State of California deferred a total of two hundred million dollars in payments to California Community Colleges. During the current year, management determined the District under-reported its portion of the deferred payments by understating apportionment revenue and apportionment receivable for the June 30, 2004 fiscal year. To correct this item, beginning net assets were increased by $1,145,490. This correction had no effect on last year's change in net assets as it related to the June 30, 2004 fiscal year.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 15 PRIOR PERIOD ADJUSTMENT
(Continued)

B. PRIOR PERIOD ADJUSTMENT (Continued)

At June 30, 2006 management performed an analysis of past due student accounts receivable and determined that an allowance for uncollectible accounts was necessary as of June 30, 2005. This correction decreased beginning net assets by $514,240. The effect on prior year's change in net assets was not material.

In a review of deferred revenues it was determined that the District had actually earned the amounts in prior years that had not been recognized as revenue. A correction was made to record these revenues in the year they were actually earned. This correction increased beginning net assets by $574,434. The effect on prior year's change in net assets was not material.

C. EFFECT OF CHANGES AND ADJUSTMENTS

The changes and adjustments noted had the following effect on beginning net assets:

Net assets, as previously reported	$ 119,903,509
Apportionment	1,145,490
Enrollment fees	(499,761)
Grant and contracts	574,434
Student accounts receivable	(514,240)
Net assets, as restated per schedule	$ 120,609,432

NOTE 16 SUBSEQUENT EVENTS

On September 13, 2006 the Kern Community College District Safety, Repair and Improvement District of the Kern Community College District issued $49,999,533 of 2006 General Obligation Bonds (2006 Bonds). The 2006 Bonds were authorized at a special election of the registered voters of the Kern Community College Safety, Repair and Improvement District (the "Improvement District") of the Kern Community College District (the "District") held on November 5, 2002, which authorized the issuance of $180,000,000 principal amount of general obligation bonds for the purpose of financing college facilities. The District has previously issued $75,191,548 of bonds under the same authorization. The 2006 Bonds represent the second series of the Bonds to be issued by the District.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 16 SUBSEQUENT EVENTS
(Continued)

The 2006 Bonds represent a general obligation of the Improvement District. The Board of Supervisors of Kern County has the power and is obligated to annually levy ad valorem taxes upon all property subject to taxation by the Improvement District without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the 2006 Bonds.

The 2006 Bonds were issued as Current Interest Bonds and as Capital Appreciation Bonds. The Current Interest Bonds were issued in the denomination of $5,000 each or any integral multiple thereof. The Capital Appreciation Bonds were issued in the Maturity Value of $5,000 each or any integral multiple thereof. Interest with respect to the Current Interest Bonds accrues from the date of delivery, and is payable semiannually on May 1 and November 1 of each year, commencing May 1, 2007. The interest portion of the Accreted Value of any Capital Appreciation Bond which is payable on the date of maturity shall represent interest accrued coming due on such date. The bonds mature on November 1, 2030.

KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2006

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Mr. Dennis L. Beebe	President	Southwest Bakersfield	December 2008
Mrs. Kay S. Meek	Vice President	Southwest Bakersfield	December 2008
Mrs. Rose Marie Bans	Clerk	Northeastern Kern County	December 2008
Dr. Herbert D. Bonds	Member	Porterville	December 2006
Mrs. Pauline F. Larwood	Member	Central Bakersfield	December 2006
Mr. John A. Rodgers	Member	Central Bakersfield	December 2006
Mr. Stuart O. Witt	Member	Ridgecrest	December 2006

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Greg Chamberlain	Associate Chancellor, Educational Services
Mr. Victor Collins	Interim Associate Chancellor, Human Resources

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2006

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
Passed through State Department of Education -		
Child Care Food Program	10.555	$ 269,092
Total Department of Agriculture		269,092
Department of Education:		
Federal Supplemental Educational Opportunity Grants	84.007	501,504
Higher Education - Institutional Aid	84.031	993,171
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	533,102
TRIO - Student Support Services	84.042	239,169
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	300,507
Federal Pell Grant Program	84.063	16,914,029
Fund for the Improvement of Postsecondary Education (FIPSE)	84.116	345,004
Vocational Education - Tech Prep Education	84.243	1,009,125
Total Department of Education		20,835,611
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	237,358
Child Development Block Grant	93.575	53,862
Total Department of Health and Human Services		291,220
Small Business Administration		
Passed through Regents University of CA -		
SBDC UC Merced	59.037	152,196
Passed through College of Sequoia -		
Title V COS Cooperative	59.037	190,407
Total Small Business Administration		342,603
Total Federal Expenditures		$ 21,738,526

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE AWARDS

YEAR ENDED JUNE 30, 2006

	Program Revenues				
Description	Cash Received	(Increase) Decrease Accounts Receivable	(Increase) Decrease in Deferred Income	Total	Total Program Expenditures
Extended Opportunity Programs and Services	$ 2,219,644	$ -	$ -	$ 2,219,644	$ 2,195,767
CalGrant	2,675,766	(105,095)	129,265	2,699,936	2,699,936
Disabled Students Programs and Services	1,928,434	(7,926)	-	1,920,508	1,872,091
CalWorks	653,820	(17,181)	-	636,639	631,165
Matriculation	896,795	-	-	896,795	895,786
Foster Parent	118,045	(124,009)	123,562	117,598	117,598
Economic Development Nursing	12,218	80,194	17,602	110,014	110,706
Nursing Expansion Program	-	-	69,280	69,280	69,280
Project Care	344,990	-	-	344,990	350,658
MESA CCCP	-	-	100,172	100,172	100,172
BFAP	906,754	-		906,754	909,121
Small Business Center	118,062	(22,488)	-	95,574	127,685
Center for Excellence	165,787	12,816	-	178,603	131,386
REBRAC	150,085	-	22,250	172,335	172,335
Workplace Learning Center	150,226	-	32,723	182,949	182,949
Instructional Equipment Ongoing	449,582	-	-	449,582	153,192
PC Development Center	517,354	(2,156)	-	515,198	483,854
TTIP	(236,839)	409,470	-	172,631	290,273
Psych Tech	580,566	(217,851)	189,929	552,644	552,644
All other categorical	26,362	28,805	85,335	140,502	169,502
	$ 11,677,651	$ 34,579	$ 770,118	$ 12,482,348	$ 12,216,100

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT
ANNUALIZED ATTENDANCE AS OF JUNE 30, 2006

Categories	Reported Data	Audit Adjustments	Revised Data
A. Credit Full-time Equivalent Student (FTES)			
1. Weekly census	12,672.33		12,672.33
2. Daily census	717.22		717.22
3. Actual hours of attendance	1,014.41		1,014.41
4. Independent Study/Work Experience	1,509.65		1,509.65
5. Summer Intersession	1,500.62		1,500.62
Total	17,414.23		17,414.23
B. Noncredit FTES			
1. Actual hours of attendance	205.58		205.58
2. Summer Intersession	10.76		10.76
Total	216.34		216.34
C. Gross Square Footage			
1. Existing Facilities	1,302,494		1,302,494
2. New Facilities	19,456		19,456
D. FTES in New Facilities	359.50		359.50
E. FTES in Leased Space	2,182.39		2,182.39

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2006

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
June 30, 2006 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 13,330,809	$18,930,915	$ 42,624,253	$ 60,679
Adjustment and reclassifications increasing (decreasing) the fund balance:				
District identified adjustments	1,796,557	-	-	262,525
Audit adjustments	(773,766)	-	-	-
Rounding	-	-	1	-
Net adjustments and reclassifications	1,022,791	-	1	262,525
June 30, 2006 District Accounting Records Fund Balance	$ 14,353,600	$18,930,915	$ 42,624,254	$ 323,204

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Total District Funds
$ 195,259	$ 66,791,665	$ 2,148,797	$ (157,610)	$ 449,671	$ -	$ 144,374,438
-	(1,642,159)	2,116	-	(359,842)	-	59,197
-	-	-	-	-	110,884	(662,882)
	-	-	-	-	-	1
-	(1,642,159)	2,116	-	(359,842)	110,884	(603,684)
$ 195,259	$ 65,149,506	$ 2,150,913	$ (157,610)	$ 89,829	$ 110,884	$ 143,770,754

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2006

	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total Fiduciary Funds
June 30, 2006 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 80,917	$ 20,988	$ 500,743	$ 602,648
Adjustment and reclassifications increasing (decreasing) the fund balance:				
District identified adjustments	(80,917)	(20,988)	3,312	(98,593)
Audit adjustments	-	-	-	-
Rounding	-	-	-	-
Net adjustments and reclassifications	(80,917)	(20,988)	3,312	(98,593)
June 30, 2006 District Accounting Records Fund Balance	$ -	$ -	$ 504,055	$ 504,055

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2006

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 10,399,753	$ -	$ -	$ -
Restricted cash	3,857,099	19,441,294	1,763,326	158,535
Accounts receivable	9,386,609	176,195	422,396	341,590
Prepaid expenses	558,989	-	-	-
Inventories	-	-	-	-
Due from other funds	295,972	-	-	-
Total current assets	24,498,422	19,617,489	2,185,722	500,125
Noncurrent assets:				
Restricted investments	-	-	40,441,307	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	40,441,307	-
Total assets	$ 24,498,422	$ 19,617,489	$ 42,627,029	$ 500,125
LIABILITIES				
Accounts payable	$ 7,437,924	$ 1,541	$ 2,775	$ 59,107
Deferred revenue	2,637,121	-	-	50,000
Due to other funds	69,777	685,033	-	67,814
Total liabilities	10,144,822	686,574	2,775	176,921
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	18,930,915	42,624,254	-
Reserved for special purposes	4,407,958	-	-	323,204
Unreserved:				
Undesignated	9,945,642	-	-	-
Total fund equity (deficit)	14,353,600	18,930,915	42,624,254	323,204
Total liabilities and fund equity (deficit)	$ 24,498,422	$ 19,617,489	$ 42,627,029	$ 500,125

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Total
$ -	$ -	$ (225,311)	$(294,770)	$ -	$ -	$ 9,879,672
195,259	64,200,975	-	-	88,135	(499,192)	89,205,431
-	2,221,302	422,890	122,462	1,694	575,182	13,670,320
-	422	-	-	-	-	559,411
-	-	1,421,880	18,909	-	-	1,440,789
-	5,940,244	-	-	-	-	6,236,216
195,259	72,362,943	1,619,459	(153,399)	89,829	75,990	120,991,839
-	-	-	-	-	-	40,441,307
-	-	690,016	-	-	-	690,016
-	-	690,016	-	-	-	41,131,323
$ 195,259	$ 72,362,943	$ 2,309,475	$(153,399)	$ 89,829	$ 75,990	$162,123,162
$ -	$ 1,766,615	$ 156,494	$ 1,211	$ -	$ 1,336	$ 9,427,003
-	-	2,068	-	-	-	2,689,189
-	5,446,822	-	3,000	-	(36,230)	6,236,216
-	7,213,437	158,562	4,211	-	(34,894)	18,352,408
-	-	-	-	-	-	61,555,169
195,259	65,149,506	2,150,913	(157,610)	89,829	110,884	72,269,943
-	-	-	-	-	-	9,945,642
195,259	65,149,506	2,150,913	(157,610)	89,829	110,884	143,770,754
$ 195,259	$ 72,362,943	$ 2,309,475	$(153,399)	$ 89,829	$ 75,990	$162,123,162

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2006

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$13,534,043	$ -	$ -	$ -
Less: scholarship discount and allowance	7,248,443	-	-	-
Net tuition and fees	6,285,600	-	-	-
Grants and contracts, non-capital:				
Federal	5,261,301	-	-	322,954
State	10,887,894	-	-	3,839,381
Local	1,805,653	-	-	-
Auxiliary enterprise sales and charges	21,916	-	-	-
Other operating revenues	586,657	1,800,047	-	49,567
Total operating revenues	24,849,021	1,800,047	-	4,211,902
OPERATING EXPENDITURES/EXPENSES				
Salaries	65,206,821	-	-	2,769,079
Employee benefits	22,337,290	-	-	1,093,434
Payments to students	621,625	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	10,457,896	87,908	2,510,126	461,060
Capital outlay	1,034,739	-	-	-
Utilities	3,068,400	-	-	50,548
Depreciation	-	-	-	-
Total operating expenditures/expenses	102,726,771	87,908	2,510,126	4,374,121
OPERATING INCOME (LOSS)	(77,877,750)	1,712,139	(2,510,126)	(162,219)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	43,243,104	-	-	-
Local property taxes	34,830,249	-	-	-
State taxes and other revenues	3,507,614	77,683	-	-
Investment income, non-capital	392,533	1,602,247	1,346,133	13,665
Debt service	-	(62,393,204)	-	-
Other non-operating expenditures/expenses	(919,843)	-	-	-
Total non-operating revenues (expenditures)	81,053,657	(60,713,274)	1,346,133	13,665

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Total
$ -	$ 45,924	$ -	$ 124	$ -	$ -	$ 13,580,091
-	-	-	-	-	-	7,248,443
-	45,924	-	124	-	-	6,331,648
-	-	-	-	479,466	16,875,684	22,939,405
-	1,833	-	-	-	2,699,936	17,429,044
18,750	6,156	(11,029)	-	-	-	1,819,530
-	-	6,723,024	984,607	-	-	7,729,547
-	845,790	383,632	-	-	-	3,665,693
18,750	899,703	7,095,627	984,731	479,466	19,575,620	59,914,867
-	129,710	974,034	344,067	-	-	69,423,711
-	11,515	251,209	165,713	-	-	23,859,161
-	-	-	-	479,466	19,575,620	20,676,711
39,737	34,699,374	5,177,430	461,565	-	-	53,895,096
-	12,314	-	13,030	-	-	1,060,083
-	665	730	6,883	-	-	3,127,226
-	-	32,165	-	-	-	32,165
39,737	34,853,578	6,435,568	991,258	479,466	19,575,620	172,074,153
(20,987)	(33,953,875)	660,059	(6,527)	-	-	(112,159,286)
-	-	-	-	-	-	43,243,104
-	-	-	-	-	-	34,830,249
-	-	-	-	-	-	3,585,297
-	2,083,367	2,715	-	-	-	5,440,660
-	-	-	-	-	-	(62,393,204)
-	6,913,156	(109,600)	-	-	-	5,883,713
-	8,996,523	(106,885)	-	-	-	30,589,819

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2006

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	3,175,907	(59,001,135)	(1,163,993)	(148,554)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	7,015,572	-	-
Excess of revenues over (under) expenditures	3,175,907	(51,985,563)	(1,163,993)	(148,554)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,520,780	-	12,755,000	299,715
Operating transfers out	(356,089)	(63,052)	-	(219,405)
Limited obligation improvement bonds issued	-	60,143,359	-	-
Payment to refunded bond escrow agent	-	(6,900,281)	-	-
Total other financing sources (uses)	1,164,691	53,180,026	12,755,000	80,310
Excess of revenues and other financing sources over (under) expenditures and other financing uses	4,340,598	1,194,463	11,591,007	(68,244)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR, AS RESTATED	10,013,002	17,736,452	31,033,247	391,448
FUND EQUITY (DEFICIT), END OF YEAR	$14,353,600	$18,930,915	$42,624,254	$ 323,204

The accompanying notes to the supplementary information are an integral part of this supplementary information.

	Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Total
	(20,987)	(24,957,352)	553,174	(6,527)	-	-	$ (81,569,467)
	-	6,842,532	-	-	-	-	6,842,532
	-	-	-	-	-	-	7,015,572
	(20,987)	(18,114,820)	553,174	(6,527)	-	-	(67,711,363)
	-	9,812,060	-	-	-	571,931	24,959,486
	-	(22,249,007)	(1,500,000)	-	(571,932)	-	(24,959,485)
	-	-	-	-	-	-	60,143,359
	-	-	-	-	-	-	(6,900,281)
	-	(12,436,947)	(1,500,000)	-	(571,932)	571,931	53,243,079
	(20,987)	(30,551,767)	(946,826)	(6,527)	(571,932)	571,931	(14,468,284)
	216,246	95,701,273	3,097,739	(151,083)	661,761	(461,047)	158,239,038
	$ 195,259	$65,149,506	$ 2,150,913	$ (157,610)	$ 89,829	$ 110,884	$143,770,754

KERN COMMUNITY COLLEGE DISTRICT

BALANCE SHEET - FIDUCIARY FUNDS

JUNE 30, 2006

ASSETS		
Cash	$	1,138,960
Accounts receivable		11,756
Capital assets, net		3,277
Total assets	$	1,153,993
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable and accrued liabilities	$	28,646
Deferred revenues		58,704
Due to Associated Students		562,588
Total liabilities		649,938
Fund Balances		
Reserved for special purposes		504,055
Total fund balances		504,055
Total liabilities and fund balances	$	1,153,993

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2006

REVENUES	
Revenue from local sources:	
Other	$ 110,016
Total revenues	110,016
EXPENDITURES	
Other operating expenses	83,718
Total expenditures	83,718
Excess of revenues over (under) expenditures	26,298
OTHER FINANCING SOURCES (USES)	
Operating transfers in	-
Operating transfers out	-
Total other financing sources (uses)	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	26,298
FUND BALANCES, BEGINNING OF YEAR	477,757
FUND BALANCES, END OF YEAR	$ 504,055

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2006

Total Fund Equity - District Funds Included in the Reporting Entity		$ 143,770,754
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 171,702,253	
Accumulated depreciation	(45,124,472)	126,577,781
Nondepreciable capital assets		46,295,041
Debt issuance costs, net		4,193,820
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(3,295,109)
Compensated absences	(2,262,467)	
Long-term debt	(186,074,800)	(188,337,267)
Net assets reported within the GASB 35 Statement of Net Assets		$ 129,205,020

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2006

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ (14,468,284)
Compensated absence expense addition reported within GASB 35 Statements	241,283
Depreciation expense reported within GASB 35 Statements	(4,554,295)
Amortization of bond issuance cost reported within the GASB 35 Statements	(910,114)
Amortization of bond premium reported within the GASB 35 Statements	1,474,297
Capital outlay expense not reported within the GASB 35 Statements	34,154,739
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(1,473,679)
Costs from issuance of bonds not reported within the GASB 35 Statements	805,251
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(60,948,610)
Principal payments on debt not reported within the GASB 35 Statements	54,275,000
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 8,595,588

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

NOTE 1 PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards and Schedule of State Awards

The audit of the Kern Community College District for the year ended June 30, 2006 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Awards were prepared for the District.

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

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2006, represents the basis of apportionment of the District's annual source of funding.

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

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted $1,557,719 in loans under the Federal Family Education Loan Program for the year ended June 30, 2006.

NOTE 3 COMBINING AND FIDUCIARY FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2006

NOTE 3 COMBINING AND FIDUCIARY FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

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

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

NOTE 4 BALANCE SHEET – FIDUCIARY FUNDS

Cash

The cash balance as of June 30, 2006, consists of:

Cash in County Treasury	$ 710,297
Cash on hand and in banks	428,663
Total cash	$ 1,138,960

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

NOTE 4 BALANCE SHEET – FIDUCIARY FUNDS (Continued)

Cash (Continued)

Deposits - As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the county treasury is recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pool. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.26 years at June 30, 2006.

As of the date of these financial statements, the County of Kern's 2006 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxton Avenue, Bakersfield, California 93301-4639.

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

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

For investments, the District addresses this risk by limiting its investment types as noted above to investments authorized by California Government Code.

Prior Period Adjustment

The prior year Balance Sheet – Fiduciary Funds did not include all of the assets and liabilities of the Associated Student Body. Assets and liabilities of $483,000 should have been included in the June 30, 2005 balance sheet.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Redding, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the year ended June 30, 2006, which comprise the District's basic financial statements and have issued our report thereon dated December 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to management of the District in a separate letter dated December 19, 2006.

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

Nystrom & Company LLP

December 19, 2006

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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

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

Nystrom & Company LLP

December 19, 2006

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 19, 2006.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. Management Information System Implementation – Required Data Elements

   Compliance Requirement:

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

   A. Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance and Apprenticeship courses.

   B. Noncredit FTES in actual hours of attendance and distance education courses.

   C. Credit Student Headcount Data.

D. Gross Square Footage and FTES in less than 100% leased space.

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law

   Compliance Requirement:

   Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with *Education Code* Section 84362.

2. Apportionments – Residency Determination for Credit Courses

   Compliance Requirement:

   Each district must act to ensure that only the attendance of California residents is claimed for State support of credit classes.

3. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

   Compliance Requirement:

   A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with all the following:

   A. *Education Code* Section 76002(a) specifies that: for purposes of receiving state apportionments, a community college district may include high school pupils who attend a community college within the district pursuant to Sections 48800 and 76001 in the district's report of full-time equivalent students (FTES) only if those pupils are enrolled in community college classes that meet all the following criteria:

      (1) The class is open to the general public.

      (2) The class is advertised as open to the general public in one or more of the following:

         (a) The college catalog.

         (b) The regular schedule of classes.

         (c) An addenda to the college catalog or regular schedule of classes.

      (3) If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class shall be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.

      (4) If the class is offered at a high school campus, the class may not be held during the time the campus is closed to the general public, as defined by the governing board of the school district during a regularly scheduled board meeting.

B. If the class is a physical education class, no more than 10 percent of its enrollment may be comprised of special part-time or full-time students. In the view of the Chancellor's Office, this 10 percent limit serves as a limit on how many students may be claimed for apportionment in each course section, not how many may actually be enrolled in a class section. In addition, a community college district may not receive state apportionments for special part-time and full-time students enrolled in physical education courses in excess of 5 percent of the district's total reported FTES of special part-time and full-time students.

C. The district must comply with the credit course approval requirements of CCR, Title 5, Sections 51004, 51021, 55002(a) or (b), 55100, and 58050. Courses are not eligible for apportionment if they have not been properly approved by the district and, where applicable, by the Chancellor's Office, or are not taught in accordance with a locally established course outline.

D. The district must comply with the instructor supervision requirements of CCR, Title 5, Sections 55002(a)(4), 55002(b)(4), 58050, 58051(a)(1), 58052, 58056, 58058 and 58060 and the instructor qualification requirements of section 53410 and 58060. Educational activities of students used in computing FTES must be under the immediate supervision and control of an academic employee of the district who is authorized to render service in that capacity. Immediate supervision requires the presence of the authorized employee and is characterized by all of the following:

   (1) The employee is able to provide immediate instructional supervision and control, in terms of physical proximity and range of communication and

   (2) The employee is in a position to provide supervision and control for the protection of the health and safety of students; and

   (3) The authorized employee does not have any other assigned duty during the instructional activity for which attendance is being claimed.

E. For courses taught under a contract with a public or private agency as provided in CCR, Title 5, Section 58058, a district must have contracts both with the agency and with the individual who will provide the instruction. Both contracts must specify that the community college district has the primary right to control and direct the activities of the person providing the instruction. The requirements concerning immediate instructional supervision and control apply fully to those persons who provide instruction under these special contracts. If all the conditions are met, the person furnished by the public or private agency remains an employee of the agency, but is considered an "employee of the district" for the limited purpose of rendering instructional service during the term of the contract. In all cases, including the special contracting system, employees of the district who teach credit courses must meet the minimum qualifications for community college instructors. In most cases, the minimum qualification is the possession of a master's degree in the discipline of the instructor's assignment, or the equivalent.

F. Per *Education Code* Section 84752, no community college district shall receive full-time equivalent student (FTES) funding for activities that are fully funded through another source. If a contract between a community college and a K-12 school district contains provisions that the K-12 school district will pay the community college for the full costs of offering a particular course, the community college district cannot claim apportionment for the course.

G. Per *Education Code* Section 48800, for summer sessions, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of the recommendation. In addition:

(1) Recommended pupils must demonstrate adequate preparation in the discipline to be studied.

(2) The pupil must exhaust all opportunities to enroll in an equivalent course, if any, at his or her school of attendance.

H. Per *Education Code* Section 76001(d), special part-time students may enroll in up to 11 units per semester.

I. Per *Education Code* Section 76002(b), the governing board of a community college district may restrict the admission or enrollment of a special part-time or full-time student during any session based on any of the following criteria:

(1) Age.

(2) Completion of a specified grade level.

(3) Demonstrated eligibility for instruction using assessment methods and procedures established pursuant to *Education Code* Sections 78210 – 78300 and regulations adopted by the Board of Governors of the California Community Colleges.

4. Apportionments – Apportionment for Instructional Service Agreements/Contracts

Compliance Requirement:

This compliance requirement applies to instructional service agreements in which:

A. The contractor's employees are used to instruct classes, and

B. The district is compensating the contractor or the instructor, and

C. The district is reporting the FTES from these classes.

Community colleges may claim FTES for classes conducted at a contractor's site and instructed by the contractor's employees, although the classes may also be conducted on college property. In order for these FTES to be eligible for state funding the following regulatory requirements must be met:

A. Programs must be approved by the State Chancellor's Office and courses must be part of those approved programs or the college must have received delegated authority to separately approve those courses,

B. Courses must be open to all admitted students who meet any approved prerequisites for the courses,

C. Students must be under the immediate supervision of a district employee,

D. The district employee must possess valid credentials or meet the minimum qualifications required for the assignment, and

E. The district and public or private agency, individual, or group of individuals with whom the district has an instructional services agreement may not receive full compensation for the direct education costs for the conduct of the class from any other source.

F. For all courses conducted under an instructional services agreement, including those pursuant to CCR, Title 5, Section 58058, determine whether the district received certification verifying that the instructional activity conducted was not fully funded by other sources.

5. Apportionments – Enrollment Fee

Unless expressly exempted, or entitled to a waiver, all students enrolling for college credit must pay the enrollment fee. According to the Budget and Accounting Manual (p. 3-36), enrollment fee revenue includes the full amount of the fees charged, regardless of whether the fees are collected. Accounts receivable must be established to record the revenue on enrollment fees charged for the spring term or earlier if such fees are not collected by year-end. Uncollectible fees are accounted for as an expense of the district and not an abatement of enrollment fee revenue. Subsequent recovery of accounts that have been written-off should be recorded as Other Local Revenue and not enrollment fee revenue. Community college districts are required to report their total enrollment fee revenue for purposes of determining each district's share of the annual general apportionment.

If courses begin before the close of spring term, the related enrollment fees are recorded as revenue in the current fiscal year. Enrollment fees charged for instructional periods after the close of the spring term are recorded as deferred revenue in the current fiscal year.

A. For purposes of apportionment, students enrolled in the following noncredit courses designated by *Education Code* Section 84757, are exempt from the enrollment fee:

(1) Parenting, including parent cooperative preschools, classes in child growth and development and parent-child relationships.

(2) Elementary and secondary basic skills and other courses and classes such as remedial academic courses or classes in reading, mathematics, and language arts.

(3) English as a second language.

(4) Classes and courses for immigrants eligible for educational services in citizenship, English as a second language, and work force preparation classes in the basic skills of speaking, listening, reading, writing, mathematics, decision making and problem solving skills, and other classes required for preparation to participate in job-specific technical training.

(5) Education programs for persons with substantial disabilities.

(6) Short-term vocational programs with high employment potential.

(7) Education programs for older adults.

(8) Education programs for home economics.

(9) Health and safety education.

B. California State University or University of California students enrolled in remedial classes provided by a community college district on a campus of the University of California or campus of the California State University, for whom the district claims an attendance apportionment pursuant to an agreement between the district and the California State University or the University of California (*Education Code* Section 76300(e)(2)).

C. Students enrolled in credit contract education, if the entire cost of the course, including administrative costs, is paid by the public or private agency, corporation, or association with which the district is contracting and if these students are not included in the calculation of the FTES of that district (*Education Code* Section 76300(e)(3)).

D. Special part-time students enrolled in educational enrichment classes for students who would benefit from advanced scholastic or vocational work may be exempted from the enrollment fee at the discretion of the governing board (*Education Code* Sections 76001, 76300(f) and 48800).

E. Students who, at the time of enrollment, are recipients of benefits under the Temporary Assistance to Needy Families Program, the Supplemental Security Income/State Supplementary Program, or a general assistance program or have demonstrated financial need in accordance with the methodology set forth in federal law or regulation for determining the expected family contribution of students seeking financial aid. Also included are students eligible for Board of Governors grants (*Education Code* Section 76300(g) and CCR, Title 5, Section 58620).

F. Any student who, at the time of enrollment is a dependent, or surviving spouse who has not remarried, of any member of the California National Guard who, in the line of duty and while in the active service of the state, was killed, died of a disability resulting from an event that occurred while in the active service of the state or is permanently disabled as a result of an event that occurred while in the active service of the state. "Active service of the state," for the purposes of this subdivision, means a member of the California National Guard activated pursuant to Section 146 of the Military and Veterans Code (*Education Code* Section 76300(h)).

G. Any student in an undergraduate program, including a student who has previously graduated from another undergraduate or graduate program, who is the dependent of any individual killed in the September 11, 2001, terrorist attacks on the World Trade Center in New York City, the Pentagon building in Washington, DC, or the crash of United Airlines Flight 93 in southwestern Pennsylvania, if he or she meets the financial need requirements for the Cal Grant A Program and either of the following apply:

   (1) The dependent was a resident of California on September 11, 2001, or

   (2) The individual killed in the attacks was a resident of California on September 11, 2001.

   The waivers provided in item G above are available until January 12, 2013, or until the dependent of the individual killed in the terrorist attacks of September 11, 2001, reaches the age of 30 years old (*Education Code* Sections 76300(j), (k), (l)).

6. Apportionments – Students Actively Enrolled

Compliance Requirement:

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

7. Open Enrollment

Compliance Requirement:

Community college districts shall comply with the CCR, Title 5, provisions related to open enrollment by the general public for all the courses being submitted for state apportionment funding.

Courses that qualify for state apportionment must be open to enrollment by the general public unless specifically exempted by statute. CCR, Title 5, Sections 58102, 58104, and 58106 outline certain requirements that districts must meet to ensure that their courses are open and available to all students. For example, CCR, Title 5, Section 58104 states that a description of each course must be published in the official catalog and schedule of classes and that for courses that the districts establish or conduct after publication of the general catalog or regular schedule of classes, those classes must also be reasonably well publicized. Furthermore, course announcements shall not be limited to any specialized clientele, nor shall any group or individual receive notice before the general public for purposes of preferential enrollment. The courses should be advertised is such a manner that anyone who might be interested in enrolling in a particular course section will know it is available and understand that enrollment is open to anyone who meets properly established prerequisites or enrollment limitations.

State apportionment can also be claimed for in-service training courses in the areas of police, fire, corrections, and other criminal justice system occupations if the courses meet all apportionment attendance and study requirements otherwise imposed by law. At least 15 percent of the enrollment in law enforcement continuing training prescribed in Penal Code Section 830-832.16 and 15 percent of the enrollment in in-service fire training courses shall consist of persons who are not law enforcement trainees nor volunteers of, nor employed by, a fire protection or fire prevention agency or association, if the persons are available to attend a course – see CCR, Title 5, Section 58051(c), (d), and Penal Code Section 832.3(c). Community colleges may give preference in enrollment to persons employed by or serving in a voluntary capacity with a fire protection or prevention agency or to law enforcement trainees when such persons could not otherwise complete the course within a reasonable time or the time required by statute, and when no other training program is reasonably available. For purposes of state apportionment, classes must be located in facilities that are clearly identified to promote attendance by the general public except where specifically allowed otherwise by statute – see CCR, Title 5, Sections 58051(d) and 58051.5(a)(3).

8. Minimum Conditions – "Standards of Scholarship"

Compliance Requirement:

As a minimum condition to receive state aid, each district must adopt regulations consistent with the "Standards of Scholarship" contained in the California Code of Regulations, Title 5, and publish statements of those regulations under appropriate headings in their catalogs. This ensures that students have meaningful access to information concerning such standards. Districts must comply with the adopted regulations.

Districts should have adopted procedures or regulations for the repetition of courses for the following:

A. Districts must adopt and publish procedures or regulations pertaining to repetition of courses for which substandard work has been recorded. The procedures or regulations may allow for such courses to be repeated and the previous grade and credit disregarded in computation of grade point averages. When this occurs the permanent academic record shall be annotated in such a manner that all work remains legible insuring a true and completed academic history (CCR, Title 5, Section 55761).

B. The district may adopt procedures or regulations concerning courses for which substandard work has not been recorded. If the district allows for such repetition, the procedures or regulations shall indicate that course repetition shall be permitted only upon petition of the student and with written permission of the governing board, or its designee, based upon findings that special circumstances exist which justify repetition. Grades awarded shall not be counted in calculating a student's grade point average (CCR, Title 5, Section 55763(b)). The permanent academic record must be annotated in such a manner that all work remains legible insuring a true and complete academic history (CCR, Title 5, Section 55763(d)).

C. Districts that permit course repetition where substandard work has not been recorded shall allow repetition without petition in instances when such repetition is necessary for a student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment. Such courses may be repeated for credit any number of times regardless of whether or not substandard work has been previously recorded. Grades received each time shall be included for purposes of calculating the student's grade point average (CCR, Title 5, Section 55763(c)). Once again, the permanent academic record must be annotated in such a manner that all work remains legible insuring a true and complete academic history (CCR, Title 5, Section 55763(d)).

D. Finally, a student can repeat a course for three semesters or five quarters IF the course content changes each time the course is taken and the student is gaining an expanded educational experience either because skills or proficiencies are enhanced by supervised repetition or because active participation in individual or group assignments is the basic means of learning. The district must identify the courses, which are repeatable and designate the courses in its catalog (CCR, Title 5, Section 58161).

Apportionment for course repetition recognizes three basic situations:

First, state apportionment may be claimed for one repetition for the attendance of a student repeating a course, in which the student receives a grade, under the following conditions:

(1) The student is repeating the course to alleviate the substandard work, which has been recorded on the students record. Substandard is defined as a course for which the symbol of “D”, “F”, or “N/C” has been recorded.

(2) The district finds that the student’s previous grade is, at least in part, the result of extenuating circumstances. Extenuating circumstances are verified cases of accidents, illness, or other circumstances beyond the control of the student.

(3) The district has determined that a student should repeat a course because there has been a significant lapse of time since the student previously took the course (CCR, Title 5, Section 58161(b)).

Second, state apportionment may be claimed for all the times a student repeats a class to meet a legally mandated training requirement (CCR, Title 5, Section 58161©).

Third, state apportionment may be claimed for three semesters or five quarters IF the course content changes each time the course is taken and the student is gaining an expanded educational experience either because skills or proficiencies are enhanced by supervised repetition or because active participation in individual or group assignments is the basic means of learning (CCR, Title 5, Section 58161(d)).

Because of the complexity of course repetition and apportionment rules for course repetition, each district must develop and implement a mechanism for proper monitoring of such course repetition.

Districts may permit additional repetitions to those described above, but if they do permit additional repetitions, they cannot grant credit for those additional repetitions, and they may not claim the additional repetitions for apportionment. Therefore, districts that allow additional repetitions beyond those described above, should have policies that clearly indicate that excess repetitions do not carry credit and they must have mechanisms in place to ensure that additional repetitions are not reported for apportionment.

E. Districts must establish a limit on the amount of remedial coursework a community college student may take. No student shall receive more that 30 semester units (or 45 quarter units) of credit in remedial coursework. Students that exhaust the unit limitation should be referred to appropriate adult noncredit education services (CCR, Title 5, Section 55756.5).

(1) Students enrolled in one or more course of English as a Second Language or Students identified by the district as having a learning disability (as defined in CCR, Title 5, Section 56014) shall be exempted from the limitation.

(2) The district governing board may adopt standards to allow a waiver on the limitation to remedial work. The standards for a waiver must include provisions to ensure that the waivers are only given for specified periods or for specified number of units.

F. The determination of a student's grade by the instructor shall be final in the absence of mistake, fraud, bad faith or incompetency. Procedures for correction of grades given in error shall include expunging the incorrect grade from the record. These procedures shall include provisions to allow any student to file a written request with the chief administrative officer of the district to correct or remove information, which the student alleges to be inaccurate. Within 30 days the chief administrative officer, or his designee, will sustain or deny the allegation. The student shall have the right to appeal the decision of the chief administrative officer to the district's governing board (CCR, Title 5, Section 55760 and *Education Code* Section 76232).

G. In computing students' degree applicable grade point averages, grades earned in a nondegree credit course shall not be included (CCR, Title 5, Section 55758.5).

9. Student Fee – Instructional Materials and Health Fees

Compliance Requirement:

Education Code Section 76365 allows districts to require students to provide various types of instructional materials. The governing boards of districts that require students to provide instructional materials or other materials for a course must have adopted policies or regulations that specify the conditions under which such materials will be required.

Districts may only require students to provide instructional materials which are of a continuing value to the students outside of the classroom setting, is tangible personal property that is owned or primarily controlled by the student, and the material must not be solely or exclusively available from the district. Such materials include, but are not limited to, textbooks, tools, equipment, clothing, and those materials, which are necessary for a student's vocation training and employment.

Additional information regarding the requirements for Instructional Materials fees is contained in section 2.6 of the Student Fee Handbook referenced above. Appendix A of the handbook also provides information and analysis of specific items that have been previously reviewed under the instructional materials standards.

Districts are permitted to sell instructional materials to students who wish to buy the required materials from the district. If the materials are offered for purchase through the district but students are not required to purchase from the district, the materials costs, or fees, are optional in nature. Any fees that are optional in nature must be made clear to the students. Optional fees must clearly be described as optional is such a way that the optional fees cannot be confused with required fees.

Districts are permitted to require students to purchase instructional materials from them only under limited circumstances: the district is the only source of the materials or there is a health or safety reason for requiring students to purchase the material from the district. An example of the former is where district-prepared materials replace a more traditional textbook. An example of the latter is where a district requires allied health students to use a specific safety-related product. Additionally, a district may require students to purchase required instructional materials from the district if it can demonstrate that it supplies the materials more cheaply than elsewhere and at the district's actual cost.

With respect to health fees, it is important that districts advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions.

The required exemptions to the health fees are:

A. Students who depend upon prayer for healing in accordance with teachings of a bona fide religious sect, denomination, or organization.

B. Students who are attending a community college under an approved apprenticeship training program.

C. Low-income students. However, effective January 1, 2006, the health fee exemption for low-income students is no longer required and becomes optional per AB 982 (*Education Code* Section 76355(c)).

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds

   Compliance Requirement:

   Districts are required to use local funds to support at least 75 percent of the credit matriculation activities with the remaining expenditures claimable against the state credit matriculation allocation. All expenditures related to the allocation, both State and local funded portions, must be consistent with the district's state-approved matriculation plan and identifiable within the ten allowable activities. This 25 percent state funds, 75 percent local funds ratio applies district-wide not per college or within individual activity groups.

2. CalWORKs – Use of State and Federal TANF Funding

   Compliance Requirement:

   Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

Special Programs Testing Structure

1. Allocation of Costs (DSPS & EOPS)

   Compliance Requirement:

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

Educational Services Testing Structure

1. Noncredit Courses

   Compliance Requirement:

   To determine ongoing compliance with noncredit apportionment criteria, only verification of a completed self-assessment for each noncredit course is necessary at this time. Additional detailed audit procedures will be added next year to fully address noncredit compliance with existing codes and regulations.

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

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

In our opinion, except for the findings 2006-1 and 2006-2, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 19, 2006

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District were disclosed during the audit.

4. No reportable conditions relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The independent auditors' report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for Kern Community College District.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement.
   2) Vocational Education – Tech Prep Education (CFDA 84.243).

8. The threshold for distinguishing Type A and B programs was $670,000.

9. Kern Community College District did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

	Questioned Costs
NONE	

D. FINDINGS – STATE COMPLIANCE AUDIT

2006-1 – Noncredit Courses

Statement of Condition: During our testing we noted that the District did not perform self-assessments for all noncredit courses as requested by the state Chancellor's Office in April 2005. California districts were requested to perform self-assessments of all noncredit courses but were only required to submit the computer/library lab courses self-assessments to the Chancellor's office.

Cause of Condition: The District interpreted the language in the request that they were only required to complete the computer/library lab course self assessments.

Effect of Condition: The District was not in compliance with the State Compliance Requirements regarding Noncredit courses.

Recommendation: The District should complete self-assessments of all noncredit courses as requested by the Chancellor's office.

Response: While the District followed the requirements of the April 2005 memo and sent self-assessments of all computer/library lab non-credit courses to the Chancellor's office on April 18th, 2005, the interpretation at the time was that those were the only *required* self-assessments. Upon further reading of the April 4, 2005 memo and attached documents, the District believes that we should be doing the self-assessment on all non-credit courses and maintaining those on file. To that end, the Associate Chancellor of Student Services has had initial discussions with the CIOs at each college and self-assessments for all non-credit courses will be completed by February 15th, 2007.

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

D. FINDINGS – STATE COMPLIANCE AUDIT
(Continued)

2006-2 – Receipt and Expenditure of Lottery Funds

Statement of Condition: During our testing we noted that while the District maintains a separate account for the receipt of lottery funds they do not have a separate account or subfund for the expenditure of lottery funds. These amounts are currently broken out manually for purposes of the 50% Law calculation.

Cause of Condition: This is a new state compliance requirement.

Effect of Condition: From a documentation standpoint the District was not in compliance with the State Compliance Requirements regarding Lottery funds.

Recommendation: The District should create an account or subfund to track the expenditure of lottery funds.

Response: Currently Lottery revenues are accounted for separately. The District is in the process of establishing a separate fund and processes to account for lottery expenditures and revenues separately. This accounting process will become operational in fiscal year 2006-2007.

KERN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2006

2005-1 – Apportionment for Instructional Service Agreements/Contracts

Statement of Condition: During our testing in the prior year we noted that the instructional service agreement with the City of Bakersfield did not contain the required certification that the direct education costs of the activity were not fully funded through other sources.

Recommendation: We recommended that the District develop procedures to assure that all new instructional service agreements contain the required language.

Status: The District did not enter into any new instructional service agreements during the year however; the District's legal counsel intends to ensure that all future agreements contain the required certification.

2005-2 – Residency

Statement of Condition: During our testing in the prior year we noted that the District did not require any sort of electronic signature for students who registered for classes on-line and only retained the manual student applications for one semester. As such, the District is unable to provide support for the majority of student's residency status.

Recommendation: We recommended that the District develop procedures to require electronic signatures for students who enroll on-line and should retain the manual copies of applications for a longer period of time.

Status: The District has already developed and implemented procedures for electronic signatures for students applying for admission on-line. They were implemented in December of 2005, but were not in place during the entire 2005-2006 year. Currently, the following text appears at the end of the on line application process (similar to text at bottom of printed application):

KERN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2006

2005-2 – Residency (Continued)

This Admission/Update form will not be processed unless all questions are answered.

Before submitting, please VERIFY that the information you have provided is complete and correct. NO CHANGES may be made once the application is submitted.

California state law allows you to submit your application and residency information electronically without a manual signature. Your completion of this page will provide the necessary verification for electronic submission. The security and privacy of the information in your submitted application are protected as described in the District Privacy Policy.

By checking here, I declare that:

- All of the information in this application pertains to me.
- Under the penalty of perjury, the statements and information submitted in this online admissions application are true and correct.
- I understand that falsification, withholding pertinent data, or failure to report changes in residency may result in District action.

Press the Submit Admission/Update Form button to continue.

This language, and the process used, meets current requirements for electronic signatures.

During the first part of the 2005-2006 audit year, students applying on-line were required to print, sign, and send in a form. A hold would be placed on the subsequent term (blocking registration for that term) until the signature page was received. After verification of residency information and signature, the hold would be removed allowing registration. Policies were in place and followed.

However, while those forms were retained at PC and BC (BC forms were scanned and indexed into the document imaging system), CC followed current KCCD Board Policy (also in place during 2005-2006) which states that student application forms may be destroyed after the current term. We understand that this is in conflict with Title V. The records and retention procedures for the KCCD are currently under review by KCCD management and a consultant.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. In addition, because of inherent limitations in internal control, errors or irregularities may occur and not be detected by such controls.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

RETURN OF TITLE IV FUNDS

Finding

During our testing we noted that the Title IV funds for recipients who withdrew were not being returned within 30 days of becoming aware that the student had dropped in accordance with the requirements for the return of Title IV funds.

Recommendation

The District should develop procedures to assure that all funds are returned within 30 days of notification that a student has dropped.

Management's Response

The District implemented policies effective January 2005 to conform to the regulations related to the return of Title IV funds however in our current year audit we continued to note minor instances were the funds were not returned per the requirements due to the timing of the processing of drops. The District will continue to refine its processes to eliminate any instances of the funds being returned late.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2005-A – TIMELY FINANCIAL REPORTING

Finding

During our audit of the prior year, we noted that the District's accounting and reporting processes were significantly delayed. Our fieldwork at the District's office did not occur until July 2006 because the necessary records needed to perform our audit procedures were not available.

Recommendation

We recommended the District take appropriate action to ensure the accounting and reporting process is completed timely and that the year-end accounting function is properly completed to allow for a timely and efficient audit.

Status

The District put into place resources and made necessary accounting and reporting processing changes to ensure a more timely completion of the District's external audit. The 2005-2006 audit was completed in December 2006.

2005-B – FRAUD RISK ASSESSMENT AND MONITORING

Finding

During our audit of the prior year, we noted that the Board does not have a formal system for overseeing the District's assessment of the risks of fraud and the programs and controls the District has established to mitigate these risks. In addition, the District does not have a formal system in place to assess the risks of fraud nor any formal programs or controls to mitigate these risks.

Recommendation

Though we noted no instances of fraud in the course of our audit, we recommended that the District develop a formal system to assess the risks of fraud and implement formal programs and controls to mitigate these risks. In addition, we recommended that the Board formalize a system to oversee the District's fraud risk assessment and monitoring process. These systems will help the District to reduce its susceptibility to loss due to fraud and appropriately address fraud should it occur.

Status

A proposed internal system for fraud risk assessment and monitoring has been approved by The Board of Trustees Finance subcommittee and is scheduled for implementation prior to June 30, 2007.

2005-C – CASH MANAGEMENT

Finding

During our audit of the prior year, we noted that the District frequently did not perform grant draws and requests for reimbursement timely. As a result, there were significant time delays between when funds were expended and disbursed for goods and services and when reimbursement funds were received.

Recommendation

Sound cash management practice dictates drawing down funds and/or requesting reimbursements from grantors as soon as reasonably possible and permissible. Accordingly, we recommend that the District not only perform grant draws and requests for reimbursement timely, but also develop a formal policy requiring this to be done.

Status

District has implemented a process of daily cash monitoring and reconciliations. This has resulted in more timely draw-downs and reimbursements from grantors. The District is currently evaluating a formal policy for these processes.

2005-D – TIMELY RECONCILIATIONS

Finding
During our audit of the prior year, we noted that one of the District's bank accounts had not been reconciled since the previous fiscal year.

Recommendation
We recommend that bank reconciliations be completed, reviewed and approved in a timely manner according to the District's policy.

Status
District has implemented a process for timely reviews and approvals of bank reconciliations.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2006. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

Nystrom & Company LLP

NYSTROM & COMPANY LLP
Certified Public Accountants

December 19, 2006

KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2007 AND 2006

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2007 AND 2006

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2007 AND 2006

INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.

To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.

To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.

To determine whether financial and financially related reports to state and federal agencies are presented fairly.

To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, 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 should be considered when assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nystrom & Company LLP

December 21, 2007

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.

- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.

- Capital assets are included in the statement presentations.

OVERVIEW

The Kern Community College District financial strength continues to grow. This was driven by several events occurring in the 2006-07 fiscal year. Senate Bill 361 which reformed the funding formula for the States' Community College Districts was implemented. This resulted in a significant increase in apportionment revenue to the District. In addition, the District received significant amounts of one-time fund allocations for vocational, basic skills, instructional equipment, scheduled maintenance and general purposes. Concurrently the Board of Trustees focused the District on controlling expenditures through the establishment of reserve targets of 10% (excluding College reserves). This has had the effect of significantly increasing overall reserves and positions the District well for dealing with the significant uncertainties that can occur with State funding. Finally, the District issued its next series ($50 million) of local capital outlay bonds (Measure G) to meet cash flow requirements for its ongoing construction program.

The District's total assets grew from $334 million to $396 million, an increase of $62.4 million. The growth consists of two components. These components were current assets increasing from $116 million to $168 million and noncurrent assets increasing from $218 million to $229 million. The growth was due to the issuance of $50 million in bonds and revenues exceeding expenditures by $10.5 million. There was little change in the current liabilities, they increased from $19 million to $21 million which was caused by an increase in the current portion of compensated absences of $1.4 million and an increase in the current portion of long term debt of $ 500K. The increase in noncurrent liabilities from $186 million to $236 was caused primarily by the issuance of the $50 million in Measure G bonds.

There were relatively minor changes in the three components of net assets. Investment in capital assets increase from $52 million to $55 million fueled by earnings on the construction funds, the increase in restricted expendable net assets from $25 to $28 million was made up of two increases; 1) $1.7 million of revenues in excess of earning in restricted programs and; 2) a $1.1 million increase in debt service funds. The final component of net assets is the unrestricted net assets which grew from $52.7 to $56.2 million. This growth was the result of revenues in excess of expenditure in the unrestricted operations of the District.

The major changes in revenue were an increase of $10.2 million in apportionment (including property taxes) from $78.1 to $88.3 million. State grants increased $1.7 million and investment revenues increased $3.8 million. The only major decrease was in State apportionments for capital projects ($2.2 million). The end result was an increase in total revenues from $158.2 to $171.9 million which was an overall revenue increase of $13.7 million.

Expenditures increased by $12 million from $149.6 to $161.6 million. The largest increase was salaries ($4.1 million) driven by increases for all classes of employees and including an increase to our adjunct faculty hourly rates. Employee benefits increased ($871K) due primarily to increased insurance premium costs. Supplies, Materials, Other Operating Expenses and Services increased $3.7 million due primarily to expenditures related to one time funding revenues and inflation. Depreciation and amortization expense increased $1.1 million as a result of increased depreciable capital assets from the District's ongoing construction and equipment acquisitions.

STATEMENT OF NET ASSETS

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

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

- Invested in capital assets, net of related debt – The District's equity in property, plant, and equipment.

- Restricted net assets (distinguishing between major categories of restriction) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

- Unrestricted net assets – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and

shows the sources and uses of those funds. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2007	June 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,543,328	$ 9,879,672
Restricted cash	136,442,083	90,344,391
Accounts receivable, net	15,713,273	13,670,320
Prepaid expenses	503,169	559,411
Inventories	1,400,511	1,440,789
Total current assets	167,602,364	115,894,583
Noncurrent assets:		
Restricted investments	45,041,126	40,441,307
Depreciable capital assets, net	126,952,944	127,267,797
Nondepreciable capital assets	51,932,133	46,295,041
Deferred costs, net	4,762,228	4,193,820
Total noncurrent assets	228,688,431	218,197,965
Total assets	$ 396,290,795	$ 334,092,548
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,471,408	$ 10,915,130
Deferred revenue	3,483,903	2,689,189
Compensated absences, current portion	1,637,790	241,283
Long-term debt, current portion	4,238,384	3,701,792
Amounts held for others	1,122,394	1,138,960
Total current liabilities	20,953,879	18,686,354
Noncurrent liabilities:		
Compensated absences, noncurrent portion	749,970	2,021,184
Long-term debt, noncurrent portion	235,122,336	184,179,990
Total noncurrent liabilities	235,872,306	186,201,174
Total liabilities	256,826,185	204,887,528
NET ASSETS		
Investments in capital assets, net of related debt	55,447,680	51,689,011
Restricted - expendable	27,849,093	24,806,903
Unrestricted	56,167,837	52,709,106
Total net assets	139,464,610	129,205,020
Total liabilities and net assets	$ 396,290,795	$ 334,092,548

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2007	2006
OPERATING REVENUES		
Tuition and fees	$ 13,327,820	$ 13,580,091
Less: scholarship discount and allowance	6,160,541	7,248,443
Net tuition and fees	7,167,279	6,331,648
Grants and contracts, non-capital:		
Federal	22,574,784	22,939,405
State	19,152,136	17,429,044
Local	1,679,494	1,819,530
Auxiliary enterprise sales and charges	8,229,636	7,729,547
Other operating revenues	1,777,790	1,691,159
Total operating revenues	60,581,119	57,940,333
OPERATING EXPENSES		
Salaries	73,316,544	69,182,428
Employee benefits	24,730,605	23,859,161
Payments to students	21,038,446	20,676,711
Supplies, materials, other operating expenses and services	21,849,758	18,128,949
Utilities	3,694,867	3,127,226
Depreciation and amortization expense	5,661,500	4,586,046
Total operating expenses	150,291,720	139,560,521
OPERATING LOSS	(89,710,601)	(81,620,188)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	50,004,668	43,243,104
Local property taxes, non-capital	38,323,413	34,830,249
State taxes and other revenues	3,514,057	3,585,297
Investment income, non-capital	8,591,861	4,743,289
Interest expense, capital asset-related debt	(10,456,787)	(8,995,522)
Other non-operating expense	(901,144)	(1,048,745)
Total non-operating revenues (expenses)	89,076,068	76,357,672
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(634,533)	(5,262,516)
State apportionments, capital	4,618,923	6,842,532
Local property taxes and revenues, capital	6,275,200	7,015,572
INCREASE IN NET ASSETS	10,259,590	8,595,588
NET ASSETS, BEGINNING OF YEAR	129,205,020	120,609,432
NET ASSETS, END OF YEAR	$ 139,464,610	$ 129,205,020

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 6,254,426	$ 6,481,608
Federal grants and contracts	21,382,928	24,831,800
State grants and contracts	20,898,619	18,762,619
Local grants and contracts	1,918,870	1,399,988
Payments to/on behalf of employees	(72,382,964)	(70,299,640)
Payments for benefits	(24,730,605)	(23,859,161)
Payments for scholarships and grants	(21,038,446)	(20,676,711)
Payments to suppliers	(24,152,882)	(15,707,402)
Payments for utilities	(3,694,867)	(3,127,226)
Auxiliary enterprise sales and charges	8,551,111	7,885,645
Other receipts (payments)	702,460	1,168,132
Net cash used by operating activities	(86,291,350)	(73,140,348)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	50,269,810	41,015,250
Local property taxes	38,323,413	34,830,249
State taxes and other revenues	3,514,057	3,585,297
Other receipts (payments)	(901,144)	(1,048,745)
Net cash provided (used) by non-capital financing activities	91,206,136	78,382,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	4,618,923	6,842,532
Purchases of capital assets	(10,983,739)	(34,269,699)
Interest paid on capital debt	(7,889,031)	(8,156,460)
Principal paid on capital debt	(3,685,000)	(54,275,000)
Proceeds from capital debt	52,518,167	60,143,359
Local property taxes, capital	6,275,200	7,015,572
Net cash provided (used) by capital and related financing activities	40,854,520	(22,699,696)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	8,597,931	11,253,482
Purchase of investments	(13,197,750)	(25,211,775)
Interest on investments	8,591,861	4,743,289
Net cash provided (used) by investing activities	3,992,042	(9,215,004)
NET CHANGE IN CASH AND CASH EQUIVALENTS	49,761,348	(26,672,997)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,224,063	126,897,060
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 149,985,411	$ 100,224,063

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2007	2006
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 13,543,328	$ 9,879,672
Restricted cash (current)	136,442,083	90,344,391
Total cash and cash equivalents	$ 149,985,411	$ 100,224,063
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (89,710,601)	$ (81,620,188)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	5,661,500	4,586,046
Write-off of previous construction in progress	-	174,488
(Increase) decrease in:		
Accounts receivable, net	(2,308,095)	6,155,517
Prepaid expenses	56,242	277,266
Inventories	40,278	(312,821)
Increase (decrease) in:		
Accounts payable	(934,115)	(2,529,727)
Deferred revenue	794,714	377,107
Amounts held for others	(16,566)	(6,753)
Compensated absences	125,293	(241,283)
Net cash used by operating activities	$ (86,291,350)	$ (73,140,348)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	$ 854,466	$ 805,251

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

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District’s annual financial statements using the blending method.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

Exceptions to the accrual basis of accounting are as follows:

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of operations.

RESTRICTED CASH AND INVESTMENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 2,309,640

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was $267,424 and $910,114 for the years ended June 30, 2007 and 2006, respectively.

NET ASSETS

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

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

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

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

STATE APPORTIONMENTS

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

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KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

RECLASSIFICATIONS

Certain reclassifications have been made to fiscal year 2006 amounts in order to conform to the fiscal year 2007 presentation. Specifically, $1,806,982 of accretion of accumulated accretion on capital appreciation bonds has been moved from accounts payable in the prior year to long-term debt in the current year.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2007 and 2006, are displayed on the statement of net assets as follows:

	June 30, 2007	June 30, 2006
Cash and cash equivalents	$ 13,543,328	$ 9,879,672
Restricted cash and cash equivalents	136,442,083	90,344,391
Total cash and cash equivalents	$ 149,985,411	$ 100,224,063

Deposits – At June 30, 2007 and 2006, the carrying amount of the District's deposits is summarized as follows:

	June 30, 2007	June 30, 2006
Cash in County Treasury	$ 113,844,945	$ 64,998,678
Cash on hand and in banks	9,573,246	4,491,134
Cash held by Trustees	26,567,220	30,734,251
Total deposits	$ 149,985,411	$ 100,224,063

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.20 and 1.26 years at June 30, 2007 and 2006, respectively.

As of the date of these financial statements, the County of Kern's 2007 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $180,000 and $200,000 of the bank balances at June 30, 2007 and 2006, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

As of June 30, 2007 and 2006, the District's investments and deposits are as follows:

	June 30,	
	2007	2006
Investments in LAIF	$ 805,274	$ 766,797
Bank clearing account	3,937,091	3,382,931
Certificates of Deposit	7,505,107	6,123,612
Money Market	339,069	2,650,842
Corporate Bonds and Notes	8,694,115	7,573,314
Government Bonds and Notes	23,760,470	19,943,811
Total investments	$ 45,041,126	$ 40,441,307

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

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

June 30, 2007		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 805,274	$ 805,274	$ -	$ -
Bank clearing account	3,937,091	3,937,091	-	-
Certificates of Deposit	7,505,107	965,789	6,539,318	-
Money Market	339,069	339,069	-	-
Corporate Bonds and Notes	8,694,115	298,290	8,395,825	-
Government Bonds and Notes	23,760,470	2,694,633	21,065,837	-
Total investments	$ 45,041,126	$ 9,040,146	$ 36,000,980	$ -

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS (Continued)

June 30, 2006 Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 766,797	$ 766,797	$ -	$ -
Bank clearing account	3,382,931	3,382,931	-	-
Certificates of Deposit	6,123,612	803,747	5,319,865	-
Money Market	2,650,842	2,650,842	-	-
Corporate Bonds and Notes	7,573,314	583,693	6,989,621	-
Government Bonds and Notes	19,943,811	2,491,731	17,452,080	-
Total investments	$ 40,441,307	$ 10,679,741	$ 29,761,566	$ -

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

June 30, 2007 Investment Type	Fair Value	Investment Ratings AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 805,274	$ -	$ -	$ -	$ -	$ 805,274
Bank clearing account	3,937,091	3,937,091	-	-	-	-
Certificates of Deposit	7,505,107	7,505,107	-	-	-	-
Money Market	339,069	339,069	-	-	-	-
Corporate Bonds and Notes	8,694,115	-	3,659,377	5,034,738	-	-
Government Bonds and Notes	23,760,470	23,760,470	-	-	-	-
Total investments	$ 45,041,126	$ 35,541,737	$ 3,659,377	$ 5,034,738	$ -	$ 805,274

June 30, 2006 Investment Type	Fair Value	Investment Ratings AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 766,797	$ -	$ -	$ -	$ -	$ 766,797
Bank clearing account	3,382,931	3,382,931	-	-	-	-
Certificates of Deposit	6,123,612	6,123,612	-	-	-	-
Money Market	2,650,842	2,650,842	-	-	-	-
Corporate Bonds and Notes	7,573,314	-	2,440,509	5,132,805	-	-
Government Bonds and Notes	19,943,811	19,943,811	-	-	-	-
Total investments	$ 40,441,307	$ 32,101,196	$ 2,440,509	$ 5,132,805	$ -	$ 766,797

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, consist of the following:

	June 30,	
	2007	2006
Tuition and fees	$ 2,062,821	$ 1,394,060
Less allowance for doubtful accounts	755,980	514,240
Tuition and fees, net	1,306,841	879,820
Federal grants and contracts	2,496,805	1,454,506
State grants and contracts	1,409,700	1,727,799
Local grants and contracts	372,612	610,269
State apportionment, taxes and other revenues	5,953,552	6,218,694
Unbilled construction receivables	1,287,623	630,381
Auxiliaries	223,878	545,353
Other	2,662,262	1,603,498
Total	$ 15,713,273	$ 13,670,320

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 2,739,429	$ -	$ -	$ 12,559,000	$ 15,298,429
Joint use facilities agreements	5,139,640	-	-	1,170,000	6,309,640
Construction in progress	38,415,972	9,811,555	-	(17,903,463)	30,324,064
Total nondepreciable assets	$ 46,295,041	$ 9,811,555	$ -	$ (4,174,463)	$ 51,932,133
Depreciable capital assets:					
Site improvements	$ 6,384,266	$ 46,874	$ -	$ (745,198)	$ 5,685,942
Buildings	143,583,205	133,012	-	2,460,236	146,176,453
Equipment	12,848,258	741,850	-	58,188	13,648,296
Computer equipment	8,060,907	204,918	-	2,401,237	10,667,062
Vehicles	1,802,685	45,530	-	-	1,848,215
	172,679,321	1,172,184	-	4,174,463	178,025,968
Less accumulated depreciation:					
Site improvements	3,526,328	291,851	-	(89,941)	3,728,238
Buildings	28,491,476	2,759,714	-	89,941	31,341,131
Equipment	6,039,211	1,133,114	-	-	7,172,325
Computer equipment	6,113,458	1,336,675	-	-	7,450,133
Vehicles	1,241,051	140,146	-	-	1,381,197
	45,411,524	5,661,500	-	-	51,073,024
Total depreciable assets, net	$ 127,267,797	$ (4,489,316)	$ -	$ 4,174,463	$ 126,952,944

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 2,739,429	$ -	$ -	$ -	$ 2,739,429
Joint use facilities agreements		-	5,139,640	-	-
5,139,640					
Construction in progress	49,269,617	28,003,346	(174,488)	(38,682,503)	38,415,972
Total nondepreciable assets	$ 52,009,046	$ 33,142,986	$ (174,488)	$ (38,682,503)	$ 46,295,041
Depreciable capital assets:					
Site improvements	$ 6,161,067	$ 33,430	$ -	$ 189,769	$ 6,384,266
Buildings	111,207,588	119,464	-	32,256,153	143,583,205
Equipment	7,667,898	639,104	-	4,541,256	12,848,258
Computer equipment	6,082,523	283,059	-	1,695,325	8,060,907
Vehicles	1,751,029	51,656	-	-	1,802,685
	132,870,105	1,126,713	-	38,682,503	172,679,321
Less accumulated depreciation:					
Site improvements	3,232,634	293,694	-	-	3,526,328
Buildings	25,969,263	2,522,213	-	-	28,491,476
Equipment	5,246,684	792,527	-	-	6,039,211
Computer equipment	5,275,312	838,146	-	-	6,113,458
Vehicles	1,101,585	139,466	-	-	1,241,051
	40,825,478	4,586,046	-	-	45,411,524
Total depreciable assets, net	$ 92,044,627	$ (3,459,333)	$ -	$ 38,682,503	$ 127,267,797

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2007 and 2006, consist of the following:

	June 30, 2007	June 30, 2006
Accrued payroll and related liabilities	$ 4,226,277	$ 3,417,990
Construction payables	1,408,182	1,766,615
Interest payable	1,978,520	1,488,127
Other	2,858,429	4,242,398
Total	$ 10,471,408	$ 10,915,130

NOTE 6 SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2006 and 2005 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

Short-term debt activity for the year ended June 30, 2007 was as follows:

	June 30, 2006 Balance	Drawn	Repaid	June 30, 2007 Balance
Participation in California Community College Financing Authority 2006 Tax and Revenue Anticipation Bonds	$ -	$ -	$ -	$ -

Short-term debt activity for the year ended June 30, 2006 was as follows:

	June 30, 2005 Balance	Drawn	Repaid	June 30, 2006 Balance
Participation in California Community College Financing Authority 2005 Tax and Revenue Anticipation Bonds	$ -	$ 4,975,000	$ 4,975,000	$ -

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 85,031,225	$ -	$ 516,418	$ 84,514,807
Limited obligation improvement bonds	6,555,247	-	510,106	6,045,141
General obligation bonds	96,248,606	55,799,480	3,277,228	148,770,858
Lease obligations	46,704	-	16,790	29,914
Total	$ 187,881,782	$ 55,799,480	$ 4,320,542	$ 239,360,720
Compensated absences	$ 2,262,467	$ 1,763,083	$ 1,637,790	$ 2,387,760
Memo total	$ 190,144,249	$ 57,562,563	$ 5,958,332	$ 241,748,480

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of participation	$ 85,437,643	$ -	$ 406,418	$ 85,031,225
Limited obligation improvement bonds	7,060,353	-	505,106	6,555,247
General obligation bonds	89,366,895	61,719,484	54,837,773	96,248,606
Lease obligations	117,138	-	70,434	46,704
Total	$ 181,982,029	$ 61,719,484	$ 55,819,731	$ 187,881,782
Compensated absences	$ 2,503,750	$ 860,998	$ 1,102,281	$ 2,262,467
Memo total	$ 184,485,779	$ 62,580,482	$ 56,922,012	$ 190,144,249

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2007 and 2006:

	June 30, 2007	June 30, 2006
Certificates of Participation		
1998 Refunding Certificates of Participation issued in the original amount of $48,000,000 by the Corporation. Final maturity 2028. Interest rates 4.10% to 5.00%.	$ 45,065,000	$ 45,610,000
2004 Certificates of Participation issued in the original amount of $39,950,000 by the Corporation. Final maturity 2034. Interest rates at applicable Dutch Auction Rates until the Fixed Rate Conversion Date (to be determined).	39,950,000	39,950,000
Total certificates of participation	85,015,000	85,560,000
Discount on 1998 certificates of participation	(500,193)	(528,775)
Net certificates of participation	84,514,807	85,031,225
Limited Obligation Improvement Bonds		
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	6,090,000	6,605,000
Total limited obligation improvement bonds	6,090,000	6,605,000
Discount on limited obligation improvement bonds	(44,859)	(49,753)
Net limited obligation improvement bonds	6,045,141	6,555,247

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES (Continued)

	June 30, 2007	June 30, 2006
General Obligation Improvement Bonds		
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,856,310	7,860,360
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,225,821	4,168,835
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	18,582,392	20,712,977
Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	54,922,007	54,415,882
Bonds issued in the original amount of $49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	51,391,537	-
Total general obligation bonds	136,978,067	87,158,054
Premium on general obligation bonds	11,792,791	9,090,552
Net general obligation bonds	148,770,858	96,248,606

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30, 2007	June 30, 2006
Lease Obligations		
The District leases equipment with a cost of $81,528 and accumulated depreciation of $73,375 under lease/purchase agreements, which provide for title to pass upon expiration of the lease period.		
Future minimum lease payments are as follows:		
Year Ended June 30,		
2007	$ -	$ 20,350
2008	20,350	20,350
2009	11,874	11,874
Total	32,224	52,574
Less: Amount representing interest	2,310	5,870
Present value of net minimum lease payments	29,914	46,704
Total long-term debt	239,360,720	187,881,782
Less current portion	4,238,384	3,701,792
Total long-term debt, noncurrent portion	$ 235,122,336	$ 184,179,990

Refunded Debt

The 2005 General Obligation Improvement Bonds were issued to refund the Measure G Bonds. The District completed the refunding to reduce its debt service payments over the next 12 years by $775,000 and obtain an economic gain of $413,194. The District recognized a financial statement loss of $1,739,101 on the refunding and it is being amortized over the life of the new debt.

Accretion

General obligation bonds as of June 30, 2007 and 2006 have been increased by $4,252,462 and $1,806,982, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

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

Year Ended	Bonds			Bond	
June 30,	Principal	Interest	Total	Premium	Total
2008	$ 4,220,000	$ 8,086,137	$ 12,306,137	$ 653,572	$ 12,959,709
2009	4,695,000	7,945,082	12,640,082	653,572	13,293,654
2010	5,235,000	7,750,629	12,985,629	653,572	13,639,201
2011	5,620,000	7,541,845	13,161,845	653,572	13,815,417
2012	6,133,841	7,966,877	14,100,718	653,572	14,754,290
2013 – 2017	36,846,292	40,742,597	77,588,889	3,271,938	80,860,827
2018 – 2022	71,495,777	22,568,285	94,064,062	3,003,850	97,067,912
2023 – 2027	52,433,625	44,196,469	96,630,094	1,160,275	97,790,369
2028 – 2032	29,076,070	41,178,930	70,255,000	543,816	70,798,816
2033 – 2037	8,075,000	498,000	8,573,000	-	8,573,000
Total	$ 223,830,605	$ 188,474,851	412,305,456	11,247,739	423,553,195
Less interest (excluding accretion of $4,252,462)			184,222,389	-	184,222,389
Net principal			$ 228,083,067	$ 11,247,739	$ 239,330,806

NOTE 8 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2007 and 2006 were $369,010 and $378,005, respectively.

The future minimum lease payments as of June 30, 2007, are as follows:

Year Ended June 30,	Amount
2008	$ 363,854
2009	286,492
2010	53,747
2011	-
Total	$ 704,093

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

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

At June 30, 2007 and 2006, the District employed 394 and 436 certificated employees with a total annual payroll of $38,704,244 and $36,121,289, respectively.

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)* (Continued)

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2007 and 2006, were 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2007 and 2006, was 9.124% and 9.116% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2005	2006	2007
STRS	$ 3,226,198	$ 3,406,446	$ 3,528,274
PERS	1,910,658	1,797,436	1,839,564
Total	$ 5,136,856	$ 5,203,882	$ 5,367,838

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

NOTE 10 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 11 RISK MANAGEMENT

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

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2006		September 30, 2006
	SISC I	SISC II	SISC III
Total assets	$ 87,031,972	$ 25,446,753	$ 169,709,390
Total liabilities	69,285,255	23,596,341	89,889,667
Fund balance	$ 17,746,717	$ 1,850,412	$ 79,819,723
Total revenues	$ 28,143,828	$ 15,788,108	$ 677,877,968
Total expenditures	19,305,587	20,543,088	658,227,186
Net increase (decrease) in fund balance	$ 8,838,241	$ (4,754,980)	$ 19,650,782

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2006 and September 30, 2006, respectively.

Financial statements are available from SISC upon request.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 12 POST-RETIREMENT HEALTH CARE

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. Those and similar benefits for active employees are covered as described in Note 11. The District recognizes the cost of providing these benefits on a pay-as-you-go basis. On June 30, 2007 and 2006, 188 and 200 employees were eligible to receive those benefits. The amount of benefit expenses recognized during the years ended June 30, 2007 and 2006 for retired employees was $5,014,306 and $4,687,489, respectively.

In addition, the District paid $300,000 during the year ended June 30, 2007, to an irrevocable trust established through the District's membership in The Retiree Health Benefit Program Joint Powers Agency. This payment has been made in anticipation of the District adopting GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* no later than the year ended June 30, 2009.

As of the date of these financial statements, management was progressing toward the determination of the actuarial liability related to these benefits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 13 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2007. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,000,088	$ 407,950	$ 60,413	$ -	$ 1,468,451
Ancillary services	4,808,898	1,655,863	6,645,910	29,753	13,140,424
Auxiliary services	73,182	26,775	-	-	99,957
Community services and economic development	1,114,293	297,323	383,578	-	1,795,194
Depreciation expense	-	-	-	5,631,747	5,631,747
Institutional support services	7,910,736	4,911,108	5,520,079	-	18,341,923
Instructional administration	5,424,048	1,620,594	503,037	-	7,547,679
Instructional activities	38,515,565	11,436,731	3,601,239	-	53,553,535
Instructional support services	1,992,773	606,557	545,085	-	3,144,415
Long-term debt and other financing	-	-	107,517	-	107,517
Other student services	5,871,235	1,547,075	1,297,755	-	8,716,065
Physical property and related acquisitions	307,675	70,748	1,500,226	-	1,878,649
Planning policy making and coordination	1,185,460	402,158	856,270	-	2,443,888
Plant operations and maintenance	2,429,000	1,069,505	4,159,916	-	7,658,421
Student counseling and guidance	2,683,591	678,218	363,600	-	3,725,409
Transfers, student aid and other outgo	-	-	21,038,446	-	21,038,446
Total	$ 73,316,544	$ 24,730,605	$ 46,583,071	$ 5,661,500	$ 150,291,720

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 13 FUNCTIONAL EXPENSES
(Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2006. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 995,947	$ 416,342	$ 56,010	$ -	$ 1,468,299
Ancillary services	4,954,038	1,760,475	6,573,513	-	13,288,026
Auxiliary services	30,237	4,736	-	-	34,973
Community services and economic development	15,210	4,676	10,302	-	30,188
Depreciation expense	-	-	-	4,586,046	4,586,046
Institutional support	6,701,453	4,523,840	6,490,165	-	17,715,458
Instructional administration	5,052,844	1,459,379	1,314,682	-	7,826,905
Instructional activities	37,781,645	11,315,795	2,437,720	-	51,535,160
Instructional support services	1,534,048	538,252	451,403	-	2,523,703
Long-term debt	-	-	61,138	-	61,138
Other	-	-	-	-	-
Physical property and related acquisitions	213,134	38,634	(1,510,384)	-	(1,258,616)
Planning policy making	1,528,145	523,121	597,288	-	2,648,554
Plant operations and maintenance	2,553,691	1,121,255	3,941,316	-	7,616,262
Student counseling and guidance	2,365,775	635,671	69,940	-	3,071,386
Student services	5,456,261	1,516,985	763,082	-	7,736,328
Transfers, student aid and other outgo	-	-	20,676,711	-	20,676,711
Total	$ 69,182,428	$ 23,859,161	$ 41,932,886	$ 4,586,046	$ 139,560,521

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 14 COMMITMENTS

As of June 30, 2007, the District had unfinished construction contracts under the following project categories:

Bakersfield College Fine Arts HVAC Replacement	$ 286,847
Bakersfield College Fine Arts Re-roof	207,750
Bakersfield College Language Arts HVAC Replacement	12,392
Bakersfield College Weight Room HVAC	66,015
Cerro Coso Community College Gym Roof	8,300
Cerro Coso Community College Security Systems	152,570
Porterville College Child Development Center Relocatables	112,702
Porterville College Library Expansion	12,248,756
	$ 13,095,332

As of June 30, 2006, the District had unfinished construction contracts under the following project categories:

Bakersfield College Applied Science and Technology Modernization	$ 666,000
Bakersfield College Planetarium Modernization	24,745
Bakersfield College Southwest Center Modernization	1,161,735
Cerro Coso Community College Fine Arts Modernization	332,696
Cerro Coso Community College Administration Building Asbestos Abatements	33,000
Porterville College Child Development Center Relocatables	1,252,850
Porterville College Library Expansion	744,322
Porterville College Science Modernization	489,893
Porterville College Wellness Center Modernization	511,466
	$ 5,216,707

NOTE 15 CHANGE IN REPORTING ENTITY

In previous years, fiduciary funds were excluded from the entity-wide financial statements. During the current year, management re-defined the reporting entity based on industry practices to include all fiduciary funds under the control of the District. Accordingly, the entity-wide statements of the District now include all of the funds of the District.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE 15 CHANGE IN REPORTING ENTITY
(Continued)

The fiduciary funds added to the reporting entity due to this re-definition are: Associated Students Trust Fund; Student Representation Fee Trust Fund; and Student Body Fee Trust Fund.

Because of the fiduciary nature of these funds, income and expenses of these funds are not included in the reporting entity and any change in assets or liabilities of these funds cause a corresponding increase or decrease in the liability account, Amounts Held for Others.

Accordingly, this change had no impact on Net Assets of the prior period. Assets and liabilities as of June 30, 2006 have been restated in these financial statements.

	As Previously Reported	Trust and Agency	As Revised
Assets	$ 332,953,588	$ 1,138,960	$ 334,092,548
Liabilities	203,748,568	1,138,960	204,887,528

NOTE 16 SUBSEQUENT EVENTS

On November 16, 2007, the Kern Community College District refunded its 1998 Refunding Certificates of Participation. The District issued $47,275,000 of Auction Rate Securities. The securities are 7-Day Auction Rate securities. Auctions will occur every Thursday with interest payments due every Friday. Lease payments will occur in January of each year. The COP’s mature on January 1, 2025.

KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2007

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Mrs. Kay S. Meek	President	Southwest Bakersfield	December 2008
Mr. Stuart O. Witt	Vice President	Ridgecrest	December 2010
Mr. John A. Rodgers	Clerk	Central Bakersfield	December 2010
Ms. Rose Marie Bans	Member	Northeastern Kern County	December 2008
Mr. Dennis Beebe	Member	Southwest Bakersfield	December 2008
Mr. John Corkins	Member	Porterville	December 2010
Mrs. Pauline Larwood	Member	Central Bakersfield	December 2010

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Greg Chamberlain	Associate Chancellor, Educational Services
Mr. Victor R. Collins	Interim Vice Chancellor, Human Resources

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
Passed through State Department of Education -		
Child Care Food Program	10.555	$ 385,207
Total Department of Agriculture		385,207
Department of Education:		
Federal Supplemental Educational Opportunity Grants	84.007	553,744
Higher Education - Institutional Aid	84.031	985,521
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	494,597
TRIO - Student Support Services	84.042	237,500
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	344,007
Federal Pell Grant Program	84.063	17,114,122
Fund for the Improvement of Postsecondary Education (FIPSE)	84.116	-
Vocational Education - Tech Prep Education	84.243	990,374
Academic Competitiveness Grant	84.375	17,775
Total Department of Education		20,737,640
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	226,430
Child Development Block Grant	93.575	41,197
Total Department of Health and Human Services		267,627
Small Business Administration		
Passed through Regents University of CA -		
SBDC UC Merced	59.037	146,173
Passed through College of Sequoia -		
Title V COS Cooperative	59.037	279,867
Total Small Business Administration		426,040
Total Federal Expenditures		$ 21,816,514

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

YEAR ENDED JUNE 30, 2007

	Program Revenues				
Description	Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Income	Total	Total Program Expenditures
Extended Opportunity Programs and Services	$ 2,229,810	$ 198,100	$ -	$ 2,427,910	$ 2,453,797
CalGrant	2,651,373	(96,878)	-	2,554,495	2,554,494
Disabled Students Programs and Services	2,032,567	175,069	-	2,207,636	2,197,146
CalWorks	858,471	-	(36,910)	821,561	768,285
Matriculation	1,159,832	109,384	-	1,269,216	1,440,880
Foster Parent	112,914	(41,339)	-	71,575	163,206
Economic Development Nursing	(1,018)	(17,602)	-	(18,620)	998
IDRC Grant	278,875	-	(184,352)	94,523	94,524
Project Care	348,471	29,963	-	378,434	378,434
BFAP	840,872	73,120	-	913,992	910,747
Small Business Center	135,503	23,999	-	159,502	153,825
Center for Excellence	101,100	16,400	-	117,500	85,838
REBRAC	143,340	(5,850)	-	137,490	229,634
Workplace Learning Center	200,820	77	-	200,897	204,911
Instructional Equipment Ongoing	184,663	16,056	-	200,719	58,951
PC Development Service	159,360	20,988	-	180,348	95,124
PC Development Center	440,985	41,073	-	482,058	450,158
TTIP	101,283	50,186	-	151,469	145,101
Psych Tech	620,989	(41,241)	-	579,748	582,287
Block Grant	749,139	-	-	749,139	351,775
Career Tech Equipment	634,589	-	-	634,589	634,998
Basic Skills	412,189	175,235	-	587,424	140,196
All other categorical	402,627	409,024	-	811,651	764,142
	$ 14,798,754	$ 1,135,764	$ (221,262)	$ 15,713,256	$ 14,859,451

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

ANNUALIZED ATTENDANCE AS OF JUNE 30, 2007

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2006 Only)			
1. Noncredit	13.23		13.23
2. Credit	164.66		164.66
B. Summer Intersession (Summer 2007 Prior to July 1, 2007)			
1. Noncredit	-		-
2. Credit	1,505.68		1,505.68
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Noncredit	12,191.70		12,191.70
(b) Credit	699.87		699.87
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	187.31		187.31
(b) Credit	1,790.96		1,790.96
3. Independent Study/Work Experience Education Courses			
(a) Weekly Census Procedure Courses	1,442.66		1,442.66
(b) Daily Census Procedure Courses	291.52		291.52
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	18,287.59		18,287.59
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	583.75		583.75
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	79.05		79.05
2. Credit	1,423.20		1,423.20
CCFS-320 Addendum			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	1.71		1.71
2. Credit	3,559.59		3,559.59

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2007 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 20,578,339	$ 19,160,088	$ 43,014,741	$ (101,725)	$ 205,725
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	1,319,888	433,707	55,093	244,155	-
Audit adjustments	-	-	-	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	-	-	-	1
Net adjustments and reclassifications	1,319,888	433,707	55,093	244,155	1
June 30, 2007 District Accounting Records Fund Balance	$ 21,898,227	$ 19,593,795	$ 43,069,834	$ 142,430	$ 205,726

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ 112,971,070	$ 2,275,591	$ (217,383)	$ 47,344	$ 110,884	$ 442	$ 27,997	$ 501,538
612,061	144,571	47,273	43,547	(109,984)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(442)	(27,997)	(501,538)
-	-	-	-	-	-	-	-
612,061	144,571	47,273	43,547	(109,984)	(442)	(27,997)	(501,538)
$ 113,583,131	$ 2,420,162	$ (170,110)	$ 90,891	$ 900	$ -	$ -	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 13,898,319	$ -	$ (2,534,913)	$ (96,547)
Restricted cash	7,191,694	19,501,630	-	-
Accounts receivable	10,648,124	175,140	563,621	296,345
Prepaid expenses	503,169	-	-	-
Inventories	-	-	-	-
Due from other funds	56,310	-	-	-
Total current assets	32,297,616	19,676,770	(1,971,292)	199,798
Noncurrent assets:				
Restricted investments	-	-	45,041,126	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	45,041,126	-
Total assets	$ 32,297,616	$ 19,676,770	$ 43,069,834	$ 199,798
LIABILITIES				
Accounts payable	$ 6,984,237	$ 7,975	$ -	$ 7,368
Deferred revenue	3,415,152	-	-	50,000
Due to other funds	-	75,000	-	-
Amounts held for others	-	-	-	-
Total liabilities	10,399,389	82,975	-	57,368
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	19,593,795	43,069,834	-
Reserved for special purposes	6,108,807	-	-	142,430
Unreserved:				
Undesignated	15,789,420	-	-	-
Total fund equity (deficit)	21,898,227	19,593,795	43,069,834	142,430
Total liabilities and fund equity (deficit)	$ 32,297,616	$ 19,676,770	$ 43,069,834	$ 199,798

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ 205,726	$ 2,168,805	$ 108,498	$ (206,560)	$ -	$ -	$ -
-	109,502,056	-	-	56,872	(932,563)	519,524
-	2,930,901	348,709	24,691	34,019	933,463	-
-	-	-	-	-	-	-
-	-	1,383,503	17,008	-	-	-
-	270	-	-	-	-	-
205,726	114,602,032	1,840,710	(164,861)	90,891	900	519,524
-	-	-	-	-	-	-
-	-	660,945	-	-	-	-
-	-	660,945	-	-	-	-
$ 205,726	$ 114,602,032	$ 2,501,655	$ (164,861)	$ 90,891	$ 900	$ 519,524
$ -	$ 1,020,121	$ 79,942	$ 5,249	$ -	$ -	$ -
-	17,200	1,551	-	-	-	-
-	(18,420)	-	-	-	-	-
-	-	-	-	-	-	519,524
-	1,018,901	81,493	5,249	-	-	519,524
-	-	-	-	-	-	-
205,726	113,583,131	2,420,162	(170,110)	90,891	900	-
-	-	-	-	-	-	-
205,726	113,583,131	2,420,162	(170,110)	90,891	900	-
$ 205,726	$ 114,602,032	$ 2,501,655	$ (164,861)	$ 90,891	$ 900	$ 519,524

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 13,543,328
Restricted cash	45,389	557,481	136,442,083
Accounts receivable	-	-	15,955,013
Prepaid expenses	-	-	503,169
Inventories	-	-	1,400,511
Due from other funds	-	-	56,580
Total current assets	45,389	557,481	167,900,684
Noncurrent assets:			
Restricted investments	-	-	45,041,126
Capital assets, net	-	-	660,945
Total noncurrent assets	-	-	45,702,071
Total assets	$ 45,389	$ 557,481	$ 213,602,755
LIABILITIES			
Accounts payable	$ -	$ -	$ 8,104,892
Deferred revenue	-	-	3,483,903
Due to other funds	-	-	56,580
Amounts held for others	45,389	557,481	1,122,394
Total liabilities	45,389	557,481	12,767,769
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	62,663,629
Reserved for special purposes	-	-	122,381,937
Unreserved:			
Undesignated	-	-	15,789,420
Total fund equity (deficit)	-	-	200,834,986
Total liabilities and fund equity (deficit)	$ 45,389	$ 557,481	$ 213,602,755

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$ 13,294,910	$ -	$ -	$ -
Less: scholarship discount and allowance	6,160,541	-	-	-
Net tuition and fees	7,134,369	-	-	-
Grants and contracts, non-capital:				
Federal	4,733,774	-	-	316,473
State	13,523,959	-	-	3,822,821
Local	1,625,341	-	-	-
Auxiliary enterprise sales and charges	35,917	-	-	-
Other operating revenues	436,966	2,577,172	-	90,662
Total operating revenues	27,490,326	2,577,172	-	4,229,956
OPERATING EXPENDITURES/EXPENSES				
Salaries	68,641,174	-	-	2,974,632
Employee benefits	23,189,804	-	-	1,089,144
Payments to students	826,833	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	13,685,025	88,959	2,572,503	351,537
Capital outlay	1,643,407	-	-	-
Utilities	3,623,074	-	-	63,670
Depreciation	-	-	-	-
Total operating expenditures/expenses	111,609,317	88,959	2,572,503	4,478,983
OPERATING INCOME (LOSS)	(84,118,991)	2,488,213	(2,572,503)	(249,027)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	50,004,668	-	-	-
Local property taxes	38,323,413	-	-	-
State taxes and other revenues	3,477,691	36,366	-	-
Investment income, non-capital	783,135	901,708	2,763,083	22,767
Debt service	-	(11,557,241)	-	-
Other non-operating expenditures/expenses	(901,144)		-	-
Total non-operating revenues (expenditures)	91,687,763	(10,619,167)	2,763,083	22,767

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ -	$ 32,635	$ -	$ 275	$ -	$ -	$ -
-	-	-	-	-	-	-
-	32,635	-	275	-	-	-
-	-	-	-	417,646	17,106,891	-
-	-	-	-	-	2,554,495	-
28,233	64,231	(27,374)	(10,937)	-	-	-
-	-	7,100,515	1,093,204	-	-	-
-	877,712	347,684	-	-	-	-
28,233	974,578	7,420,825	1,082,542	417,646	19,661,386	-
-	197,159	985,629	392,653	-	-	-
-	41,345	249,011	161,301	-	-	-
-	-	-	-	440,243	19,771,370	-
11,224	10,232,150	5,588,685	534,268	-	-	-
6,542	57,512	-	-	-	-	-
-	-	1,303	6,820	-	-	-
-	-	30,220	-	-	-	-
17,766	10,528,166	6,854,848	1,095,042	440,243	19,771,370	-
10,467	(9,553,588)	565,977	(12,500)	(22,597)	(109,984)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,117,896	3,272	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,117,896	3,272	-	-	-	-

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	7,568,772	(8,130,954)	190,580	(226,260)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	6,275,200	-	-
Excess of revenues over (under) expenditures	7,568,772	(1,855,754)	190,580	(226,260)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,121,894	-	255,000	67,198
Operating transfers out	(2,146,039)	-	-	(21,712)
Limited obligation improvement bonds issued	-	2,518,634	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	(24,145)	2,518,634	255,000	45,486
Excess of revenues and other financing sources over (under) expenditures and other financing uses	7,544,627	662,880	445,580	(180,774)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR, AS RESTATED	14,353,600	18,930,915	42,624,254	323,204
FUND EQUITY (DEFICIT), END OF YEAR	$ 21,898,227	$ 19,593,795	$ 43,069,834	$ 142,430

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
10,467	(5,435,692)	569,249	(12,500)	(22,597)	(109,984)	-
-	3,869,784	-	-	-	-	-
-	-	-	-	-	-	-
10,467	(1,565,908)	569,249	(12,500)	(22,597)	(109,984)	-
-	1,849,763	-	-	48,735	-	-
-	(1,849,763)	(300,000)	-	(25,076)	-	-
-	49,999,533	-	-	-	-	-
-	-	-	-	-	-	-
-	49,999,533	(300,000)	-	23,659	-	-
10,467	48,433,625	269,249	(12,500)	1,062	(109,984)	-
195,259	65,149,506	2,150,913	(157,610)	89,829	110,884	-
$ 205,726	$ 113,583,131	$ 2,420,162	$ (170,110)	$ 90,891	$ 900	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 13,327,820
Less: scholarship discount and allowance	-	-	6,160,541
Net tuition and fees	-	-	7,167,279
Grants and contracts, non-capital:			
Federal	-	-	22,574,784
State	-	-	19,901,275
Local	-	-	1,679,494
Auxiliary enterprise sales and charges	-	-	8,229,636
Other operating revenues	-	-	4,330,196
Total operating revenues	-	-	63,882,664
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	73,191,247
Employee benefits	-	-	24,730,605
Payments to students	-	-	21,038,446
Supplies, materials, and other operating expenditures/expenses and services	-	-	33,064,351
Capital outlay	-	-	1,707,461
Utilities	-	-	3,694,867
Depreciation	-	-	30,220
Total operating expenditures/expenses	-	-	157,457,197
OPERATING INCOME (LOSS)	-	-	(93,574,533)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	50,004,668
Local property taxes	-	-	38,323,413
State taxes and other revenues	-	-	3,514,057
Investment income, non-capital	-	-	8,591,861
Debt service	-	-	(11,557,241)
Other non-operating expenditures/expenses	-	-	(901,144)
Total non-operating revenues (expenditures)	-	-	87,975,614

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	$ (5,598,919)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	3,869,784
Local property taxes and revenues, capital	-	-	6,275,200
Excess of revenues over (under) expenditures	-	-	4,546,065
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	4,342,590
Operating transfers out	-	-	(4,342,590)
Limited obligation improvement bonds issued	-	-	52,518,167
Payment to refunded bond escrow agent	-	-	-
Total other financing sources (uses)	-	-	52,518,167
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	57,064,232
FUND EQUITY (DEFICIT), BEGINNING OF YEAR, AS RESTATED	-	-	143,770,754
FUND EQUITY (DEFICIT), END OF YEAR	$ -	$ -	$ 200,834,986

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2007

Total Fund Equity - District Funds Included in the Reporting Entity		$ 200,834,986
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 177,047,753	
Accumulated depreciation	(50,755,754)	126,291,999
Nondepreciable capital assets		51,932,133
Deferred costs, net		4,762,228
Additional Allowance for Doubtful Accounts		(241,740)
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,978,520)
Retentions payable		(387,996)
Compensated absences	(2,387,760)	
Long-term debt	(239,360,720)	(241,748,480)
Net assets reported within the GASB 35 Statement of Net Assets		$ 139,464,610

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ 57,064,232
Compensated absence expense addition reported within GASB 35 Statements	(125,297)
Depreciation expense reported within GASB 35 Statements	(5,631,280)
Additional Allowance for Doubtful accounts reported within GASB 35 Statements	(241,740)
Amortization of bond issuance cost reported within the GASB 35 Statements	(267,424)
Amortization of bond premium reported within the GASB 35 Statements	618,750
Capital outlay expense not reported within the GASB 35 Statements	10,982,592
Retentions payable reported within the GASB 35 Statements	(387,996)
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(2,935,872)
Costs from issuance of bonds not reported within the GASB 35 Statements	835,832
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(53,353,999)
Principal payments on debt not reported within the GASB 35 Statements	3,701,792
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 10,259,590

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

NOTE 1 PURPOSE OF SCHEDULES

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

The audit of the Kern Community College District for the year ended June 30, 2007 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

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

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2007, represents the basis of apportionment of the Kern Community College District's annual source of funding.

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

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted $1,836,965 in loans under the Federal Family Education Loan Program for the year ended June 30, 2007.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Redding, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the District in a separate letter dated December 21, 2007.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 21, 2007

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 21, 2007

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 21, 2007.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts

6. Apportionments – Enrollment Fee

7. Apportionments – Students Actively Enrolled

8. Open Enrollment

9. Minimum Conditions – "Standards of Scholarship"

10. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds

2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

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

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

In our opinion, except for the finding 2007-1, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 21, 2007

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The independent auditors' report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for Kern Community College District.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement.

8. The threshold for distinguishing Type A and B programs was $654,495.

9. Kern Community College District qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2007

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2007-1 – Concurrent Enrollment - Summer School

Statement of Condition: During our testing we noted that the District does not have a process in place that requires high school principals to certify that they are not recommending greater than 5% of the total number of pupils for concurrent enrollment in summer school. While this is a requirement for the high schools, the Chancellor's office requires that Community College District's obtain certifications (or documentation that is equivalent) from the high school districts.

Cause of Condition: District was aware of the requirement and sent out letters to the high school districts; however the District does not require the certifications in writing.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: The District should add a certification above the principal's signature line on the Summer concurrent enrollment forms.

Response: Below is question 16 from the Q&A document issued by the California Community College Chancellor's Office regarding SB 338.

Question 16: Who enforces the 5 percent limitation on summer session enrollments in section 48800(d)? It is the responsibility of the K-12 district to ensure that the 5 percent limitation on summer school enrollments is honored.

Based on this response from the Chancellor's office we disagree with your finding of non-compliance. However, we have no objection to implementing your recommendation and will do so for the summer 2008 term by adding a certification above the principal's signature line on the summer concurrent enrollment forms.

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

2006-1 – Noncredit Courses

Statement of Condition: During our testing in the prior year, we noted that the District did not perform self-assessments for all noncredit courses as requested by the state Chancellor's Office in April 2005. California districts were requested to perform self-assessments of all noncredit courses but were only required to submit the computer/library lab courses self-assessments to the Chancellor's office.

Recommendation: Management recommended that the District complete self-assessments of all noncredit courses as requested by the Chancellor's office.

Status: Management has completed self assessments of all noncredit courses and have implemented a program of review for all noncredit courses.

2006-2 – Receipt and Expenditure of Lottery Funds

Statement of Condition: During our testing we noted that while the District maintains a separate account for the receipt of lottery funds they do not have a separate account or subfund for the expenditure of lottery funds. These amounts are currently broken out manually for purposes of the 50% Law calculation.

Recommendation: We recommended that the District create an account or subfund to track the expenditure of lottery funds.

Status: During our current year audit, we noted that the District has a separate account to track lottery expenditures.

2005-1 – Apportionment for Instructional Service Agreements/Contracts

Statement of Condition: During our testing in the prior year we noted that the instructional service agreement with the City of Bakersfield did not contain the required certification that the direct education costs of the activity were not fully funded through other sources.

Recommendation: We recommended that the District develop procedures to assure that all new instructional service agreements contain the required language.

Status: During our current year audit, we noted that the District included the required language in all new agreements.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, during our audit, we became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency.

This letter does not affect our report dated December 21, 2007, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None noted.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2006-A – RETURN OF TITLE IV FUNDS

Finding

During our testing we noted that the Title IV funds for recipients who withdrew were not being returned within 30 days of becoming aware that the student had dropped in accordance with the requirements for the return of Title IV funds.

Recommendation

The District should develop procedures to assure that all funds are returned within 30 days of notification that a student has dropped.

Status

The District implemented policies effective January 2005 to conform to the regulations related to the return of Title IV funds; however, in our current year audit we continued to note minor instances where the funds were not returned per the requirements due to the timing of the processing of drops. The District will continue to refine its processes to eliminate any instances of the funds being returned late.

2005-B – FRAUD RISK ASSESSMENT AND MONITORING

Finding

During our audit of the prior year, we noted that the Board does not have a formal system for overseeing the District's assessment of the risks of fraud and the programs and controls the District has established to mitigate these risks. In addition, the District does not have a formal system in place to assess the risks of fraud nor any formal programs or controls to mitigate these risks.

Recommendation

Though we noted no instances of fraud in the course of our audit, we recommended that the District develop a formal system to assess the risks of fraud and implement formal programs and controls to mitigate these risks. In addition, we recommended that the Board formalize a system to oversee the District's fraud risk assessment and monitoring process. These systems will help the District to reduce its susceptibility to loss due to fraud and appropriately address fraud should it occur.

Status

Management is investigating a third party reporting system and expects implementation by June 30, 2008.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2007. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

NYSTROM & COMPANY LLP
Certified Public Accountants

Nystrom & Company LLP

December 21, 2007

KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2008 AND 2007

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2008 AND 2007

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2008 AND 2007

INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.

To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.

To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.

To determine whether financial and financially related reports to state and federal agencies are presented fairly.

To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the California State Department of Finance. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2008, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nystrom & Company LLP

December 9, 2008

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

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

OVERVIEW

As the California State budget continues to significantly deteriorate the Kern Community College District keeps improving its financial strength in preparation for significant funding reductions from the State. This enhanced financial strength has resulted from continued ongoing benefits of the States SB 361 funding formula, District expenditure control efforts, the Board of Trustees reserve maximization initiative, and continued student growth. This has significantly increased overall reserves and positions the District to deal with future State funding reductions. The District also converted its two COP issuances to long term fixed rate debt. The District made these refundings in order to eliminate the economic uncertainties associated with the collapse of the Auction Rate Securities market and downgrades in the bond insurance company credit ratings.

The District's total assets grew from $396 million to $416 million, an increase of $20 million. There was little change in current assets over the previous year. The growth in assets is primarily attributable to change in noncurrent assets increasing from $229 million to $249 million. This growth was primarily due to increase in net depreciable capital assets of $19 million. Current liabilities, increased from $21 million to $24 million which was caused by an increase in deferred revenue of $1.3 million, an increase in the current portion of long term debt of $1.2 million and an increase in accounts payable of $832K. Noncurrent liabilities decreased from $236 million to $233 which was caused primarily by the required principle payments on long-term debt issuances.

Net assets increased from $139 million to $158 million. Investments in capital assets, net of related debt, increased $6 million. This was primarily due to revenues of investment income and local revenue exceeding GASB expenses. Unrestricted net assets increased $17 million. This was due to: (1) unrestricted revenues exceeding expenses by $11 million, (2) GASB accrued interest payable on LT debt decreasing $5 million (resulting in an increase in net assets,) (3) GASB debt issuance fees decreasing by $2 million, (4) Construction payables decreasing $1 million, and (5) an increase in District investments of $4 million. Restricted net assets decreased by $4 million. This was primarily due to a reduction in Capital Outlay of $1 million and a reduction in Debt Service of $3 million.

The major changes in revenue were an increase of $11 million in apportionment and local property taxes (non-capital) from $88 to $99 million. Federal and State grants increased $1.5 million, investment revenues increased $3.6 million State apportionments for capital projects increased $3.7 million and Capital gifts and grants increased $1.5 million. The end result was an increase in total revenues from $172 to $193 million which was an overall revenue increase of $21 million.

Expenditures increased by $13 million from $162 to $175 million. The largest increase was salaries ($4.3 million) driven by increases for all classes of employees. Employee benefits increased $303K due primarily to increased insurance premium costs. Payments to students increased $2.0 million. Supplies, Materials, Other Operating Expenses and Services increased $4.0 million due primarily to expenditures related to one time funding programs, grants and categorical programs as well as inflation. Depreciation and amortization expense increased $640K as a result of increased depreciable capital assets from the District's ongoing construction and equipment acquisitions.

STATEMENT OF NET ASSETS

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

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

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and

shows the sources and uses of those funds. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

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KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2008	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,403,090	$ 13,543,328
Restricted cash and cash equivalents	115,920,726	136,442,083
Accounts receivable, net	13,336,058	15,713,273
Prepaid expenses	25,446	503,169
Inventories	1,330,145	1,400,511
Total current assets	167,015,465	167,602,364
Noncurrent assets:		
Restricted investments	49,446,663	45,041,126
Depreciable capital assets, net	146,580,344	126,952,944
Nondepreciable capital assets	49,962,780	51,932,133
Deferred costs, net	2,642,783	4,762,228
Total noncurrent assets	248,632,570	228,688,431
Total assets	$ 415,648,035	$ 396,290,795
LIABILITIES		
Current liabilities:		
Accounts payable	$ 11,303,731	$ 10,471,408
Deferred revenue	4,788,564	3,483,903
Compensated absences, current portion	1,855,892	1,637,790
Long-term debt, current portion	5,476,529	4,238,384
Amounts held for others	1,076,112	1,122,394
Total current liabilities	24,500,828	20,953,879
Noncurrent liabilities:		
Compensated absences, noncurrent portion	570,205	749,970
Long-term debt, noncurrent portion	232,443,078	235,122,336
Total noncurrent liabilities	233,013,283	235,872,306
Total liabilities	257,514,111	256,826,185
NET ASSETS		
Investments in capital assets, net of related debt	61,158,634	55,447,680
Restricted - expendable	23,743,264	27,849,093
Unrestricted	73,232,026	56,167,837
Total net assets	158,133,924	139,464,610
Total liabilities and net assets	$ 415,648,035	$ 396,290,795

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2008	2007
OPERATING REVENUES		
Tuition and fees	$ 12,206,199	$ 13,327,820
Less: scholarship discount and allowance	5,350,950	6,160,541
Net tuition and fees	6,855,249	7,167,279
Grants and contracts, non-capital:		
Federal	23,475,796	22,574,784
State	20,497,347	19,901,275
Local	2,220,600	1,679,494
Auxiliary enterprise sales and charges	8,675,001	8,229,636
Other operating revenues	1,276,829	1,777,790
Total operating revenues	63,000,822	61,330,258
OPERATING EXPENSES		
Salaries	77,621,151	73,316,544
Employee benefits	25,033,603	24,730,605
Payments to students	23,000,382	21,038,446
Supplies, materials, other operating expenses and services	25,837,427	21,849,758
Utilities	3,409,309	3,694,867
Depreciation	6,301,702	5,661,500
Total operating expenses	161,203,574	150,291,720
OPERATING LOSS	(98,202,752)	(88,961,462)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	54,618,362	50,004,668
Local property taxes, non-capital	44,141,472	38,323,413
State taxes and other revenues	3,006,300	3,514,057
Investment income, non-capital	12,184,059	8,591,861
Interest expense, capital asset-related debt	(12,070,052)	(10,456,787)
Other non-operating expense	(1,480,922)	(901,144)
Total non-operating revenues (expenses)	100,399,219	89,076,068
INCOME BEFORE OTHER REVENUES AND EXPENSES	2,196,467	114,606
State apportionments, capital	7,527,327	3,869,784
Local property taxes and revenues, capital	7,474,320	6,275,200
Gifts and grants, capital	1,471,200	-
INCREASE IN NET ASSETS	18,669,314	10,259,590
NET ASSETS, BEGINNING OF YEAR	139,464,610	129,205,020
NET ASSETS, END OF YEAR	$ 158,133,924	$ 139,464,610

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 6,120,863	$ 6,254,426
Federal grants and contracts	23,644,995	21,382,928
State grants and contracts	20,298,367	20,898,619
Local grants and contracts	2,506,937	1,918,870
Payments to/on behalf of employees	(78,123,888)	(72,382,964)
Payments for benefits	(25,033,603)	(24,730,605)
Payments for scholarships and grants	(23,000,382)	(21,038,446)
Payments to suppliers	(22,941,513)	(24,152,882)
Payments for utilities	(3,409,309)	(3,694,867)
Auxiliary enterprise sales and charges	8,810,950	8,551,111
Other receipts	1,833,886	702,460
Net cash used by operating activities	(89,292,697)	(86,291,350)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	55,842,414	50,269,810
Local property taxes	44,141,472	38,323,413
State taxes and other revenues	3,172,473	3,514,057
Other receipts (payments)	(1,480,922)	(901,144)
Net cash provided by non-capital financing activities	101,675,437	91,206,136
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	7,527,327	4,618,923
Local property taxes, capital	7,474,320	6,275,200
Purchases of capital assets	(22,514,568)	(10,983,739)
Interest paid on capital debt	(10,401,162)	(7,889,031)
Principal paid on capital debt	(135,983,384)	(3,685,000)
Proceeds from capital debt	136,074,610	52,518,167
Net cash provided (used) by capital and related financing activities	(17,822,857)	40,854,520
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	34,401,536	8,597,931
Purchase of investments	(38,807,073)	(13,197,750)
Interest on investments	12,184,059	8,591,861
Net cash provided by investing activities	7,778,522	3,992,042
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,338,405	49,761,348
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	149,985,411	100,224,063
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 152,323,816	$ 149,985,411

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2008	2007
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 36,403,090	$ 13,543,328
Restricted cash and cash equivalents	115,920,726	136,442,083
Total cash and cash equivalents	$ 152,323,816	$ 149,985,411
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (98,202,752)	$ (88,961,462)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,301,702	5,661,500
(Increase) decrease in:		
Accounts receivable, net	242,970	(3,057,234)
Prepaid expenses	477,723	56,242
Inventories	70,366	40,278
Increase (decrease) in:		
Accounts payable	520,578	(934,115)
Deferred revenue	1,304,661	794,714
Amounts held for others	(46,282)	(16,566)
Compensated absences	38,337	125,293
Net cash used by operating activities	$ (89,292,697)	$ (86,291,350)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	$ 167,919	$ 854,466

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

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District's annual financial statements using the blending method.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

Exceptions to the accrual basis of accounting are as follows:

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of operations.

RESTRICTED CASH AND INVESTMENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 2,309,640

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was $167,919 and $267,424 for the years ended June 30, 2008 and 2007, respectively.

NET ASSETS

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

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

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

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

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

STATE APPORTIONMENTS

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

RECLASSIFICATIONS

Certain 2007 amounts have been reclassified to conform with the 2008 financial statement presentation.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2008 and 2007, are displayed on the statement of net assets as follows:

	June 30,	
	2008	2007
Cash and cash equivalents	$ 36,403,090	$ 13,543,328
Restricted cash and cash equivalents	115,920,726	136,442,083
Total cash and cash equivalents	$ 152,323,816	$ 149,985,411

Deposits – At June 30, 2008 and 2007, the carrying amount of the District's deposits is summarized as follows:

	June 30,	
	2008	2007
Cash in County Treasury	$ 126,626,631	$ 113,844,945
Cash on hand and in banks	7,817,214	9,573,246
Cash held by Trustees	17,879,971	26,567,220
Total deposits	$ 152,323,816	$ 149,985,411

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.29 and 1.26 years at June 30, 2008 and 2007, respectively.

As of the date of these financial statements, the County of Kern's 2008 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 2 CASH AND INVESTMENTS
(Continued)

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $323,402 and $180,000 of the bank balances at June 30, 2008 and 2007, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and/or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

As of June 30, 2008 and 2007, the District's investments and deposits are as follows:

	June 30,	
	2008	2007
Investments in LAIF	$ 845,430	$ 805,274
Bank clearing account	6,076,499	3,937,091
Certificates of Deposit	11,282,861	7,505,107
Money Market	232,680	339,069
Corporate Bonds and Notes	8,716,154	8,694,115
Government Bonds and Notes	22,293,039	23,760,470
Total investments	$ 49,446,663	$ 45,041,126

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

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

June 30, 2008		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 845,430	$ 845,430	$ -	$ -
Bank clearing account	6,076,499	6,076,499	-	-
Certificates of Deposit	11,282,861	682,987	10,599,874	-
Money Market	232,680	232,680	-	-
Corporate Bonds and Notes	8,716,154	-	8,716,154	-
Government Bonds and Notes	22,293,039	-	22,293,039	-
Total investments	$ 49,446,663	$ 7,837,596	$ 41,609,067	$ -

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 2 CASH AND INVESTMENTS (Continued)

June 30, 2007		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 805,274	$ 805,274	$ -	$ -
Bank clearing account	3,937,091	3,937,091	-	-
Certificates of Deposit	7,505,107	965,789	6,539,318	-
Money Market	339,069	339,069	-	-
Corporate Bonds and Notes	8,694,115	298,290	8,395,825	-
Government Bonds and Notes	23,760,470	2,694,633	21,065,837	-
Total investments	$ 45,041,126	$ 9,040,146	$ 36,000,980	$ -

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

June 30, 2008		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 845,430	$ -	$ -	$ -	$ -	$ 845,430
Bank clearing account	6,076,499	6,076,499	-	-	-	-
Certificates of Deposit	11,282,861	11,282,861	-	-	-	-
Money Market	232,680	232,680	-	-	-	-
Corporate Bonds and Notes	8,716,154	1,240,288	3,150,549	4,325,317	-	-
Government Bonds and Notes	22,293,039	22,293,039	-	-	-	-
Total investments	$ 49,446,663	$ 41,125,367	$ 3,150,549	$ 4,325,317	$ -	$ 845,430

June 30, 2007		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 805,274	$ -	$ -	$ -	$ -	$ 805,274
Bank clearing account	3,937,091	3,937,091	-	-	-	-
Certificates of Deposit	7,505,107	7,505,107	-	-	-	-
Money Market	339,069	339,069	-	-	-	-
Corporate Bonds and Notes	8,694,115	-	3,659,377	5,034,738	-	-
Government Bonds and Notes	23,760,470	23,760,470	-	-	-	-
Total investments	$ 45,041,126	$ 35,541,737	$ 3,659,377	$ 5,034,738	$ -	$ 805,274

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007, consist of the following:

	June 30,	
	2008	2007
Tuition and fees	$ 3,135,245	$ 2,062,821
Less allowance for doubtful accounts	1,500,000	755,980
Tuition and fees, net	1,635,245	1,306,841
Federal grants and contracts	2,327,606	2,496,805
State grants and contracts	2,573,606	1,409,700
Local grants and contracts	84,389	372,612
State apportionment	3,396,169	4,620,221
State taxes and other revenues	1,167,158	1,333,331
Unbilled construction receivables	1,450	1,287,623
Auxiliaries	87,929	223,878
Other	2,062,506	2,662,262
Total	$ 13,336,058	$ 15,713,273

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,298,429	$ -	$ -	$ 377,317	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	30,324,064	22,676,004	-	(25,022,674)	27,977,394
Total nondepreciable assets	$ 51,932,133	$ 22,676,004	$ -	$ (24,645,357)	$ 49,962,780
Depreciable capital assets:					
Site improvements	$ 5,685,942	$ -	$ -	$ 272,606	$ 5,958,548
Buildings	146,176,453	61,815	-	23,891,811	170,130,079
Equipment	13,648,296	584,247	-	75,338	14,307,881
Computer equipment	10,667,062	568,942	-	405,602	11,641,606
Vehicles	1,848,215	68,741	-	-	1,916,956
	178,025,968	1,283,745	-	24,645,357	203,955,070
Less accumulated depreciation:					
Site improvements	3,728,238	303,325	-	-	4,031,563
Buildings	31,341,131	2,914,431	-	-	34,255,562
Equipment	7,172,325	1,200,955	-	-	8,373,280
Computer equipment	7,450,133	1,741,150	-	-	9,191,283
Vehicles	1,381,197	141,841	-	-	1,523,038
	51,073,024	6,301,702	-	-	57,374,726
Total depreciable assets, net	$ 126,952,944	$ (5,017,957)	$ -	$ 24,645,357	$ 146,580,344

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2007, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 2,739,429	$ -	$ -	$ 12,559,000	$ 15,298,429
Joint use facilities agreements	5,139,640	-	-	1,170,000	6,309,640
Construction in progress	38,415,972	9,811,555	-	(17,903,463)	30,324,064
Total nondepreciable assets	$ 46,295,041	$ 9,811,555	$ -	$ (4,174,463)	$ 51,932,133
Depreciable capital assets:					
Site improvements	$ 6,384,266	$ 46,874	$ -	$ (745,198)	$ 5,685,942
Buildings	143,583,205	133,012	-	2,460,236	146,176,453
Equipment	12,848,258	741,850	-	58,188	13,648,296
Computer equipment	8,060,907	204,918	-	2,401,237	10,667,062
Vehicles	1,802,685	45,530	-	-	1,848,215
	172,679,321	1,172,184	-	4,174,463	178,025,968
Less accumulated depreciation:					
Site improvements	3,526,328	291,851	-	(89,941)	3,728,238
Buildings	28,491,476	2,759,714	-	89,941	31,341,131
Equipment	6,039,211	1,133,114	-	-	7,172,325
Computer equipment	6,113,458	1,336,675	-	-	7,450,133
Vehicles	1,241,051	140,146	-	-	1,381,197
	45,411,524	5,661,500	-	-	51,073,024
Total depreciable assets, net	$ 127,267,797	$ (4,489,316)	$ -	$ 4,174,463	$ 126,952,944

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2008 and 2007, consist of the following:

	June 30, 2008	June 30, 2007
Accrued payroll and related liabilities	$ 3,685,203	$ 4,226,277
Construction payables	2,853,363	1,408,182
Interest payable	845,084	1,978,520
Other	3,920,081	2,858,429
Total	$ 11,303,731	$ 10,471,408

NOTE 6 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 84,514,807	$ 131,798,660	$ 131,829,335	$ 84,484,132
Limited obligation improvement bonds	6,045,141	-	525,107	5,520,034
General obligation bonds	148,770,858	2,965,102	3,832,048	147,903,912
Lease obligations	29,914	-	18,385	11,529
Total	$ 239,360,720	$ 134,763,762	$ 136,204,875	$ 237,919,607
Compensated absences	$ 2,387,760	$ 1,894,229	$ 1,855,892	$ 2,426,097
Memo total	$ 241,748,480	$ 136,657,991	$ 138,060,767	$ 240,345,704

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 85,031,225	$ -	$ 516,418	$ 84,514,807
Limited obligation improvement bonds	6,555,247	-	510,106	6,045,141
General obligation bonds	96,248,606	55,799,480	3,277,228	148,770,858
Lease obligations	46,704	-	16,790	29,914
Total	$ 187,881,782	$ 55,799,480	$ 4,320,542	$ 239,360,720
Compensated absences	$ 2,262,467	$ 1,763,083	$ 1,637,790	$ 2,387,760
Memo total	$ 190,144,249	$ 57,562,563	$ 5,958,332	$ 241,748,480

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 6 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
Certificates of Participation		
1998 Refunding Certificates of Participation issued in the original amount of $48,000,000 by the Corporation. Final maturity 2028. Interest rates 4.10% to 5.00%.	$ -	$ 45,065,000
2004 Certificates of Participation issued in the original amount of $39,950,000 by the Corporation. Final maturity 2034. Interest rates at applicable Dutch Auction Rates until the Fixed Rate Conversion Date.	-	39,950,000
2008 Conversion of 2004 Variable Rate Certificates of Participation issued in the original amount of $40,280,000 by the Corporation. Final maturity 2034. Interest rates 3.50% to 4.75%.	40,280,000	-
Reoffering of 2007 Refunding Certificates of Participation issued in the original amount of $45,905,000 by the Corporation. Final maturity 2025. Interest rate 3.00% - 5.00%.	45,905,000	-
Total certificates of participation	86,185,000	85,015,000
Discount on certificates of participation	(1,700,868)	(500,193)
Net certificates of participation	84,484,132	84,514,807

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 6 LONG-TERM LIABILITIES
(Continued)

	June 30, 2008	June 30, 2007
Limited Obligation Improvement Bonds		
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	5,560,000	6,090,000
Total limited obligation improvement bonds	5,560,000	6,090,000
Discount on limited obligation improvement bonds	(39,966)	(44,859)
Net limited obligation improvement bonds	5,520,034	6,045,141
General Obligation Improvement Bonds		
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,827,114	7,856,310
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,287,418	4,225,821
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	16,201,584	18,582,392
Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	55,287,786	54,922,007

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 6 LONG-TERM LIABILITIES
(Continued)

	June 30, 2008	June 30, 2007
Bonds issued in the original amount of $49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	53,194,267	51,391,537
Total general obligation bonds	136,798,169	136,978,067
Premium on general obligation bonds	11,105,743	11,792,791
Net general obligation bonds	147,903,912	148,770,858

Lease Obligations

The District leases equipment with a cost of $81,528 and accumulated depreciation of $73,375 under lease/purchase agreements, which provide for title to pass upon expiration of the lease period.

Future minimum lease payments are as follows:

Year Ended June 30,	2008	2007
2008	$ -	$ 20,350
2009	11,874	11,874
Total	11,874	32,224
Less: Amount representing interest	345	2,310
Present value of net minimum lease payments	11,529	29,914
Total long-term debt	237,919,607	239,360,720
Less current portion	5,476,529	4,238,384
Total long-term debt, noncurrent portion	$ 232,443,078	$ 235,122,336

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 6 LONG-TERM LIABILITIES
(Continued)

Refunded Debt

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

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

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

The 2005 General Obligation Improvement Bonds were issued to refund the Measure G Bonds in the 2006/2007 year. The District completed the refunding to reduce its debt service payments over the next 12 years by $775,000 and obtain an economic gain of $413,194. The District recognized a financial statement loss of $1,739,101 on the refunding and it is being amortized over the life of the new debt.

Accretion

General obligation bonds as of June 30, 2008 and 2007 have been increased by $7,217,564 and $4,252,462, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 6 LONG-TERM LIABILITIES
(Continued)

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

Year Ended June 30,	Bonds Principal	Bonds Interest	Bonds Total	Bond Premium	Total
2009	$ 5,465,000	$ 5,884,663	$ 11,349,663	$ 654,613	$ 12,004,276
2010	6,230,000	6,713,929	12,943,929	654,613	13,598,542
2011	6,695,000	6,482,095	13,177,095	654,613	13,831,708
2012	6,738,841	6,884,027	13,622,868	654,613	14,277,481
2013	8,140,000	5,951,890	14,091,890	654,613	14,746,503
2014 – 2018	43,321,291	34,631,956	77,953,247	3,282,039	81,235,286
2019 – 2023	73,837,831	22,153,240	95,991,071	2,576,340	98,567,411
2024 – 2028	41,605,177	49,563,888	91,169,065	678,991	91,848,056
2029 – 2033	13,507,465	27,183,020	40,690,485	(354,879)	40,335,606
2034 – 2038	15,785,000	749,788	16,534,788	(90,647)	16,444,141
Total	$ 221,325,605	$ 166,198,496	387,524,101	9,364,909	396,889,010
Less interest (excluding accretion of $7,217,564)			158,980,932	-	158,980,932
Net principal			$ 228,543,169	$ 9,364,909	$ 237,908,078

NOTE 7 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2008 and 2007 were $516,970 and $369,010, respectively.

The future minimum lease payments as of June 30, 2008, are as follows:

Year Ended June 30,	Amount
2009	$ 350,532
2010	46,341
2011	12,192
Total	$ 409,065

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

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

At June 30, 2008 and 2007, the District employed 440 and 394 certificated employees with a total annual payroll of $39,526,416 and $38,704,244, respectively.

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)* (Continued)

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2008 and 2007, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 8 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2008 and 2007, was 9.306% and 9.124% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2006	2007	2008
STRS	$ 3,406,446	$ 3,528,274	$ 3,681,812
PERS	1,797,436	1,839,564	2,038,412
Total	$ 5,203,882	$ 5,367,838	$ 5,720,224

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

NOTE 9 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 10 RISK MANAGEMENT

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

Coverage includes property, liability/auto, crime and boiler/machinery insurance. Liability losses in excess of the District's $2,500 retention amount are covered up to $1,200,000 per occurrence. Coverage above the $1,200,000 level up to $25,000,000 is arranged independently for each member through the Schools Excess Liability Fund (SELF). Property losses in excess of the District's $2,500 retention amount are covered up to $250,000 per occurrence. Coverage above the $250,000 level up to $80,000,000 is arranged independently for each member through the Schools Association for Excess Risk (SAFER). There has been no significant reduction in any of the insurance coverages from prior year. Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years.

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2007		September 30, 2007
	SISC I	SISC II	SISC III
Total assets	$ 100,894,093	$ 28,926,812	$ 219,239,436
Total liabilities	64,825,905	28,129,633	99,692,855
Fund balance	$ 36,068,188	$ 797,179	$ 119,546,581
Total revenues	$ 29,654,045	$ 18,427,865	$ 830,434,428
Total expenditures	11,332,574	19,481,098	790,707,570
Net increase (decrease) in fund balance	$ 18,321,471	$ (1,053,233)	$ 39,726,858

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 10 RISK MANAGEMENT
(Continued)

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2007 and September 30, 2007, respectively.

Financial statements are available from SISC upon request.

NOTE 11 POST-RETIREMENT HEALTH CARE

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. Those and similar benefits for active employees are covered as described in Note 9. The District recognizes the cost of providing these benefits on a pay-as-you-go basis. On June 30, 2008 and 2007, 423 and 415 employees were eligible to receive those benefits. The amount of benefit expenses recognized during the years ended June 30, 2008 and 2007 for retired employees was $4,878,495 and $5,014,306, respectively.

In addition, the District paid $300,000 during the year ended June 30, 2007, to an irrevocable trust established through the District's membership in The Retiree Health Benefit Program Joint Powers Agency. This payment has been made in anticipation of the District adopting GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* no later than the year ended June 30, 2009.

As of the date of these financial statements, management was progressing toward the determination of the actuarial liability related to these benefits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 12 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2008. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual.*

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,028,508	$ 395,538	$ 70,925	$ -	$ 1,494,971
Ancillary services	4,997,966	1,620,676	7,216,138	31,157	13,865,937
Auxiliary services	84,670	39,697	-	-	124,367
Community services and economic development	755,921	184,009	815,703	-	1,755,633
Depreciation expense	-	-	-	6,270,545	6,270,545
Institutional support services	8,999,304	5,476,140	6,312,444	-	20,787,888
Instructional administration	5,769,783	1,712,394	654,024	-	8,136,201
Instructional activities	41,060,419	11,200,329	4,256,771	-	56,517,519
Instructional support services	2,019,660	602,285	498,149	-	3,120,094
Long-term debt and other financing	-	-	863,020	-	863,020
Other student services	5,955,577	1,502,538	1,227,832	-	8,685,947
Physical property and related acquisitions	275,956	76,731	1,995,543	-	2,348,230
Planning policy making and coordination	967,941	324,033	612,707	-	1,904,681
Plant operations and maintenance	2,569,069	1,136,049	4,137,158	-	7,842,276
Student counseling and guidance	3,136,377	763,184	303,302	-	4,202,863
Transfers, student aid and other outgo	-	-	23,283,402	-	23,283,402
Total	$ 77,621,151	$ 25,033,603	$ 52,247,118	$ 6,301,702	$ 161,203,574

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 12 FUNCTIONAL EXPENSES (Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2007. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual.*

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,000,088	$ 407,950	$ 60,413	$ -	$ 1,468,451
Ancillary services	4,808,898	1,655,863	6,645,910	29,753	13,140,424
Auxiliary services	73,182	26,775	-	-	99,957
Community services and economic development	1,114,293	297,323	383,578	-	1,795,194
Depreciation expense	-	-	-	5,631,747	5,631,747
Institutional support services	7,910,736	4,911,108	5,520,079	-	18,341,923
Instructional administration	5,424,048	1,620,594	503,037	-	7,547,679
Instructional activities	38,515,565	11,436,731	3,601,239	-	53,553,535
Instructional support services	1,992,773	606,557	545,085	-	3,144,415
Long-term debt and other financing	-	-	107,517	-	107,517
Other student services	5,871,235	1,547,075	1,297,755	-	8,716,065
Physical property and related acquisitions	307,675	70,748	1,500,226	-	1,878,649
Planning policy making and coordination	1,185,460	402,158	856,270	-	2,443,888
Plant operations and maintenance	2,429,000	1,069,505	4,159,916	-	7,658,421
Student counseling and guidance	2,683,591	678,218	363,600	-	3,725,409
Transfers, student aid and other outgo	-	-	21,038,446	-	21,038,446
Total	$ 73,316,544	$ 24,730,605	$ 46,583,071	$ 5,661,500	$ 150,291,720

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 13 COMMITMENTS

As of June 30, 2008, the District had unfinished construction contracts under the following project categories:

Bakersfield College Wellness Center Modernization	$ 1,207,285
Bakersfield College Baseball/Softball Modernization	1,025,669
Bakersfield College Supportive Services Modernization	769,007
Bakersfield College Maintenance and Operations Modernization	357,960
Bakersfield College Campus Center Modernization	275,550
Delano Relocatables	2,689,752
Cerro Coso Community College Vocational	774,728
Cerro Coso Community College Main Building	667,382
Cerro Coso Community College Fine Arts Lab	326,882
Porterville College Library Expansion	4,955,152
Porterville College Allied Health	760,815
Porterville College Science Modernization	634,131
Porterville College Stadium Parking Lot	534,050
Porterville College Fine Arts	366,000
Other projects	904,151
	$ 16,248,514

As of June 30, 2007, the District had unfinished construction contracts under the following project categories:

Bakersfield College Fine Arts HVAC Replacement	$ 286,847
Bakersfield College Fine Arts Re-roof	207,750
Bakersfield College Language Arts HVAC Replacement	12,392
Bakersfield College Weight Room HVAC	66,015
Cerro Coso Community College Gym Roof	8,300
Cerro Coso Community College Security Systems	152,570
Porterville College Child Development Center Relocatables	112,702
Porterville College Library Expansion	12,248,756
	$ 13,095,332

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 14 SUBSEQUENT EVENTS

On July 25, 2008 the District issued $85,880,000 of taxable Other Post Employment Benefits (OPEB) bonds. The bonds will be paid back over a 38 year period at a fixed interest rate of 6.01% per annum. Interest is payable semiannually on January 1 and July 1 of each year. The bonds are subject to a pro-rata mandatory sinking fund redemption at a redemption price equal to the principal amount payable on July 1 of each year.

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KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2008

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Mrs. Kay S. Meek	President	Southwest Bakersfield	December 2008
Mr. Stuart O. Witt	Vice President	Ridgecrest	December 2010
Mr. John A. Rodgers	Clerk	Central Bakersfield	December 2010
Ms. Rose Marie Bans	Member	Northeastern Kern County	December 2008
Mr. Dennis Beebe	Member	Southwest Bakersfield	December 2008
Mr. John Corkins	Member	Porterville	December 2010
Mrs. Pauline Larwood	Member	Central Bakersfield	December 2010

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Greg Chamberlain	Associate Chancellor, Educational Services
Mr. Ibrahim Ali	Vice Chancellor, Human Resources

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
Passed through State Department of Education -		
Child Care Food Program	10.555	$ 269,804
Total Department of Agriculture		269,804
Department of Education:		
Federal Supplemental Educational Opportunity Grants	84.007	376,493
Higher Education - Institutional Aid	84.031	1,062,392
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	412,357
TRIO - Student Support Services	84.042	236,971
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	306,489
Federal Pell Grant Program	84.063	19,277,463
Fund for the Improvement of Postsecondary Education (FIPSE)	84.116	-
Vocational Education - Tech Prep Education	84.243	856,964
Academic Competitiveness Grant	84.375	65,548
Total Department of Education		22,594,677
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	254,391
Child Development Block Grant	93.575	14,014
Total Department of Health and Human Services		268,405
Small Business Administration		
Passed through Regents University of CA -		
SBDC UC Merced	59.037	93,367
Passed through College of Sequoia -		
Title V COS Cooperative	59.037	230,793
Total Small Business Administration		324,160
Total Federal Expenditures		$ 23,457,046

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

YEAR ENDED JUNE 30, 2008

	Program Revenues				
Description	Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Income	Total	Total Program Expenditures
Extended Opportunity Programs and Services	2,818,139	(198,100)	-	2,620,039	2,620,039
CalGrant	2,600,641	(3,324)	-	2,597,317	2,597,317
Disabled Students Programs and Services	2,278,496	(175,069)	-	2,103,427	2,103,427
CalWorks	666,845	1,742	36,910	705,497	705,497
Matriculation	1,533,200	(109,384)	-	1,423,816	1,423,816
Foster Parent	82,224	62,310	-	144,534	144,534
Economic Development Nursing	1,910,699	(470,081)	(788,931)	651,687	651,687
IDRC Grant	175,957	13,636	184,352	373,945	373,945
Project Care	478,133	(29,963)	-	448,170	448,170
BFAP	964,842	(73,120)	-	891,722	891,722
Small Business Center	149,999	1		150,000	150,000
REBRAC	184,500	20,500	-	205,000	205,000
Workplace Learning Center	229,520	4,100	-	233,620	233,620
Instructional Equipment Ongoing	215,646	(15,943)	-	199,703	4,551
PC Development Service	95,361	(37,951)	-	57,410	57,410
PC Development Center	491,241	(41,073)	-	450,168	450,168
TTIP	194,555	(50,186)	-	144,369	144,369
Psych Tech	534,022	73,520	-	607,542	607,542
Block Grant	108,702	-	-	108,702	108,702
Career Tech Equipment	125,000	-	-	125,000	125,000
Basic Skills	925,588	(175,235)	-	750,353	256,449
All other categorical	2,129,113	127,429	(1,390,574)	865,968	865,968
	$ 18,892,423	$ (1,076,191)	$ (1,958,243)	$ 15,857,989	$ 15,168,933

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

ANNUALIZED ATTENDANCE AS OF JUNE 30, 2008

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2007 Only)			
1. Noncredit	8.77		8.77
2. Credit	194.90		194.90
B. Summer Intersession (Summer 2008 Prior to July 1, 2008)			
1. Noncredit	0.62		0.62
2. Credit	924.10		924.10
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,587.92		12,587.92
(b) Daily Census Contact Hours	730.56		730.56
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	235.24		235.24
(b) Credit	2,239.36		2,239.36
3. Independent Study/Work Experience Education Courses			
(a) Weekly Census Procedure Courses	1,805.89		1,805.89
(b) Daily Census Procedure Courses	339.79		339.79
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	19,067.15		19,067.15
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	451.35		451.35
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	47.19		47.19
2. Credit	1,454.75		1,454.75
CCFS-320 Addendum			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	5.29		5.29
2. Credit	4,096.08		4,096.08

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2008

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2008 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 30,529,342	$ 56,531,003	$ 47,855,953	$ (23,147)	$ 190,498
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	4,213,781	(40,078,560)	(458,725)	(67,114)	-
Audit adjustments	(1,757,507)	-	-	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	-	-	-	(1)
Net adjustments and reclassifications	2,456,274	(40,078,560)	(458,725)	(67,114)	(1)
June 30, 2008 District Accounting Records Fund Balance	$ 32,985,616	$ 16,452,443	$ 47,397,228	$ (90,261)	$ 190,497

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ 104,882,362	$ 2,915,887	$ (373,950)	$ 90,891	$ (73,854)	$ 466,932	$ 58,280	$ 558,684
726,648	(1,125,841)	345,374		25,589	-	-	-
(2,289,464)	-	-	-	-	-	-	-
-	-	-	-	-	(466,932)	(58,280)	(558,684)
-	-	-	-	-	-	-	-
(1,562,816)	(1,125,841)	345,374	-	25,589	(466,932)	(58,280)	(558,684)
$ 103,319,546	$ 1,790,046	$ (28,576)	$ 90,891	$ (48,265)	$ -	$ -	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2008

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 31,862,837	$ -	$ (2,545,538)	$ (155,865)
Restricted cash and cash equivalents	4,672,049	16,460,926	-	-
Accounts receivable, net	8,366,993	70,142	502,103	138,922
Prepaid expenses	25,446	-	-	-
Inventories	-	-	-	-
Due from other funds	75,000	-	-	-
Total current assets	45,002,325	16,531,068	(2,043,435)	(16,943)
Noncurrent assets:				
Restricted investments	-	-	49,446,663	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	49,446,663	-
Total assets	$ 45,002,325	$ 16,531,068	$ 47,403,228	$ (16,943)
LIABILITIES				
Accounts payable	$ 7,362,369	$ 3,625	$ 6,000	$ 23,318
Deferred revenue	4,654,340	-	-	50,000
Due to other funds	-	75,000	-	-
Amounts held for others	-	-	-	-
Total liabilities	12,016,709	78,625	6,000	73,318
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	16,452,443	47,397,228	-
Reserved for special purposes	6,554,453	-	-	-
Unreserved:				
Undesignated	26,431,163	-	-	(90,261)
Total fund equity (deficit)	32,985,616	16,452,443	47,397,228	(90,261)
Total liabilities and fund equity (deficit)	$ 45,002,325	$ 16,531,068	$ 47,403,228	$ (16,943)

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ 191,516	$ 7,402,704	$ (297,773)	$ (54,791)	$ -	$ -	$ -
-	95,132,413	-	-	90,891	(1,561,279)	489,862
-	2,352,088	293,660	35,288	-	1,516,545	60,317
-	-	-	-	-	-	-
-	-	1,311,005	19,140	-	-	-
-	-	-	-	-	-	-
191,516	104,887,205	1,306,892	(363)	90,891	(44,734)	550,179
-	-	-	-	-	-	-
-	-	629,620	-	-	-	-
-	-	629,620	-	-	-	-
$ 191,516	$ 104,887,205	$ 1,936,512	$ (363)	$ 90,891	$ (44,734)	$ 550,179
$ 1,019	$ 1,558,490	$ 144,915	$ 28,213	$ -	$ -	$ 13,149
-	9,169	1,551	-	-	3,531	-
-	-	-	-	-	-	-
-	-	-	-	-	-	537,030
1,019	1,567,659	146,466	28,213	-	3,531	550,179
-	-	-	-	-	-	-
190,497	103,319,546	1,790,046	-	90,891	-	-
-	-	-	(28,576)	-	(48,265)	-
190,497	103,319,546	1,790,046	(28,576)	90,891	(48,265)	-
$ 191,516	$ 104,887,205	$ 1,936,512	$ (363)	$ 90,891	$ (44,734)	$ 550,179

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2008

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 36,403,090
Restricted cash and cash equivalents	52,531	583,333	115,920,726
Accounts receivable, net	-	-	13,336,058
Prepaid expenses	-	-	25,446
Inventories	-	-	1,330,145
Due from other funds	-	-	75,000
Total current assets	52,531	583,333	167,090,465
Noncurrent assets:			
Restricted investments	-	-	49,446,663
Capital assets, net	-	-	629,620
Total noncurrent assets	-	-	50,076,283
Total assets	$ 52,531	$ 583,333	$ 217,166,748
LIABILITIES			
Accounts payable	$ -	$ 26,809	$ 9,167,907
Deferred revenue	11,644	58,329	4,788,564
Due to other funds	-	-	75,000
Amounts held for others	40,887	498,195	1,076,112
Total liabilities	52,531	583,333	15,107,583
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	63,849,671
Reserved for special purposes	-	-	111,945,433
Unreserved:			
Undesignated	-	-	26,264,061
Total fund equity (deficit)	-	-	202,059,165
Total liabilities and fund equity (deficit)	$ 52,531	$ 583,333	$ 217,166,748

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2008

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$ 12,156,090	$ -	$ -	$ -
Less: scholarship discount and allowance	5,350,950	-	-	-
Net tuition and fees	6,805,140	-	-	-
Grants and contracts, non-capital:				
Federal	3,502,288	-	-	315,640
State	14,279,444	-	-	3,620,586
Local	2,156,379	-	-	-
Auxiliary enterprise sales and charges	40,607	-	-	-
Other operating revenues	425,224	1,505,092	-	94,216
Total operating revenues	27,209,082	1,505,092	-	4,030,442
OPERATING EXPENDITURES/EXPENSES				
Salaries	72,941,156	-	-	2,923,073
Employee benefits	23,530,078	-	-	1,004,970
Payments to students	686,826	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	15,409,709	845,195	1,522,917	284,313
Capital outlay	2,171,763	-	-	-
Utilities	3,339,244	-	-	62,005
Depreciation	-	-	-	-
Total operating expenditures/expenses	118,078,776	845,195	1,522,917	4,274,361
OPERATING INCOME (LOSS)	(90,869,694)	659,897	(1,522,917)	(243,919)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	54,618,362	-	-	-
Local property taxes	44,141,472	-	-	-
State taxes and other revenues	2,965,370	40,930	-	-
Investment income, non-capital	994,672	1,190,978	5,850,311	10,928
Debt service	-	(146,227,056)	-	-
Cost of issuance	-	(402,800)	-	-
Other non-operating expenditures/expenses	(1,481,222)	-	-	300
Total non-operating revenues (expenditures)	101,238,654	(145,397,948)	5,850,311	11,228

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ -	$ 50,109	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
-	50,109	-	-	-	-	-
-	-	-	-	376,493	19,281,375	-
-	-	-	-	-	2,597,317	-
41,208	-	23,013	-	-	-	-
-	-	7,526,501	1,107,893	-	-	-
-	426,268	331,121	-	-	-	-
41,208	476,377	7,880,635	1,107,893	376,493	21,878,692	-
-	168,290	1,066,689	490,377	-	-	-
-	46,825	248,918	203,889	-	-	-
-	-	-	-	376,493	21,937,063	-
56,437	-	6,089,572	589,788	-	285,000	-
-	23,376,239	-	20,867	-	-	-
-	-	1,247	6,813	-	-	-
-	-	31,325	-	-	-	-
56,437	23,591,354	7,437,751	1,311,734	376,493	22,222,063	-
(15,229)	(23,114,977)	442,884	(203,841)	-	(343,371)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,137,160	-	-	-	10	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,137,160	-	-	-	10	-

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2008

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	10,368,960	(144,738,051)	4,327,394	(232,691)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	7,474,320	-	-
Gifts and grants, capital	-	-	-	-
Excess of revenues over (under) expenditures	10,368,960	(137,263,731)	4,327,394	(232,691)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	1,584,270	-	3,800,000	343,195
Operating transfers out	(865,841)	(705)	(3,800,000)	(343,195)
Certificates of participation bonds issued	-	133,460,000	-	-
Premium on bond issuance	-	663,084	-	-
Total other financing sources (uses)	718,429	134,122,379	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	11,087,389	(3,141,352)	4,327,394	(232,691)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	21,898,227	19,593,795	43,069,834	142,430
FUND EQUITY (DEFICIT), END OF YEAR	$ 32,985,616	$ 16,452,443	$ 47,397,228	$ (90,261)

(Continued on following page)

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
(15,229)	(18,977,817)	442,884	(203,841)	-	(343,361)	-
-	7,527,327	-	-	-	-	-
-	-	-	-	-	-	-
-	1,186,200	-	-	-	285,000	-
(15,229)	(10,264,290)	442,884	(203,841)	-	(58,361)	-
-	6,005,966	100,000	345,375	-	9,196	-
-	(6,005,261)	(1,173,000)	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	705	(1,073,000)	345,375	-	9,196	-
(15,229)	(10,263,585)	(630,116)	141,534	-	(49,165)	-
205,726	113,583,131	2,420,162	(170,110)	90,891	900	-
$ 190,497	$ 103,319,546	$ 1,790,046	$ (28,576)	$ 90,891	$ (48,265)	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2008

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 12,206,199
Less: scholarship discount and allowance	-	-	5,350,950
Net tuition and fees	-	-	6,855,249
Grants and contracts, non-capital:			
Federal	-	-	23,475,796
State	-	-	20,497,347
Local	-	-	2,220,600
Auxiliary enterprise sales and charges	-	-	8,675,001
Other operating revenues	-	-	2,781,921
Total operating revenues	-	-	64,505,914
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	77,589,585
Employee benefits	-	-	25,034,680
Payments to students	-	-	23,000,382
Supplies, materials, and other operating expenditures/expenses and services	-	-	25,082,931
Capital outlay	-	-	25,568,869
Utilities	-	-	3,409,309
Depreciation	-	-	31,325
Total operating expenditures/expenses	-	-	179,717,081
OPERATING INCOME (LOSS)	-	-	(115,211,167)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	54,618,362
Local property taxes	-	-	44,141,472
State taxes and other revenues	-	-	3,006,300
Investment income, non-capital	-	-	12,184,059
Debt service	-	-	(146,227,056)
Cost of issuance	-	-	(402,800)
Other non-operating expenditures/expenses	-	-	(1,480,922)
Total non-operating revenues (expenditures)	-	-	(34,160,585)

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2008

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	$ (149,371,752)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	7,527,327
Local property taxes and revenues, capital	-	-	7,474,320
Gifts and grants, capital	-	-	1,471,200
Excess of revenues over (under) expenditures	-	-	(132,898,905)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	12,188,002
Operating transfers out	-	-	(12,188,002)
Limited obligation improvement bonds issued	-	-	133,460,000
Payment to refunded bond escrow agent	-	-	663,084
Total other financing sources (uses)	-	-	134,123,084
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	1,224,179
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	-	-	200,834,986
FUND EQUITY (DEFICIT), END OF YEAR	$ -	$ -	$ 202,059,165

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2008

Total Fund Equity - District Funds Included in the Reporting Entity		$ 202,059,165
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 202,976,855	
Accumulated depreciation	(57,026,131)	145,950,724
Nondepreciable capital assets		49,962,780
Deferred costs, net		2,642,783
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(845,084)
Retentions payable		(1,290,740)
Compensated absences	(2,426,097)	
Long-term debt	(237,919,607)	(240,345,704)
Net assets reported within the GASB 35 Statement of Net Assets		$ 158,133,924

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ 1,224,179
Compensated absence expense addition reported within GASB 35 Statements	(38,337)
Depreciation expense reported within GASB 35 Statements	(6,270,377)
Amortization of bond issuance cost reported within the GASB 35 Statements	(167,919)
Amortization of bond premium reported within the GASB 35 Statements	721,682
Capital outlay expense not reported within the GASB 35 Statements	23,908,010
Retentions payable reported within the GASB 35 Statements	(902,744)
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(2,068,280)
Costs from issuance of bonds not reported within the GASB 35 Statements	402,800
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(134,123,084)
Principal payments on debt not reported within the GASB 35 Statements	135,983,384
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 18,669,314

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

NOTE 1 PURPOSE OF SCHEDULES

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

The audit of the Kern Community College District for the year ended June 30, 2008 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

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

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2008, represents the basis of apportionment of the Kern Community College District's annual source of funding.

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

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted $2,190,980 in loans under the Federal Family Education Loan Program for the year ended June 30, 2008.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT

NOTES TO THE SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2008

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

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NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 9, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the District in a separate letter dated December 9, 2008.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 9, 2008

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 9, 2008

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 9, 2008.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts

6. Apportionments – Enrollment Fee

7. Apportionments – Students Actively Enrolled

8. Open Enrollment

9. Student Fee – Instructional Materials and Health Fees

<u>Student Services Testing Structure</u>

1. Matriculation – Uses of Matriculation Funds

2. CalWORKs – Use of State and Federal TANF Funding

<u>Facilities</u>

1. Scheduled Maintenance Program

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

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

In our opinion, except for the finding 2008-1, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2008.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 9, 2008

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No significant deficiencies relating to the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The independent auditors' report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for Kern Community College District.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement. 2) Higher Education – Institutional Aid (CFDA 84.031).

8. The threshold for distinguishing Type A and B programs was $712,253.

9. Kern Community College District qualified as a low-risk auditee.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2008-1 Concurrent Enrollment – Physical Education Courses

Statement of Condition: During our testing in the current year, we noted that the District does not have a process in place to ensure that not more than 10% of the enrollment claimed for a given physical education course section consisted of concurrent enrollment students. The District over claimed 6.747714 FTES as a result.

Cause of Condition: The individual campuses do not communicate with the District office regarding the concurrent enrollment students in a course section.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: We recommend the District put a procedure in place to track concurrent enrollments in physical education classes to ensure that not greater than 10% of the enrollment in a given section is concurrent enrollment students.

Response: The District concurs with the finding and will put a procedure in place to ensure concurrent enrollments in physical education classes do not exceed 10% of the enrollment in a given section.

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

2007-1 – Concurrent Enrollment - Summer School

Statement of Condition: During our testing in the prior year we noted that the District did not have a process in place that requires high school principals to certify that they are not recommending greater than 5% of the total number of pupils for concurrent enrollment in summer school. While this is a requirement for the high schools, the Chancellor's Office requires that Community College Districts obtain certifications (or documentation that is equivalent) from the high school districts.

Cause of Condition: District was aware of the requirement and sent out letters to the high school districts; however the District does not require the certifications in writing.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: We recommended that the District should add a certification above the principal's signature line on the Summer concurrent enrollment forms.

Status: The District implemented the above changes beginning in the Summer 2008 term.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION
TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

This letter does not affect our report dated December 9, 2008, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None noted.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2006-A – RETURN OF TITLE IV FUNDS

Finding

During our testing we noted that the Title IV funds for recipients who withdrew were not being returned within 30 days of becoming aware that the student had dropped in accordance with the requirements for the return of Title IV funds.

Recommendation

The District should develop procedures to assure that all funds are returned within 30 days of notification that a student has dropped.

Status

The District implemented policies beginning in January 2005 to conform to the regulations related to the return of Title IV funds and we noted no material late return of funds in the current year.

2005-B – FRAUD RISK ASSESSMENT AND MONITORING

Finding

During our audit of the prior year, we noted that the Board does not have a formal system for overseeing the District's assessment of the risks of fraud and the programs and controls the District has established to mitigate these risks. In addition, the District does not have a formal system in place to assess the risks of fraud nor any formal programs or controls to mitigate these risks.

Recommendation

Though we noted no instances of fraud in the course of our audit, we recommended that the District develop a formal system to assess the risks of fraud and implement formal programs and controls to mitigate these risks. In addition, we recommended that the Board formalize a system to oversee the District's fraud risk assessment and monitoring process. These systems will help the District to reduce its susceptibility to loss due to fraud and appropriately address fraud should it occur.

Status

The District has implemented this recommendation in the current year.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2008. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

Nystrom & Company LLP

NYSTROM & COMPANY LLP
Certified Public Accountants

December 9, 2008

KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2009 AND 2008

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2009 AND 2008

KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2009 AND 2008

INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

> To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.
>
> To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.
>
> To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
>
> To determine whether financial and financially related reports to state and federal agencies are presented fairly.
>
> To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the California State Department of Finance. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009, 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 should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nystrom & Company LLP

December 3, 2009

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

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

OVERVIEW

As the California State budget continues to significantly deteriorate the Kern Community College District has taken steps to improve its financial position in preparation for significant funding reductions from the State. The District's goal is to position itself to manage the impact of funding reductions in an efficient and well planned manner in order to minimize the effect on the District's various stakeholders This is being accomplished through the District implementing expenditure control initiatives, organizational changes, management of reserves, and management of student enrollment limits. These actions have significantly increased overall reserves while controlling operating costs. These actions have positioned the District to effectively deal with future State funding reductions expected to occur over the next three years. The District also issued $85 million in OPEB bonds in order to manage the impact of these costs on the District's annual budget.

The District's total assets grew from $416 million to $509 million, an increase of $93 million. The growth in assets is primarily attributable to change associated with the prepayment of OPEB liability via the issuance of OPEB bonds. Current liabilities, increased from $24 million to $27 million which was primarily caused by an increase in accounts payable of $2 million. This change in accounts payable was due to increase in accrued interest and construction payables. Current liabilities also increased due to an increase in the current portion of long term debt of $753 thousand. Noncurrent liabilities increased $233 million to $315 million which was caused primarily due to the issuance of the OPEB bonds.

Net assets increased from $158 million to $168 million. Investments in capital assets, net of related debt, increased $8.9 million. This was primarily due a significant increase in construction work in progress.

Compared to 2008-09 the major increases in revenues was due to an increase of $9 million in Federal grants and contracts primarily associated with Federal Financial Aid, an increase in local property taxes of $1.6 million and an increase of $1.2 million in Tuition and fees. These increases were offset by decreases in state apportionments of $4.9 million, local revenues of $1.1 million and investment income of $5.3. The end result was a $1.6 million increase in total revenues from $194 million to $196 million.

Expenditures increased by $11 million from $175 to $186 million This increase was primarily due to increases in financial aid payments to students of $9 million, an increase in debt interest and service expense of $3 million. and a increase in salaries of $2 million. These increases were partially offset by decreases in supplies, materials and other operating expenses and services of $3 million.

STATEMENT OF NET ASSETS

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

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

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and

shows the sources and uses of those funds. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2009	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,397,071	$ 36,403,090
Restricted cash and cash equivalents	103,516,043	115,920,726
Accounts receivable, net	18,168,669	13,336,058
Prepaid expenses	11,919	25,446
Inventories	1,505,276	1,330,145
Total current assets	161,598,978	167,015,465
Noncurrent assets:		
Restricted investments	48,965,589	49,446,663
Other post employment benefits obligation	82,446,948	-
Depreciable capital assets, net	142,340,741	146,580,344
Nondepreciable capital assets	70,051,667	49,962,780
Deferred costs, net	3,551,329	2,642,783
Total noncurrent assets	347,356,274	248,632,570
Total assets	$ 508,955,252	$ 415,648,035
LIABILITIES		
Current liabilities:		
Accounts payable	$ 13,316,667	$ 11,303,731
Deferred revenue	4,660,580	4,788,564
Compensated absences, current portion	1,662,123	1,855,892
Long-term debt, current portion	6,230,000	5,476,529
Amounts held for others	1,006,178	1,076,112
Total current liabilities	26,875,548	24,500,828
Noncurrent liabilities:		
Compensated absences, noncurrent portion	1,060,176	570,205
Long-term debt, noncurrent portion	313,705,285	232,443,078
Total noncurrent liabilities	314,765,461	233,013,283
Total liabilities	341,641,009	257,514,111
NET ASSETS		
Investments in capital assets, net of related debt	69,956,530	61,158,634
Restricted - expendable	25,864,605	23,743,264
Unrestricted	71,493,108	73,232,026
Total net assets	167,314,243	158,133,924
Total liabilities and net assets	$ 508,955,252	$ 415,648,035

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended June 30, 2009	2008
OPERATING REVENUES		
Tuition and fees	$ 14,294,094	$ 12,206,199
Less: scholarship discount and allowance	6,276,692	5,350,950
Net tuition and fees	8,017,402	6,855,249
Grants and contracts, non-capital:		
Federal	32,549,952	23,475,796
State	20,427,453	20,497,347
Local	1,088,456	2,220,600
Auxiliary enterprise sales and charges	9,167,912	8,675,001
Other operating revenues	936,241	1,276,829
Total operating revenues	72,187,416	63,000,822
OPERATING EXPENSES		
Salaries	79,573,441	77,621,151
Employee benefits	26,921,219	26,898,684
Payments to students	31,857,280	23,000,382
Supplies, materials, other operating expenses and services	23,584,491	25,837,427
Utilities	3,479,622	3,409,309
Depreciation	6,634,459	6,301,702
Total operating expenses	172,050,512	163,068,655
OPERATING LOSS	(99,863,096)	(100,067,833)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	52,730,811	54,618,362
Local property taxes, non-capital	44,929,596	44,141,472
State taxes and other revenues	3,041,170	3,006,300
Investment income, non-capital	6,852,288	12,184,059
Interest expense, capital asset-related debt	(14,223,376)	(12,070,052)
Other non-operating revenue (expense)	845,658	384,159
Total non-operating revenues (expenses)	94,176,147	102,264,300
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(5,686,949)	2,196,467
State apportionments, capital	4,490,620	7,527,327
Local property taxes and revenues, capital	9,027,788	7,474,320
Gifts and grants, capital	1,348,860	1,471,200
INCREASE IN NET ASSETS	9,180,319	18,669,314
NET ASSETS, BEGINNING OF YEAR	158,133,924	139,464,610
NET ASSETS, END OF YEAR	$ 167,314,243	$ 158,133,924

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 7,175,863	$ 6,120,863
Federal grants and contracts	32,698,752	23,644,995
State grants and contracts	17,609,434	20,298,367
Local grants and contracts	1,666,680	2,506,937
Payments to/on behalf of employees	(79,786,650)	(78,123,888)
Payments for benefits	(107,436,384)	(25,033,603)
Payments for scholarships and grants	(31,857,280)	(23,000,382)
Payments to suppliers	(24,421,847)	(22,941,513)
Payments for utilities	(3,479,622)	(3,409,309)
Auxiliary enterprise sales and charges	8,878,992	8,810,950
Other receipts	1,231,710	1,833,886
Net cash used by operating activities	(177,720,352)	(89,292,697)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	50,071,593	55,842,414
Local property taxes	44,929,596	44,141,472
State taxes and other revenues	3,595,844	3,172,473
Other receipts (payments)	(1,086,125)	(1,480,922)
Net cash provided by non-capital financing activities	97,510,908	101,675,437
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	4,490,620	7,527,327
Local property taxes, capital	9,027,788	7,474,320
Purchases of capital assets	(20,279,708)	(22,514,568)
Interest paid on capital debt	(9,150,404)	(10,401,162)
Principal paid on capital debt	(6,386,529)	(135,983,384)
Proceeds from capital debt	84,763,613	136,074,610
Net cash provided (used) by capital and related financing activities	62,465,380	(17,822,857)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	30,813,221	34,401,536
Purchase of investments	(30,332,147)	(38,807,073)
Interest on investments	6,852,288	12,184,059
Net cash provided by investing activities	7,333,362	7,778,522
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,410,702)	2,338,405
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	152,323,816	149,985,411
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 141,913,114	$ 152,323,816

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2009	2008
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 38,397,071	$ 36,403,090
Restricted cash and cash equivalents	103,516,043	115,920,726
Total cash and cash equivalents	$ 141,913,114	$ 152,323,816
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (99,863,096)	$ (100,067,833)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,634,459	6,301,702
On behalf payments	1,931,783	1,865,081
(Increase) decrease in:		
Accounts receivable, net	(2,397,507)	242,970
Prepaid expenses	13,527	477,723
Other post employment benefits obligation	(82,446,948)	-
Inventories	(175,131)	70,366
Increase (decrease) in:		
Accounts payable	(1,185,163)	520,578
Deferred revenue	(458,544)	1,304,661
Compensated absences	296,202	38,337
Amounts held for others	(69,934)	(46,282)
Net cash used by operating activities	$ (177,720,352)	$ (89,292,697)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	$ 1,116,387	$ 167,919

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

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District's annual financial statements using the blending method.

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

Exceptions to the accrual basis of accounting are as follows:

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of operations.

RESTRICTED CASH AND INVESTMENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 2,309,640

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was $207,841 and $167,919 for the years ended June 30, 2009 and 2008, respectively.

NET ASSETS

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

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

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

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year as well as State budgets and other factors outside the District's control. In February, subsequent to the year end, the State will perform a recalculation based on actual financial and statistical information for the year just completed. The District's policy is to estimate the recalculation correction to apportionment, if any, based on factors it can reasonably determine such as local property tax revenue received and reductions in FTES. Any additional corrections determined by the State are recorded in the year computed by the State.

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ON-BEHALF PAYMENTS

GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by an entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all Community College Districts in California. These payments are included in employee benefits expense and other non-operating revenues.

RECLASSIFICATIONS

Certain 2008 amounts have been reclassified to conform with the 2009 financial statement presentation.

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2009 and 2008, are displayed on the statement of net assets as follows:

	June 30,	
	2009	2008
Cash and cash equivalents	$ 38,397,071	$ 36,403,090
Restricted cash and cash equivalents	103,516,043	115,920,726
Total cash and cash equivalents	$ 141,913,114	$ 152,323,816

Deposits – At June 30, 2009 and 2008, the carrying amount of the District's deposits is summarized as follows:

	June 30,	
	2009	2008
Cash in County Treasury	$ 121,488,638	$ 126,626,631
Cash on hand and in banks	4,506,127	7,817,214
Cash held by Trustees	15,918,349	17,879,971
Total deposits	$ 141,913,114	$ 152,323,816

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NOTE 2 CASH AND INVESTMENTS
(Continued)

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.55 and 1.29 years at June 30, 2009 and 2008, respectively.

As of the date of these financial statements, the County of Kern's 2009 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $664,733 and $323,402 of the bank balances at June 30, 2009 and 2008, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and/or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As of June 30, 2009 and 2008, the District's investments and deposits are as follows:

	June 30,	
	2009	2008
Investments in LAIF	$ 867,430	$ 845,430
Bank clearing account	2,920,933	6,076,499
Certificates of Deposit	8,985,387	11,282,861
Money Market	349,146	232,680
Corporate Bonds and Notes	9,034,599	8,716,154
Government Bonds and Notes	26,808,094	22,293,039
Total investments	$ 48,965,589	$ 49,446,663

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

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

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

June 30, 2009		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 867,430	$ 867,430	$ -	$ -
Bank clearing account	2,920,933	2,920,933	-	-
Certificates of Deposit	8,985,387	1,768,180	7,217,207	-
Money Market	349,146	349,146	-	-
Corporate Bonds and Notes	9,034,599	100,083	8,934,516	-
Government Bonds and Notes	26,808,094	1,928,254	24,879,840	-
Total investments	$ 48,965,589	$ 7,934,026	$ 41,031,563	$ -

June 30, 2008		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 845,430	$ 845,430	$ -	$ -
Bank clearing account	6,076,499	6,076,499	-	-
Certificates of Deposit	11,282,861	682,987	10,599,874	-
Money Market	232,680	232,680	-	-
Corporate Bonds and Notes	8,716,154	-	8,716,154	-
Government Bonds and Notes	22,293,039	-	22,293,039	-
Total investments	$ 49,446,663	$ 7,837,596	$ 41,609,067	$ -

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS (Continued)

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

June 30, 2009		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 867,430	$ -	$ -	$ -	$ -	$ 867,430
Bank clearing account	2,920,933	2,920,933	-	-	-	-
Certificates of Deposit	8,985,387	8,985,387	-	-	-	-
Money Market	349,146	349,146	-	-	-	-
Corporate Bonds and Notes	9,034,599	1,057,595	4,971,505	3,005,499	-	-
Government Bonds and Notes	26,808,094	26,808,094	-	-	-	-
Total investments	$ 48,965,589	$ 40,121,155	$ 4,971,505	$ 3,005,499	$ -	$ 867,430

June 30, 2008		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 845,430	$ -	$ -	$ -	$ -	$ 845,430
Bank clearing account	6,076,499	6,076,499	-	-	-	-
Certificates of Deposit	11,282,861	11,282,861	-	-	-	-
Money Market	232,680	232,680	-	-	-	-
Corporate Bonds and Notes	8,716,154	1,240,288	3,150,549	4,325,317	-	-
Government Bonds and Notes	22,293,039	22,293,039	-	-	-	-
Total investments	$ 49,446,663	$ 41,125,367	$ 3,150,549	$ 4,325,317	$ -	$ 845,430

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

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

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009 and 2008, consist of the following:

	June 30,	
	2009	2008
Tuition and fees	$ 3,976,784	$ 3,135,245
Less allowance for doubtful accounts	1,500,000	1,500,000
Tuition and fees, net	2,476,784	1,635,245
Federal grants and contracts	2,194,382	2,327,606
State grants and contracts	4,304,109	2,573,606
Local grants and contracts	111,359	84,389
State apportionment	6,385,946	3,396,169
State taxes and other revenues	612,484	1,167,158
Unbilled construction receivables	1,450	1,450
Auxiliaries	376,849	87,929
Other	1,705,306	2,062,506
Total	$ 18,168,669	$ 13,336,058

(Continued on following page)

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,675,746	$ -	$ -	$ -	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	27,977,394	21,287,695	-	(1,198,808)	48,066,281
Total nondepreciable assets	$ 49,962,780	$ 21,287,695	$ -	$ (1,198,808)	$ 70,051,667
Depreciable capital assets:					
Site improvements	$ 5,958,548	$ -	$ -	$ 128,304	$ 6,086,852
Buildings	170,130,079	235,154	-	1,070,504	171,435,737
Equipment	14,307,881	218,749	-	-	14,526,630
Computer equipment	11,641,606	701,273	-	-	12,342,879
Vehicles	1,916,956	40,872	-	-	1,957,828
	203,955,070	1,196,048	-	1,198,808	206,349,926
Less accumulated depreciation:					
Site improvements	4,031,563	325,285	-	-	4,356,848
Buildings	34,255,562	3,179,535	-	-	37,435,097
Equipment	8,373,280	1,231,701	-	-	9,604,981
Computer equipment	9,191,283	1,760,651	-	-	10,951,934
Vehicles	1,523,038	137,287	-	-	1,660,325
	57,374,726	6,634,459	-	-	64,009,185
Total depreciable assets, net	$ 146,580,344	$ (5,438,411)	$ -	$ 1,198,808	$ 142,340,741

(Continued on following page)

NOTE 4 CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2008, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,298,429	$ -	$ -	$ 377,317	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	30,324,064	22,676,004	-	(25,022,674)	27,977,394
Total nondepreciable assets	$ 51,932,133	$ 22,676,004	$ -	$ (24,645,357)	$ 49,962,780
Depreciable capital assets:					
Site improvements	$ 5,685,942	$ -	$ -	$ 272,606	$ 5,958,548
Buildings	146,176,453	61,815	-	23,891,811	170,130,079
Equipment	13,648,296	584,247	-	75,338	14,307,881
Computer equipment	10,667,062	568,942	-	405,602	11,641,606
Vehicles	1,848,215	68,741	-	-	1,916,956
	178,025,968	1,283,745	-	24,645,357	203,955,070
Less accumulated depreciation:					
Site improvements	3,728,238	303,325	-	-	4,031,563
Buildings	31,341,131	2,914,431	-	-	34,255,562
Equipment	7,172,325	1,200,955	-	-	8,373,280
Computer equipment	7,450,133	1,741,150	-	-	9,191,283
Vehicles	1,381,197	141,841	-	-	1,523,038
	51,073,024	6,301,702	-	-	57,374,726
Total depreciable assets, net	$ 126,952,944	$ (5,017,957)	$ -	$ 24,645,357	$ 146,580,344

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2009 and 2008, consist of the following:

	June 30, 2009	June 30, 2008
Accrued payroll and related liabilities	$ 3,175,792	$ 3,685,203
Construction payables	5,057,398	2,853,363
Interest payable	1,839,148	845,084
Other	3,244,329	3,920,081
Total	$ 13,316,667	$ 11,303,731

(Continued on following page)

NOTE 6 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 84,484,132	$ -	$ 1,397,459	$ 83,086,673
Limited obligation improvement bonds	5,520,034	-	535,106	4,984,928
General obligation bonds	147,903,912	3,176,819	4,187,047	146,893,684
Other post-employment benefit bonds	-	85,880,000	910,000	84,970,000
Lease obligations	11,529	-	11,529	-
Total	$ 237,919,607	$ 89,056,819	$ 7,041,141	$ 319,935,285
Compensated absences	$ 2,426,097	$ 1,957,325	$ 1,661,123	$ 2,722,299
Memo total	$ 240,345,704	$ 91,014,144	$ 8,702,264	$ 322,657,584

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 84,514,807	$ 131,798,660	$ 131,829,335	$ 84,484,132
Limited obligation improvement bonds	6,045,141	-	525,107	5,520,034
General obligation bonds	148,770,858	2,965,102	3,832,048	147,903,912
Lease obligations	29,914	-	18,385	11,529
Total	$ 239,360,720	$ 134,763,762	$ 136,204,875	$ 237,919,607
Compensated absences	$ 2,387,760	$ 1,894,229	$ 1,855,892	$ 2,426,097
Memo total	$ 241,748,480	$ 136,657,991	$ 138,060,767	$ 240,345,704

(Continued on following page)

NOTE 6 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Certificates of Participation		
2008 Conversion of 2004 Variable Rate Certificates of Participation issued in the original amount of $40,280,000 by the Corporation. Final maturity 2034. Interest rates 3.50% to 4.75%.	$ 39,605,000	$ 40,280,000
Reoffering of 2007 Refunding Certificates of Participation issued in the original amount of $45,905,000 by the Corporation. Final maturity 2025. Interest rate 3.00% - 5.00%.	45,155,000	45,905,000
Total certificates of participation	84,760,000	86,185,000
Discount on certificates of participation	(1,673,327)	(1,700,868)
Net certificates of participation	83,086,673	84,484,132
Limited Obligation Improvement Bonds		
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	5,020,000	5,560,000
Total limited obligation improvement bonds	5,020,000	5,560,000
Discount on limited obligation improvement bonds	(35,072)	(39,966)
Net limited obligation improvement bonds	4,984,928	5,520,034

(Continued on following page)

NOTE 6 LONG-TERM LIABILITIES
(Continued)

	June 30, 2009	June 30, 2008
General Obligation Improvement Bonds		
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,773,488	7,827,114
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,354,004	4,287,418
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	13,556,574	16,201,584
Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	55,703,266	55,287,786
Bonds issued in the original amount of $49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	55,087,656	53,194,267
Total general obligation bonds	136,474,988	136,798,169
Premium on general obligation bonds	10,418,696	11,105,743
Net general obligation bonds	146,893,684	147,903,912
Other Post-employment Benefit Bonds		
2008 Taxable OPEB (Other Post-Employment Benefit) Bonds, Series A issued in the original amount of $85,880,000. Final maturity 2047. Interest rate 6.01%.	84,970,000	-

(Continued on following page)

NOTE 6 LONG-TERM LIABILITIES
(Continued)

	June 30, 2009	June 30, 2008
Lease Obligations		
The District leases equipment under lease/purchase agreements, which provide for title to pass upon expiration of the lease period.		
Future minimum lease payments are as follows:		
Year Ended June 30,		
2008	$ -	$ -
2009	-	11,874
Total	-	11,874
Less: Amount representing interest	-	345
Present value of net minimum lease payments	-	11,529
Total long-term debt	319,935,285	237,919,607
Less current portion	6,230,000	5,476,529
Total long-term debt, noncurrent portion	$ 313,705,285	$ 232,443,078

Refunded Debt

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

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

(Continued on following page)

NOTE 6 LONG-TERM LIABILITIES
(Continued)

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

Accretion

General obligation bonds as of June 30, 2009 and 2008 have been increased by $10,394,383 and $7,217,564, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

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

Year Ended June 30,	Bonds Principal	Bonds Interest	Bonds Total	Bond Premium	Total
2010	$ 6,230,000	$ 9,286,343	$ 15,516,343	$ 654,613	$ 16,170,956
2011	7,320,000	11,570,011	18,890,011	654,613	19,544,624
2012	7,398,841	11,933,328	19,332,169	654,613	19,986,782
2013	8,840,000	10,960,324	19,800,324	654,613	20,454,937
2014	8,161,110	12,170,028	20,331,138	654,613	20,985,751
2015 – 2019	53,490,181	55,580,215	109,070,396	3,286,933	112,357,329
2020 – 2024	79,618,355	48,884,846	128,503,201	2,143,623	130,646,824
2025 – 2029	41,765,681	67,792,910	109,558,591	455,512	110,014,103
2030 – 2034	34,741,437	39,568,770	74,310,207	(448,836)	73,861,371
2035 – 2039	14,275,000	13,961,681	28,236,681	-	28,236,681
2040 – 2044	19,120,000	8,978,039	28,098,039	-	28,098,039
2045 – 2048	19,870,000	2,475,517	22,345,517	-	22,345,517
Total	$ 300,830,605	$ 293,162,012	593,992,617	8,710,297	602,702,914
Less interest (excluding accretion of $10,394,383)			282,767,629	-	282,767,629
Net principal			$ 311,224,988	$ 8,710,297	$ 319,935,285

(Continued on following page)

NOTE 7 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2009 and 2008 were $591,227 and $516,970, respectively.

The future minimum lease payments as of June 30, 2009, are as follows:

Year Ended June 30,	Amount
2010	$ 52,145
2011	17,997
2012	9,544
2013	2,085
Total	$ 81,771

NOTE 8 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

(Continued on following page)

NOTE 8 PENSION PLANS

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

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

At June 30, 2009 and 2008, the District employed 410 and 440 certificated employees with a total annual payroll of $38,960,179 and $39,526,416, respectively.

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2009 and 2008, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

NOTE 8 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2009 and 2008, was 9.428% and 9.306% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2007	2008	2009
STRS	$ 3,528,274	$ 3,681,812	$ 3,730,600
PERS	1,839,564	2,038,412	2,195,468
Total	$ 5,367,838	$ 5,720,224	$ 5,926,068

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

The State of California makes contributions to CalSTRS on behalf of the District equaling approximately 4.517% of covered members' gross salaries. The contribution for the years ending June 30, 2009, 2008 and 2007 are estimated to have been $1,931,783, $1,865,081 and $1,766,392, respectively. A District contribution to CalPERS was not required for the years ended June 30, 2009, 2008 and 2007. The payment amounts have been reflected in the basic financial statements as a component of employee benefits expense and other non-operating revenues.

NOTE 9 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

(Continued on following page)

NOTE 10 RISK MANAGEMENT

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

Coverage includes property, liability/auto, crime and boiler/machinery insurance. Liability losses in excess of the District's $2,500 retention amount are covered up to $1,200,000 per occurrence. Coverage above the $1,200,000 level up to $50,000,000 is arranged independently for each member through the Schools Excess Liability Fund (SELF). Property losses in excess of the District's $2,500 retention amount are covered up to $250,000 per occurrence. Coverage above the $250,000 level up to $100,000,000 is arranged independently for each member through the Schools Association for Excess Risk (SAFER). There has been no significant reduction in any of the insurance coverages from prior year. Settled claims resulting from these programs have not exceeded insurance coverage in each of the past three fiscal years.

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2008		September 30, 2008
	SISC I	SISC II	SISC III
Total assets	$ 106,511,376	$ 37,173,738	$ 289,462,505
Total liabilities	63,224,835	24,440,787	120,068,798
Fund balance	$ 43,286,541	$ 12,732,951	$ 169,393,707
Total revenues	$ 20,602,330	$ 22,206,400	$ 942,137,389
Total expenditures	13,383,977	10,270,628	892,290,263
Net increase (decrease) in fund balance	$ 7,218,353	$ 11,935,772	$ 49,847,126

(Continued on following page)

NOTE 10 RISK MANAGEMENT
(Continued)

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2008 and September 30, 2008, respectively.

Financial statements are available from SISC upon request.

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides postemployment health care benefits for eligible employees who retire with CalPERS or CalSTRS pension benefits immediately upon termination of employment from the District through the Kern Community College District Postretirement Health Benefits Plan (the Plan). The Plan is a single employer OPEB plan and obligations of the Plan members and the District are based on negotiated contracts with the various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* (GASB 45) prospectively for the fiscal year ended June 30, 2009.

A. Plan Description

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

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

Currently, the District has 741 active full-time employees who are eligible for postretirement health benefits and 430 retirees who receive postretirement health benefits.

(Continued on following page)

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

B. Funding Policy

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

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

C. Annual OPEB Costs and Net OPEB Obligation

Before the implementation of GASB 45, the District's expenses for postretirement health benefits were recognized only when paid. The District's annual OPEB cost (expense) is now calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period of 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the year ended June 30, 2009:

Annual OPEB cost for the year (ARC)	$ 4,907,633
Contributions made for the year	(87,354,581)
Prepaid net OPEB obligation	(82,446,948)
Net OPEB prepaid, beginning of the year	-
Net OPEB prepaid, end of year	$ (82,446,948)

(Continued on following page)

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

C. Annual OPEB Costs and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2009 is as follows (since this is the first year of implementation, only the current year information is presented):

Fiscal Year Ended	Annual OPEB Costs	Percentage of annual OPEB costs Contributed	Net OPEB Prepaid
06/30/2009	$ 4,907,633	1728%	$(82,446,948)

D. Funded Status Information

The District's funding status information is illustrated as follows:

Actuarial valuation date	September 1, 2008
Actuarial value of assets	$ -
Actuarial accrued liability (AAL)	$ 85,291,402
Unfunded AAL (UAAL)	$ 85,291,402
Funded ratio	0%
Covered payroll	$ 56,764,955
UAAL as a % of covered payroll	150.26%

As of June 30, 2009, the District has set aside approximately $84,782,678 in an external trust fund and the fair value of the trust fund as of June 30, 2009 was approximately $86,379,071.

(Continued on following page)

NOTE 11 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

E. Actuarial Methods and Assumptions

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

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

In the September 2008 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5% discount rate based on the assumption that a substantial portion of the ARC is funded. A 3.0% price inflation and a 3.0% wage inflation assumptions were used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

(Continued on following page)

NOTE 12 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2009. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,019,408	$ 484,262	$ 64,405	$ -	$ 1,568,075
Ancillary services	4,422,478	1,712,229	7,618,898	31,156	13,784,761
Auxiliary services	144,607	67,815	-	-	212,422
Community services and economic development	301,834	81,028	168,571	-	551,433
Depreciation expense	-	-	-	6,603,303	6,603,303
Institutional support services	10,117,103	5,201,831	6,662,910	-	21,981,844
Instructional administration	7,598,148	2,542,453	1,254,548	-	11,395,149
Instructional activities	41,610,723	11,605,160	3,561,393	-	56,777,276
Instructional support services	1,568,793	622,350	350,029	-	2,541,172
Long-term debt and other financing	-	74,342	2,206,964	-	2,281,306
Other student services	6,040,359	1,859,113	31,330,129	-	39,229,601
Physical property and related acquisitions	422,129	132,751	485,998	-	1,040,878
Planning policy making and coordination	564,710	237,565	502,059	-	1,304,334
Plant operations and maintenance	2,609,096	1,380,525	4,407,197	-	8,396,818
Student counseling and guidance	3,154,053	919,795	213,156	-	4,287,004
Transfers, student aid and other outgo	-	-	95,136	-	95,136
Total	$ 79,573,441	$ 26,921,219	$ 58,921,393	$ 6,634,459	$ 172,050,512

(Continued on following page)

NOTE 12 FUNCTIONAL EXPENSES
(Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2008. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,028,508	$ 425,007	$ 70,925	$ -	$ 1,524,440
Ancillary services	4,997,966	1,741,421	7,216,138	31,157	13,986,682
Auxiliary services	84,670	42,655	-	-	127,325
Community services and economic development	755,921	197,718	815,703	-	1,769,342
Depreciation expense	-	-	-	6,270,545	6,270,545
Institutional support services	8,999,304	5,884,129	6,312,444	-	21,195,877
Instructional administration	5,769,783	1,839,973	654,024	-	8,263,780
Instructional activities	41,060,419	12,034,788	4,256,771	-	57,351,978
Instructional support services	2,019,660	647,157	498,149	-	3,164,966
Long-term debt and other financing	-	-	863,020	-	863,020
Other student services	5,955,577	1,614,482	1,227,832	-	8,797,891
Physical property and related acquisitions	275,956	82,448	1,995,543	-	2,353,947
Planning policy making and coordination	967,941	348,174	612,707	-	1,928,822
Plant operations and maintenance	2,569,069	1,220,688	4,137,158	-	7,926,915
Student counseling and guidance	3,136,377	820,044	303,302	-	4,259,723
Transfers, student aid and other outgo	-	-	23,283,402	-	23,283,402
Total	$ 77,621,151	$ 26,898,684	$ 52,247,118	$ 6,301,702	$ 163,068,655

(Continued on following page)

NOTE 13 COMMITMENTS

As of June 30, 2009, the District had unfinished construction contracts under the following project categories:

Bakersfield College Thermal Energy Storage	$ 3,422,383
Bakersfield College Baseball/Softball Modernization	541,648
Delano Relocatables	1,335,188
Cerro Coso Community College Science Modernization	3,391,394
Porterville College Wellness Modernization	4,123,002
Porterville College Library Expansion	1,949,806
Other projects	50,900
	$ 14,814,321

As of June 30, 2008, the District had unfinished construction contracts under the following project categories:

Bakersfield College Wellness Center Modernization	$ 1,207,285
Bakersfield College Baseball/Softball Modernization	1,025,669
Bakersfield College Supportive Services Modernization	769,007
Bakersfield College Maintenance and Operations Modernization	357,960
Bakersfield College Campus Center Modernization	275,550
Delano Relocatables	2,689,752
Cerro Coso Community College Vocational	774,728
Cerro Coso Community College Main Building	667,382
Cerro Coso Community College Fine Arts Lab	326,882
Porterville College Library Expansion	4,955,152
Porterville College Allied Health	760,815
Porterville College Science Modernization	634,131
Porterville College Stadium Parking Lot	534,050
Porterville College Fine Arts	366,000
Other projects	904,151
	$ 16,248,514

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KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2009

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Mr. Stuart O. Witt	President	Ridgecrest	December 2010
Mr. John A. Rodgers	Vice President	Central Bakersfield	December 2010
Mr. Dennis Beebe	Clerk	Southwest Bakersfield	December 2012
Ms. Rose Marie Bans	Member	Northeastern Kern County	December 2012
Mr. John Corkins	Member	Porterville	December 2010
Mrs. Pauline Larwood	Member	Central Bakersfield	December 2010
Mrs. Kay S. Meek	Member	Southwest Bakersfield	December 2012

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Doris Givens	Associate Chancellor, Educational Services
Mr. Ibrahim Ali	Vice Chancellor, Human Resources
Mr. Sean James	Vice Chancellor, Operations

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
Passed through State Department of Education -		
Child Care Food Program	10.555	$ 220,475
Total Department of Agriculture		220,475
Department of Education:		
Student Financial Aid Cluster		
Federal Supplemental Educational Opportunity Grants	84.007	509,398
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	542,683
Federal Pell Grant Program	84.063	27,952,523
Academic Competitiveness Grant	84.375	95,136
Total Student Financial Aid Cluster		29,099,740
Higher Education - Institutional Aid	84.031	459,975
TRIO - Student Support Services	84.042	264,245
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	988,550
Vocational Education - Tech Prep Education	84.243	475,271
Total Department of Education		31,287,781
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	65,486
Total Department of Health and Human Services		65,486
Small Business Administration		
Passed through Regents University of CA -		
SBDC UC Merced	59.037	26,666
Passed through College of Sequoia -		
Title V COS Cooperative	59.037	271,432
Total Small Business Administration		298,098
Total Federal Expenditures		$ 31,871,840

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

YEAR ENDED JUNE 30, 2009

Description	Program Revenues: Cash Received	Program Revenues: Increase (Decrease) Accounts Receivable	Program Revenues: (Increase) Decrease in Deferred Income	Program Revenues: Total	Total Program Expenditures
Extended Opportunity Programs and Services	2,565,488	-	-	2,565,488	2,565,488
CalGrant	2,668,415	(29,063)	53,598	2,692,950	2,692,950
Disabled Students Programs and Services	2,053,669	-	-	2,053,669	2,053,669
CalWorks	651,436	(1,742)	3,917	653,611	653,611
Matriculation	1,440,469	-	18,418	1,458,887	1,458,887
Foster Parent	202,809	(144,533)	95,204	153,480	153,480
IDRC Grant	42,236	(13,636)	-	28,600	28,600
Project Care	384,223	-	62,446	446,669	446,669
BFAP	879,992	-	15,878	895,870	895,870
Small Business Center	126,000	(24,000)	72,000	174,000	174,000
REBRAC	205,000	(36,900)	57,700	225,800	225,800
Workplace Learning Center	205,000	(36,900)	57,700	225,800	225,800
Instructional Equipment Ongoing	201,851	(113)	-	201,738	201,738
PC Development Service	44,160	(57,410)	71,836	58,586	58,586
PC Development Center	420,385	-	-	420,385	420,385
TTIP	108,108	-	-	108,108	108,108
Psych Tech	579,466	(222,208)	36,727	393,985	393,985
Career Tech Education 07/08	369,700	-	-	369,700	369,700
Career Tech Education 08/09	703,662	-	-	703,662	703,662
Basic Skills	506,884	-	-	506,884	506,884
All other categorical	900,244	1,936,691	(997,772)	1,839,163	1,839,163
	$ 15,259,197	$ 1,370,186	$ (452,348)	$ 16,177,035	$ 16,177,035

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT

ANNUALIZED ATTENDANCE AS OF JUNE 30, 2009

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2008 Only)			
1. Noncredit	14.96		14.96
2. Credit	1,129.46		1,129.46
B. Summer Intersession (Summer 2009 Prior to July 1, 2009)			
1. Noncredit	-		-
2. Credit	127.16		127.16
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,579.92		13,579.92
(b) Daily Census Contact Hours	733.43		733.43
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	163.14		163.14
(b) Credit	2,344.85		2,344.85
3. Independent Study/Work Experience Education Courses			
(a) Weekly Census Procedure Courses	1,928.85		1,928.85
(b) Daily Census Procedure Courses	425.09		425.09
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	20,446.86		20,446.86
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	566.09		566.09
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	99.52		99.52
2. Credit	1,468.42		1,468.42
CCFS-320 Addendum			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	93.04		93.04
2. Credit	4,257.88		4,257.88

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2009

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2009 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 36,738,410	$ 15,899,999	$ 47,160,993	$ (61,597)	$ 210,238
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	1,515,814	644,791			-
Audit adjustments	242,532	-	(55,087)	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	-	(1)	(1)	
Net adjustments and reclassifications	1,758,346	644,791	(55,088)	(1)	-
June 30, 2009 District Accounting Records Fund Balance	$ 38,496,756	$ 16,544,790	$ 47,105,905	$ (61,598)	$ 210,238

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ 94,013,710	$ 2,302,296	$ 119,816	$ 192,096	$ 86,189,549	$ 289,398	$ 31,035	$ 526,896
	46,287	-	(101,205)	292,923	-	-	-
(2,205,858)	-	-	-	(86,530,737)	-	-	-
-	-	-	-	-	(289,398)	(31,035)	(526,896)
-	-	2	-	-	-	-	-
(2,205,858)	46,287	2	(101,205)	(86,237,814)	(289,398)	(31,035)	(526,896)
$ 91,807,852	$ 2,348,583	$ 119,818	$ 90,891	$ (48,265)	$ -	$ -	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2009

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 33,426,649	$ -	$ (2,298,532)	$ (37,154)
Restricted cash and cash equivalents	3,336,342	16,580,156	-	-
Accounts receivable, net	12,331,671	45,434	438,848	111,143
Prepaid expenses	11,919	-	-	-
Inventories	-	-	-	-
Due from other funds	75,000	-	-	-
Total current assets	49,181,581	16,625,590	(1,859,684)	73,989
Noncurrent assets:				
Restricted investments	-	-	48,965,589	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	48,965,589	-
Total assets	$ 49,181,581	$ 16,625,590	$ 47,105,905	$ 73,989
LIABILITIES				
Accounts payable	$ 6,176,594	$ 5,800	$ -	$ 85,587
Deferred revenue	4,508,231	-	-	50,000
Due to other funds	-	75,000	-	-
Amounts held for others	-	-	-	-
Total liabilities	10,684,825	80,800	-	135,587
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	16,544,790	47,105,905	-
Reserved for special purposes	9,452,128	-	-	-
Unreserved:				
Undesignated	29,044,628	-	-	(61,598)
Total fund equity (deficit)	38,496,756	16,544,790	47,105,905	(61,598)
Total liabilities and fund equity (deficit)	$ 49,181,581	$ 16,625,590	$ 47,105,905	$ 73,989

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ 210,238	$ 7,162,184	$ (176,618)	$ 110,304	$ -	$ -	$ -
-	83,097,506	-	-	98,674	(736,448)	494,035
-	4,022,247	434,638	827	1,650	713,758	68,453
-	-	-	-	-	-	-
-	-	1,489,732	15,544	-	-	-
-	-	-	-	-	-	-
210,238	94,281,937	1,747,752	126,675	100,324	(22,690)	562,488
-	-	-	-	-	-	-
-	-	600,845	-	-	-	-
-	-	600,845	-	-	-	-
$ 210,238	$ 94,281,937	$ 2,348,597	$ 126,675	$ 100,324	$ (22,690)	$ 562,488
$ -	$ 2,462,772	$ -	$ 6,857	$ -	$ 25,575	$ 114,240
-	11,313	14	-	9,433	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	448,248
-	2,474,085	14	6,857	9,433	25,575	562,488
-	-	-	-	-	-	-
210,238	91,807,852	2,348,583	-	90,891	(48,265)	-
-	-	-	119,818	-	-	-
210,238	91,807,852	2,348,583	119,818	90,891	(48,265)	-
$ 210,238	$ 94,281,937	$ 2,348,597	$ 126,675	$ 100,324	$ (22,690)	$ 562,488

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2009

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 38,397,071
Restricted cash and cash equivalents	48,659	597,119	103,516,043
Accounts receivable, net	-	-	18,168,669
Prepaid expenses	-	-	11,919
Inventories	-	-	1,505,276
Due from other funds	-	-	75,000
Total current assets	48,659	597,119	161,673,978
Noncurrent assets:			
Restricted investments	-	-	48,965,589
Capital assets, net	-	-	600,845
Total noncurrent assets	-	-	49,566,434
Total assets	$ 48,659	$ 597,119	$ 211,240,412
LIABILITIES			
Accounts payable	$ 3,065	$ 3,194	$ 8,883,684
Deferred revenue	14,559	67,030	4,660,580
Due to other funds	-	-	75,000
Amounts held for others	31,035	526,895	1,006,178
Total liabilities	48,659	597,119	14,625,442
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	63,650,695
Reserved for special purposes	-	-	103,861,427
Unreserved:			
Undesignated	-	-	29,102,848
Total fund equity (deficit)	-	-	196,614,970
Total liabilities and fund equity (deficit)	$ 48,659	$ 597,119	$ 211,240,412

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2009

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$ 14,258,468	$ -	$ -	$ -
Less: scholarship discount and allowance	6,276,492	-	-	-
Net tuition and fees	7,981,976	-	-	-
Grants and contracts, non-capital:				
Federal	3,835,850	-	-	220,475
State	14,611,703	-	-	3,122,800
Local	1,063,660	-	-	-
Auxiliary enterprise sales and charges	47,632	-	-	-
Other operating revenues	606,179	3,038,400	-	-
Total operating revenues	28,147,000	3,038,400	-	3,343,275
OPERATING EXPENDITURES/EXPENSES				
Salaries	74,825,261	-	-	2,974,300
Employee benefits	21,200,710	-	-	1,022,089
Payments to students	670,703	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	14,839,690	59,094	3,049,303	259,110
Capital outlay	1,449,172	-	-	7,648
Utilities	3,414,245	-	-	56,620
Depreciation	-	-	-	-
Total operating expenditures/expenses	116,399,781	59,094	3,049,303	4,319,767
OPERATING INCOME (LOSS)	(88,252,781)	2,979,306	(3,049,303)	(976,492)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	52,730,811	-	-	-
Local property taxes	44,929,596	-	-	-
State taxes and other revenues	2,953,350	87,820	-	-
Investment income, non-capital	1,300,842	313,272	2,502,980	11,120
Debt service	(5,707,583)	(11,166,832)	-	-
Cost of issuance	-	(1,116,387)	-	-
Other non-operating expenditures/expenses	(1,086,125)	-	-	-
Total non-operating revenues (expenditures)	95,120,891	(11,882,127)	2,502,980	11,120

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ -	$ 35,626	$ -	$ -	$ -	$ -	$ -
-	200	-	-	-	-	-
-	35,426	-	-	-	-	-
-	-	-	-	486,615	28,007,012	-
-	-	-	-	-	2,692,950	-
19,741	5,055	-	-	-	-	-
-	-	7,902,495	1,217,785	-	-	-
-	45,955	291,396	-	-	-	-
19,741	86,436	8,193,891	1,217,785	486,615	30,699,962	-
-	283,792	859,429	334,457	-	-	-
-	74,155	188,853	167,899	-	84,782,678	-
-	-	-	-	486,615	30,699,962	-
-	19,717,405	6,308,164	560,555	-	-	-
-	472,362	-	-	-	-	-
-	1,628	649	6,480	-	-	-
-	-	31,156	-	-	-	-
-	20,549,342	7,388,251	1,069,391	486,615	115,482,640	-
19,741	(20,462,906)	805,640	148,394	-	(84,782,678)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,724,074	-	-	-	-	-
-	-	-	-	-	(1,097,322)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,724,074	-	-	-	(1,097,322)	-

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2009

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	6,868,110	(8,902,821)	(546,323)	(965,372)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	9,027,788	-	-
Gifts and grants, capital	-	-	-	-
Excess of revenues over (under) expenditures	6,868,110	124,967	(546,323)	(965,372)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	-
Operating transfers in	2,105,036	-	255,000	1,060,083
Operating transfers out	(3,462,006)	(32,620)	-	(66,048)
Certificates of participation bonds issued	-	-	-	-
Premium on bond issuance	-	-	-	-
Total other financing sources (uses)	(1,356,970)	(32,620)	255,000	994,035
Excess of revenues and other financing sources over (under) expenditures and other financing uses	5,511,140	92,347	(291,323)	28,663
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	32,985,616	16,452,443	47,397,228	(90,261)
FUND EQUITY (DEFICIT), END OF YEAR	$ 38,496,756	$ 16,544,790	$ 47,105,905	$ (61,598)

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
19,741	(17,738,832)	805,640	148,394	-	(85,880,000)	-
-	4,490,620	-	-	-	-	-
-	-	-	-	-	-	-
-	1,348,860	-	-	-	-	-
19,741	(11,899,352)	805,640	148,394	-	(85,880,000)	-
-	-	-	-	-	85,880,000	-
-	2,707,769	-	-	-	(19,449,000)	-
-	(2,320,111)	(247,103)	-	-	19,449,000	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	387,658	(247,103)	-	-	85,880,000	-
19,741	(11,511,694)	558,537	148,394	-	-	-
190,497	103,319,546	1,790,046	(28,576)	90,891	(48,265)	-
$ 210,238	$ 91,807,852	$ 2,348,583	$ 119,818	$ 90,891	$ (48,265)	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2009

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 14,294,094
Less: scholarship discount and allowance	-	-	6,276,692
Net tuition and fees	-	-	8,017,402
Grants and contracts, non-capital:			
Federal	-	-	32,549,952
State	-	-	20,427,453
Local	-	-	1,088,456
Auxiliary enterprise sales and charges	-	-	9,167,912
Other operating revenues	-	-	3,981,930
Total operating revenues	-	-	75,233,105
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	79,277,239
Employee benefits	-	-	107,436,384
Payments to students	-	-	31,857,280
Supplies, materials, and other operating expenditures/expenses and services	-	-	44,793,321
Capital outlay	-	-	1,929,182
Utilities	-	-	3,479,622
Depreciation	-	-	31,156
Total operating expenditures/expenses	-	-	268,804,184
OPERATING INCOME (LOSS)	-	-	(193,571,079)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	52,730,811
Local property taxes	-	-	44,929,596
State taxes and other revenues	-	-	3,041,170
Investment income, non-capital	-	-	6,852,288
Debt service	-	-	(17,971,737)
Cost of issuance	-	-	(1,116,387)
Other non-operating expenditures/expenses	-	-	(1,086,125)
Total non-operating revenues (expenditures)	-	-	87,379,616

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2009

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	$ (106,191,463)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	4,490,620
Local property taxes and revenues, capital	-	-	9,027,788
Gifts and grants, capital	-	-	1,348,860
Excess of revenues over (under) expenditures	-	-	(91,324,195)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	85,880,000
Operating transfers in	-	-	(13,321,112)
Operating transfers out	-	-	13,321,112
Limited obligation improvement bonds issued	-	-	-
Payment to refunded bond escrow agent	-	-	-
Total other financing sources (uses)	-	-	85,880,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(5,444,195)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	-	-	202,059,165
FUND EQUITY (DEFICIT), END OF YEAR	$ -	$ -	$ 196,614,970

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2009

Total Fund Equity - District Funds Included in the Reporting Entity		$ 196,614,970
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 205,369,330	
Accumulated depreciation	(63,629,434)	141,739,896
Nondepreciable capital assets		70,051,667
Other post employment benefits obligation		82,446,948
Deferred costs, net		3,551,329
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,838,998)
Retentions payable		(2,593,985)
Compensated absences	(2,722,299)	
Long-term debt	(319,935,285)	(322,657,584)
Net assets reported within the GASB 35 Statement of Net Assets		$ 167,314,243

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ (5,444,195)
Compensated absence expense addition reported within GASB 35 Statements	(296,202)
Depreciation expense reported within GASB 35 Statements	(6,603,303)
Amortization of bond issuance cost reported within the GASB 35 Statements	(207,841)
Amortization of bond premium reported within the GASB 35 Statements	654,613
Capital outlay expense not reported within the GASB 35 Statements	20,918,203
Retentions payable reported within the GASB 35 Statements	(1,303,245)
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(2,607,575)
Costs from issuance of bonds not reported within the GASB 35 Statements	1,116,387
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(85,880,000)
Principal payments on debt not reported within the GASB 35 Statements	6,386,529
Prepaid expense of other post employment benefits reported within the GASB 35 Statements	82,446,948
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 9,180,319

The accompanying notes to the supplementary information are an integral part of this supplementary information.

NOTE 1 PURPOSE OF SCHEDULES

<u>Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards</u>

The audit of the Kern Community College District for the year ended June 30, 2009 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

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

<u>Schedule of Workload Measures for State General Apportionment</u>

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2009, represents the basis of apportionment of the Kern Community College District's annual source of funding.

<u>Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records</u>

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted $4,028,623 in loans under the Federal Family Education Loan Program for the year ended June 30, 2009.

(Continued on following page)

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

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NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 3, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to management of the District in a separate letter dated December 3, 2009.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 3, 2009

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 3, 2009

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated December 3, 2009.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts

6. Apportionments – Enrollment Fee

7. Apportionments – Students Actively Enrolled

8. Open Enrollment

9. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds

2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

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

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

In our opinion, except for the finding 2009-1 through 2009-3, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 3, 2009

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No significant deficiencies relating to the audit of the financial statements is reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The independent auditors' report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion.

6. There are no audit findings relative to the major federal award programs for Kern Community College District.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement. 2) Career and Technical Education – Basic Grants to States (Perkins IV) (CFDA 84.048).

8. The threshold for distinguishing Type A and B programs was $967,405.

9. Kern Community College District qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2009-1 Concurrent Enrollment – Physical Education Courses

Statement of Condition: During our testing in the current year, we noted that the District does not have a process in place to ensure that concurrent enrollment in any single physical education section does not exceed 10% of total enrollment in the section. The District claimed 3.28 FTES of concurrent enrollment which should have been excluded as a result.

Cause of Condition: The individual campuses do not properly exclude the concurrent enrollment students that exceeded the 10% limitation when reviewing the data for the 320 submission.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: We recommend the District put a procedure in place to track concurrent enrollments in physical education classes to ensure that not greater than 10% of the enrollment in a given section is concurrent enrollment students.

Response: The District will put procedures in place to review and properly exclude excess concurrent enrollments in physical education classes. Due to the District being over the apportionment cap by 486 FTES, failure to properly exclude the excess concurrent enrollment will not result in an apportionment adjustment.

D. FINDINGS – STATE COMPLIANCE AUDIT

2009-2 – Concurrent Enrollment

Statement of Condition: During our testing of concurrent enrollment, we noted that the District does not have appropriate controls in place to ensure only concurrently enrolled students are coded as such in the Banner accounting software.

Cause of Condition: Students fill out enrollment application incorrectly, which leads to them being classified as concurrent when they are not.

Effect of Condition: Without proper coding of students in Banner, the calculations necessary to comply with the 5% and 10% requirements may not be accurate.

Recommendation: We recommend the District implement procedures to ensure that all students are correctly classified as special-admit or regular-admit students.

Response: The District will create a report to identify all concurrent students. This report will help Admissions and Records monitor the status of concurrently enrolled students. The report will be run several times during each term and used to make corrections as necessary.

2009-3 – Concurrent Enrollment

Statement of Condition: In a sample of thirty-six students, one student file did not contain required documentation of the recommendation of the student's principal or school's authorized agent to enroll in community college courses.

Cause of Condition: The individual campuses need to be more diligent in their review and acceptance of concurrent enrollment applications.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: The District should implement procedures to ensure that required principal or authorized agent recommendations are obtained from all concurrent enrollment students claimed for FTES.

Response: Admissions and Records will be more diligent each semester in ensuring that each concurrent student will have a properly filled out authorization sheet before being enrolled. Training will be emphasized to ensure that all Admissions and Records staffs are updating applications.

2008-1 Concurrent Enrollment – Physical Education Courses

Statement of Condition: During our testing in the prior year, we noted that the District does not have a process in place to ensure that not more than 10% of the enrollment claimed for a given physical education course section consisted of concurrent enrollment students. The District over claimed 6.747714 FTES as a result.

Cause of Condition: The individual campuses do not communicate with the District office regarding the concurrent enrollment students in a course section.

Effect of Condition: The District was not in compliance with the Chancellor's Office requirements.

Recommendation: We recommended the District put a procedure in place to track concurrent enrollments in physical education classes to ensure that not greater than 10% of the enrollment in a given section is concurrent enrollment students.

Status: See current year finding.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

This letter does not affect our report dated December 3, 2009, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2009-C – SUSPENSION AND DEBARMENT

Finding

Federal guidelines (OMB Circular A-133 Compliance Supplement Section I) stipulate that recipients of Federal funds do not contract for goods or services totaling $25,000 or more with vendors who are suspended or debarred. While it does not appear the District has made such contracts, we noted there are no procedures in place to insure they do not contract with such entities.

Recommendation

We recommend the District implement procedures to ensure vendors paid with Federal dollars are not suspended or debarred. This can be accomplished through certification from the vendor or reference to the Excluded Parties List System, available online.

Status

The District will put a procedure in place to ensure vendors contracted and paid with Federal dollars in excess of $25,000 are not suspended or debarred by requesting certification from any vendor contracted in excess of $25,000.

2009-2 – Return to Title IV Funds

Finding

The District did not submit credits or payments to Title IV programs for unearned assistance within the required 45 days after the date the District determined that the student withdrew from the Porterville and Cerro Coso campuses. OMB Circular A-133 – Clusters – Student Financial Assistance Programs, Part N(4); requires institutions return Title IV funds no later than 45 days after the date the institution determines the student withdrew from a class or no later than 30 days after it determines that a student will not or has not begun attendance.

Recommendation

We recommend that the District develop procedures to assure that all funds are returned within 45 days of notification that a student has dropped.

Status

Financial Aid departments will use the process and worksheet the District's analyst developed, which populates much of the needed student data from Banner. Financial Aid departments will also add a check-off list on the worksheet to ensure that all the steps are properly completed and the funds returned. A Financial Aid Technician will also be trained as a backup in the completion of the Return to Title IV process. Financial Aid will continue discussions with the KCCD Banner Financial Aid Team to improve the Banner automation of Return to Title IV.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

None noted.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2009. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

Nystrom & Company LLP

NYSTROM & COMPANY LLP
Certified Public Accountants

December 3, 2009

KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

KERN COMMUNITY COLLEGE DISTRICT

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KERN COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2010 AND 2009

INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.

To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.

To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.

To determine whether financial and financially related reports to state and federal agencies are presented fairly.

To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the California State Department of Finance. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2010, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 remaining supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of State Financial Awards, which is presented for purposes of additional analysis as required by the California Community Colleges Chancellor's Office, are not a required part of the basic financial statements of the District. This supplementary information is the responsibility of management and was 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.

Nystrom & Company LLP

November 15, 2010

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

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

OVERVIEW

The ongoing California budget issues can be easily summarized using the title of a song by the English musical group Led Zeppelin; "*The Song Remains The Same*". Once again the California State budget continues to maintain a structural imbalance between revenues and expenditures resulting in significant ongoing annual budget deficits. The District has positioned itself financially in anticipation of future funding reductions from the State. The District has accomplished this through the continued implementation of expenditure control initiatives, organizational changes, management of reserves, conservative budget planning and management of student enrollment limits. These actions have significantly increased overall reserves and concurrently tempered cost increases. The District's goal is to minimize the effect of these continuous State Budget deficits on the Districts various stakeholders until the State's economy and funding recovers.

The District's total assets grew slightly from $509 million to $510 million. Total Liabilities decreased slightly from $341 million to $337 million. This decrease of $4 million was primarily due to a decrease of $2.4 million of accounts payable and a $2.0 million decrease in long-term debt. Overall revenues of $205 million exceeded expenditures of $200 million resulting in an increase in Net Assets $5 million.

Overall Revenues increased $10.0 million over the prior year. This was primarily due to increased federal financial aid of $19 million, state noncapital apportionments of $6.0 million and increases in local grants and contracts of $1.0 million. These increases were offset by decreases in state grants and contracts of $4.4 million, local property taxes of $5.8 million, investment income of $3.6 million, auxiliary and enterprise sales of $1.1 million and capital outlay revenues of $1.4 million.

Expenditures increased $12.4 million. This increase was primarily due to increased student financial aid payments of $18.8 million. This increase was partially offset by decreases in debt service expense of $2.6 million, salaries of $1.2 million, supplies materials and other expenses of $1.7 million and interest expense of $844K.

STATEMENT OF NET ASSETS

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

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

- Invested in capital assets, net of related debt – The District's equity in property, plant, and equipment.

- Restricted net assets (distinguishing between major categories of restriction) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

- Unrestricted net assets – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

STATEMENT OF CASH FLOWS

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

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KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2010	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,937,162	$ 38,397,071
Restricted cash and cash equivalents	96,807,886	103,516,043
Accounts receivable, net	21,386,590	18,168,669
Prepaid expenses	83,575	11,919
Inventories	1,393,406	1,505,276
Total current assets	142,608,619	161,598,978
Noncurrent assets:		
Restricted investments	65,477,598	48,965,589
Other post employment benefits obligation	77,578,164	82,446,948
Depreciable capital assets, net	140,179,342	142,340,741
Nondepreciable capital assets	80,615,931	70,051,667
Deferred costs, net	3,922,966	3,551,329
Total noncurrent assets	367,774,001	347,356,274
Total assets	$ 510,382,620	$ 508,955,252
LIABILITIES		
Current liabilities:		
Accounts payable	$ 10,896,858	$ 13,316,667
Deferred revenue	4,071,321	4,660,580
Compensated absences, current portion	1,780,385	1,662,123
Long-term debt, current portion	6,640,000	6,230,000
Amounts held for others	909,169	1,006,178
Total current liabilities	24,297,733	26,875,548
Noncurrent liabilities:		
Compensated absences, noncurrent portion	1,172,025	1,060,176
Long-term debt, noncurrent portion	311,878,944	313,705,285
Total noncurrent liabilities	313,050,969	314,765,461
Total liabilities	337,348,702	341,641,009
NET ASSETS		
Investments in capital assets, net of related debt	56,670,412	80,350,913
Restricted - expendable	37,881,171	25,864,605
Unrestricted	78,482,335	61,098,725
Total net assets	173,033,918	167,314,243
Total liabilities and net assets	$ 510,382,620	$ 508,955,252

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended June 30, 2010	2009
OPERATING REVENUES		
Tuition and fees	$ 16,278,879	$ 14,294,094
Less: scholarship discount and allowance	8,745,756	6,276,692
Net tuition and fees	7,533,123	8,017,402
Grants and contracts, non-capital:		
Federal	51,982,055	32,549,952
State	16,060,583	20,427,453
Local	2,320,463	1,088,456
Auxiliary enterprise sales and charges	8,045,839	9,167,912
Other operating revenues	1,570,300	936,241
Total operating revenues	87,512,363	72,187,416
OPERATING EXPENSES		
Salaries	78,410,656	79,573,441
Employee benefits	26,620,205	26,921,219
Payments to students	50,682,426	31,857,280
Supplies, materials, other operating expenses and services	22,372,052	23,584,491
Utilities	3,112,010	3,479,622
Depreciation	6,539,934	6,634,459
Total operating expenses	187,737,283	172,050,512
OPERATING LOSS	(100,224,920)	(99,863,096)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	58,731,177	52,730,811
Local property taxes, non-capital	39,105,935	44,929,596
State taxes and other revenues	3,457,879	3,041,170
Investment income, non-capital	3,215,012	6,852,288
Interest expense, capital asset-related debt	(12,441,225)	(14,223,376)
Other non-operating revenue (expense)	1,436,443	845,658
Total non-operating revenues (expenses)	93,505,221	94,176,147
LOSS BEFORE OTHER REVENUES AND EXPENSES	(6,719,699)	(5,686,949)
State apportionments, capital	3,110,580	4,490,620
Local property taxes and revenues, capital	8,826,882	9,027,788
Gifts and grants, capital	501,912	1,348,860
INCREASE IN NET ASSETS	5,719,675	9,180,319
NET ASSETS, BEGINNING OF YEAR	167,314,243	158,133,924
NET ASSETS, END OF YEAR	$ 173,033,918	$ 167,314,243

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 7,931,252	$ 7,175,863
Federal grants and contracts	51,798,334	32,698,752
State grants and contracts	18,348,857	17,609,434
Local grants and contracts	1,025,677	1,666,680
Payments to/on behalf of employees	(77,111,007)	(79,786,650)
Payments for benefits	(19,735,573)	(107,436,384)
Payments for scholarships and grants	(50,682,426)	(31,857,280)
Payments to suppliers	(22,032,939)	(24,421,847)
Payments for utilities	(3,112,010)	(3,479,622)
Auxiliary enterprise sales and charges	7,838,525	8,878,992
Other receipts	1,527,227	1,231,710
Net cash used by operating activities	(84,204,083)	(177,720,352)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	53,220,667	50,071,593
Local property taxes	39,105,935	44,929,596
State taxes and other revenues	3,399,852	3,595,844
Other receipts (payments)	(579,405)	(1,086,125)
Net cash provided by non-capital financing activities	95,147,049	97,510,908
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	3,110,580	4,490,620
Local property taxes, capital	8,826,882	9,027,788
Gifts and grants, capital	501,912	-
Purchases of capital assets	(17,757,321)	(20,279,708)
Interest paid on capital debt	(13,660,250)	(9,150,404)
Principal paid on capital debt	(51,185,000)	(6,386,529)
Proceeds from capital debt	50,349,162	84,763,613
Net cash provided (used) by capital and related financing activities	(19,814,035)	62,465,380
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	47,108,822	30,813,221
Purchase of investments	(63,620,831)	(30,332,147)
Interest on investments	3,215,012	6,852,288
Net cash provided (used) by investing activities	(13,296,997)	7,333,362

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2010	2009
NET CHANGE IN CASH AND CASH EQUIVALENTS	(22,168,066)	(10,410,702)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	141,913,114	152,323,816
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 119,745,048	$ 141,913,114
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 22,937,162	$ 38,397,071
Restricted cash and cash equivalents	96,807,886	103,516,043
Total cash and cash equivalents	$ 119,745,048	$ 141,913,114
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (100,224,920)	$ (99,863,096)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	6,539,934	6,634,459
On behalf payments	2,015,848	1,931,783
Increase in allowance for doubtful accounts	706,839	-
(Increase) decrease in:		
Accounts receivable	1,643,777	(2,397,507)
Prepaid expenses	(71,656)	13,527
Other post employment benefits obligation	4,868,784	(82,446,948)
Inventories	111,870	(175,131)
Increase (decrease) in:		
Accounts payable	661,598	(1,185,163)
Deferred revenue	(589,259)	(458,544)
Compensated absences	230,111	296,202
Amounts held for others	(97,009)	(69,934)
Net cash used by operating activities	$ (84,204,083)	$ (177,720,352)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	$ 610,842	$ 1,116,387

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District's annual financial statements using the blending method.

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

Exceptions to the accrual basis of accounting are as follows:

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

RESTRICTED CASH AND INVESTMENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance for uncollectible accounts is calculated by applying certain percentages to each aging group. The allowance was estimated at $2,206,839 and $1,500,000 for the years ended June 30, 2010 and 2009, respectively.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 2,309,640

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was $239,205 and $207,841 for the years ended June 30, 2010 and 2009, respectively and is included in depreciation expense.

NET ASSETS

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

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year as well as State budgets and other factors outside the District's control. In February, subsequent to the year end, the State will perform a recalculation based on actual financial and statistical information for the year just completed. The District's policy is to estimate the recalculation correction to apportionment, if any, based on factors it can reasonably determine such as local property tax revenue received and reductions in FTES. Any additional corrections determined by the State are recorded in the year computed by the State.

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ON-BEHALF PAYMENTS

GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by an entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all Community College Districts in California. These payments are included in employee benefits expense and other non-operating revenues.

RECLASSIFICATIONS

Certain 2009 amounts have been reclassified to conform with the 2010 financial statement presentation.

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2010 and 2009, are displayed on the statement of net assets as follows:

	June 30, 2010	June 30, 2009
Cash and cash equivalents	$ 22,937,162	$ 38,397,071
Restricted cash and cash equivalents	96,807,886	103,516,043
Total cash and cash equivalents	$ 119,745,048	$ 141,913,114

Deposits – At June 30, 2010 and 2009, the carrying amount of the District's deposits is summarized as follows:

	June 30, 2010	June 30, 2009
Cash in County Treasury	$ 97,828,886	$ 121,488,638
Cash on hand and in banks	8,390,246	4,506,127
Cash held by Trustees	13,525,916	15,918,349
Total deposits	$ 119,745,048	$ 141,913,114

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.42 and 1.55 years at June 30, 2010 and 2009, respectively.

As of the date of these financial statements, the County of Kern's 2010 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $750,000 and $664,733 of the bank balances at June 30, 2010 and 2009, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and/or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As of June 30, 2010 and 2009, the District's restricted investments and deposits are as follows:

	June 30, 2010	June 30, 2009
Investments in LAIF	$ 875,190	$ 867,430
Bank clearing account	425,063	2,920,933
Certificates of Deposit	8,136,255	8,985,387
Money Market	248,046	349,146
Corporate Bonds and Notes	12,903,429	9,034,599
Government Bonds and Notes	36,943,459	26,808,094
Foreign Bonds	5,946,156	-
Total investments	$ 65,477,598	$ 48,965,589

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

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

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

June 30, 2010		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 875,190	$ 875,190	$ -	$ -
Bank clearing account	425,063	425,063	-	-
Certificates of Deposit	8,136,255	2,161,213	5,975,042	-
Money Market	248,046	248,046	-	-
Corporate Bonds and Notes	12,903,429	2,035,804	10,614,407	253,218
Government Bonds and Notes	36,943,459	1,934,997	34,153,242	855,220
Foreign Bonds	5,946,156	310,856	5,635,300	-
Total investments	$ 65,477,598	$ 7,991,169	$ 56,377,991	$ 1,108,438

June 30, 2009		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 867,430	$ 867,430	$ -	$ -
Bank clearing account	2,920,933	2,920,933	-	-
Certificates of Deposit	8,985,387	1,768,180	7,217,207	-
Money Market	349,146	349,146	-	-
Corporate Bonds and Notes	9,034,599	100,083	8,934,516	-
Government Bonds and Notes	26,808,094	1,928,254	24,879,840	-
Total investments	$ 48,965,589	$ 7,934,026	$ 41,031,563	$ -

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

June 30, 2010		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 875,190	$ -	$ -	$ -	$ -	$ 875,190
Bank clearing account	425,063	425,063	-	-	-	-
Certificates of Deposit	8,136,255	8,136,255	-	-	-	-
Money Market	248,046	248,046	-	-	-	-
Corporate Bonds and Notes	12,903,429	-	6,980,362	5,923,067	-	-
Government Bonds and Notes	36,943,459	36,943,459	-	-	-	-
Foreign Bonds	5,946,156	1,523,824	4,111,475	310,857	-	-
Total investments	$ 65,477,598	$ 47,276,647	$ 11,091,837	$ 6,233,924	$ -	$ 875,190

June 30, 2009		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 867,430	$ -	$ -	$ -	$ -	$ 867,430
Bank clearing account	2,920,933	2,920,933	-	-	-	-
Certificates of Deposit	8,985,387	8,985,387	-	-	-	-
Money Market	349,146	349,146	-	-	-	-
Corporate Bonds and Notes	9,034,599	1,057,595	4,971,505	3,005,499	-	-
Government Bonds and Notes	26,808,094	26,808,094	-	-	-	-
Total investments	$ 48,965,589	$ 40,121,155	$ 4,971,505	$ 3,005,499	$ -	$ 867,430

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

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

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 and 2009, consist of the following:

	June 30, 2010	June 30, 2009
Tuition and fees	$ 4,398,632	$ 3,976,784
Less allowance for doubtful accounts	2,206,839	1,500,000
Tuition and fees, net	2,191,793	2,476,784
Federal grants and contracts	2,358,185	2,194,382
State grants and contracts	1,023,547	4,304,109
Local grants and contracts	998,523	111,359
State apportionment	11,896,456	6,385,946
State taxes and other revenues	670,511	612,484
Unbilled construction receivables	1,450	1,450
Auxiliaries	584,163	376,849
Other	1,661,962	1,705,306
Total	$ 21,386,590	$ 18,168,669

(Continued on following page)

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,675,746	$ -	$ -	$ -	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	48,066,281	11,301,742	-	(737,478)	58,630,545
Total nondepreciable assets	$ 70,051,667	$ 11,301,742	$ -	$ (737,478)	$ 80,615,931
Depreciable capital assets:					
Site improvements	$ 6,086,852	$ 15,840	$ -	$ -	$ 6,102,692
Buildings	171,435,737	1,530,027	-	664,735	173,630,499
Equipment	14,526,630	516,991	-	-	15,043,621
Computer equipment	12,342,879	1,556,386	-	72,743	13,972,008
Vehicles	1,957,828	21,813	-	-	1,979,641
	206,349,926	3,641,057	-	737,478	210,728,461
Less accumulated depreciation:					
Site improvements	4,356,848	326,869	-	-	4,683,717
Buildings	37,435,097	3,192,964	-	-	40,628,061
Equipment	9,604,981	1,213,136	-	-	10,818,117
Computer equipment	10,951,934	1,700,230	-	-	12,652,164
Vehicles	1,660,325	106,735	-	-	1,767,060
	64,009,185	6,539,934	-	-	70,549,119
Total depreciable assets, net	$ 142,340,741	$ (2,898,877)	$ -	$ 737,478	$ 140,179,342

(Continued on following page)

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2009, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,675,746	$ -	$ -	$ -	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	27,977,394	21,287,695	-	(1,198,808)	48,066,281
Total nondepreciable assets	$ 49,962,780	$ 21,287,695	$ -	$ (1,198,808)	$ 70,051,667
Depreciable capital assets:					
Site improvements	$ 5,958,548	$ -	$ -	$ 128,304	$ 6,086,852
Buildings	170,130,079	235,154	-	1,070,504	171,435,737
Equipment	14,307,881	218,749	-	-	14,526,630
Computer equipment	11,641,606	701,273	-	-	12,342,879
Vehicles	1,916,956	40,872	-	-	1,957,828
	203,955,070	1,196,048	-	1,198,808	206,349,926
Less accumulated depreciation:					
Site improvements	4,031,563	325,285	-	-	4,356,848
Buildings	34,255,562	3,179,535	-	-	37,435,097
Equipment	8,373,280	1,231,701	-	-	9,604,981
Computer equipment	9,191,283	1,760,651	-	-	10,951,934
Vehicles	1,523,038	137,287	-	-	1,660,325
	57,374,726	6,634,459	-	-	64,009,185
Total depreciable assets, net	$ 146,580,344	$ (5,438,411)	$ -	$ 1,198,808	$ 142,340,741

(Continued on following page)

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2010 and 2009, consist of the following:

	June 30, 2010	June 30, 2009
Accrued payroll and related liabilities	$ 4,245,330	$ 3,175,792
Construction payables	2,242,876	5,057,398
Interest payable	1,572,263	1,839,148
Other	2,836,389	3,244,329
Total	$ 10,896,858	$ 13,316,667

NOTE 6 SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2009 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

Short-term debt activity for the year ended June 30, 2010 was as follows:

	June 30, 2009 Balance	Drawn	Repaid	June 30, 2010 Balance
Participation in California Community College Financing Authority 2009 Tax and Revenue Anticipation Bonds	$ -	$ 2,307,560	$ (2,307,560)	$ -

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 83,086,673	$ 41,173,971	$ 46,944,210	$ 77,316,434
Limited obligation improvement bonds	4,984,928	6,724,580	550,106	11,159,402
General obligation bonds	146,893,684	3,406,473	4,602,049	145,698,108
Other post-employment benefit bonds	84,970,000	-	625,000	84,345,000
Total	$ 319,935,285	$ 51,305,024	$ 52,721,365	$ 318,518,944
Compensated absences	$ 2,722,299	$ 2,011,496	$ 1,781,385	$ 2,952,410
Memo total	$ 322,657,584	$ 53,316,520	$ 54,502,750	$ 321,471,354

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 84,484,132	$ -	$ 1,397,459	$ 83,086,673
Limited obligation improvement bonds	5,520,034	-	535,106	4,984,928
General obligation bonds	147,903,912	3,176,819	4,187,047	146,893,684
Other post-employment benefit bonds	-	85,880,000	910,000	84,970,000
Lease obligations	11,529	-	11,529	-
Total	$ 237,919,607	$ 89,056,819	$ 7,041,141	$ 319,935,285
Compensated absences	$ 2,426,097	$ 1,957,325	$ 1,661,123	$ 2,722,299
Memo total	$ 240,345,704	$ 91,014,144	$ 8,702,264	$ 322,657,584

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2010 and 2009:

	June 30, 2010	June 30, 2009
Certificates of Participation		
2008 Conversion of 2004 Variable Rate Certificates of Participation issued in the original amount of $40,280,000 by the Corporation. Final maturity 2034. Interest rates 3.50% to 4.75%.	$ 38,670,000	$ 39,605,000
Reoffering of 2007 Refunding Certificates of Participation issued in the original amount of $45,905,000 by the Corporation. Final maturity 2025. Interest rate 3.00% to 5.00%.	-	45,155,000
Reoffering of 2010 Refunding Certificates of Participation issued in the original amount of $42,875,000 by the Corporation. Final maturity 2014. Interest rate 4%.	42,875,000	-
Total certificates of participation	81,545,000	84,760,000
Discount on certificates of participation	(4,228,566)	(1,673,327)
Net certificates of participation	77,316,434	83,086,673
Limited Obligation Improvement Bonds		
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	4,465,000	5,020,000
2010A Lease Revenue Bonds issued in the original amount of $6,810,000. Final maturity 2035. Interest rates 3.00% to 5.125%.	6,810,000	-
Total limited obligation improvement bonds	11,275,000	5,020,000
Discount on limited obligation improvement bonds	(115,598)	(35,072)
Net limited obligation improvement bonds	11,159,402	4,984,928

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30,	
	2010	2009
General Obligation Improvement Bonds		
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,686,198	7,773,488
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,425,982	4,354,004
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	12,518,421	13,556,574
Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	54,659,573	55,703,266
Bonds issued in the original amount of $49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	56,676,287	55,087,656
Total general obligation bonds	135,966,461	136,474,988
Premium on general obligation bonds	9,731,647	10,418,696
Net general obligation bonds	145,698,108	146,893,684

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30, 2010	June 30, 2009
Other Post-employment Benefit Bonds		
2008 Taxable OPEB (Other Post-Employment Benefit) Bonds, Series A issued in the original amount of $85,880,000. Final maturity 2047. Interest rate 6.01%.	84,345,000	84,970,000
Total long-term debt	318,518,944	319,935,285
Less current portion	6,640,000	6,230,000
Total long-term debt, noncurrent portion	$ 311,878,944	$ 313,705,285

Refunded Debt

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

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

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

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Refunded Debt (Continued)

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

Accretion

General obligation bonds as of June 30, 2010 and 2009 have been increased by $13,800,856 and $10,394,383, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

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

Year Ended	Bonds			Bond	
June 30,	Principal	Interest	Total	Premium	Total
2011	$ 6,640,000	$ 12,199,082	$ 18,839,082	$ 173,686	$ 19,012,768
2012	6,623,841	12,601,173	19,225,014	173,686	19,398,700
2013	7,955,000	11,650,214	19,605,214	173,686	19,778,900
2014	50,181,110	12,885,114	63,066,224	213,617	63,279,841
2015	6,205,408	12,610,614	18,816,022	583,324	19,399,346
2016 – 2020	51,834,774	45,715,751	97,550,525	2,935,377	100,485,902
2021 – 2025	53,017,339	51,403,859	104,421,198	1,334,176	105,755,374
2026 – 2030	34,470,602	68,811,401	103,282,003	269,165	103,551,168
2031 – 2035	34,352,531	29,119,288	63,471,819	(469,234)	63,002,585
2036 – 2040	16,045,000	12,140,951	28,185,951	-	28,185,951
2041 – 2045	21,490,000	6,539,481	28,029,481	-	28,029,481
2046 – 2050	10,515,000	641,117	11,156,117	-	11,156,117
Total	$ 299,330,605	$ 276,318,045	575,648,650	5,387,483	581,036,133
Less interest (excluding accretion of $13,800,856)			262,517,189	-	262,517,189
Net principal			$ 313,131,461	$ 5,387,483	$ 318,518,944

(Continued on following page)

NOTE 8 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2010 and 2009 were $287,909 and $591,227, respectively.

The future minimum lease payments as of June 30, 2010, are as follows:

Year Ended June 30,	Amount
2011	$ 28,767
2012	25,864
2013	23,177
2014	21,239
2015	10,000
Total	$ 109,047

NOTE 9 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

(Continued on following page)

NOTE 9 PENSION PLANS

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

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

At June 30, 2010 and 2009, the District employed 405 and 410 certificated employees with a total annual payroll of $38,681,823 and $38,960,179, respectively.

(Continued on following page)

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Pubic Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2010 and 2009, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

NOTE 9 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2010 and 2009, was 9.709% and 9.306% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2008	2009	2010
STRS	$ 3,681,812	$ 3,730,600	$ 3,670,070
PERS	2,038,412	2,195,468	2,297,515
Total	$ 5,720,224	$ 5,926,068	$ 5,967,585

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

The State of California makes contributions to CalSTRS on behalf of the District equaling approximately 4.517% of covered members' gross salaries. The contribution for the years ending June 30, 2010, 2009 and 2008 are estimated to have been $2,015,848, $1,931,783 and $1,865,081, respectively. A District contribution to CalPERS was not required for the years ended June 30, 2010, 2009 and 2008. The payment amounts have been reflected in the basic financial statements as a component of employee benefits expense and other non-operating revenues.

NOTE 10 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

(Continued on following page)

NOTE 11 RISK MANAGEMENT

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

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

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2009		September 30, 2009
	SISC I	SISC II	SISC III
Total assets	$ 103,572,674	$ 42,396,262	$ 288,989,243
Total liabilities	59,120,129	26,767,447	98,615,380
Fund balance	$ 44,452,545	$ 15,628,815	$ 190,373,863
Total revenues	$ 12,342,569	$ 20,938,304	$ 966,881,157
Total expenditures	11,176,565	18,042,440	945,901,001
Net increase (decrease) in fund balance	$ 1,166,004	$ 2,895,864	$ 20,980,156

(Continued on following page)

NOTE 11 RISK MANAGEMENT
(Continued)

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2009 and September 30, 2009, respectively.

Financial statements are available from SISC upon request.

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides postemployment health care benefits for eligible employees who retire with CalPERS or CalSTRS pension benefits immediately upon termination of employment from the District through the Kern Community College District Postretirement Health Benefits Plan (the Plan). The Plan is a single employer OPEB plan and obligations of the Plan members and the District are based on negotiated contracts with the various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* (GASB 45) prospectively for the fiscal year ended June 30, 2009.

A. Plan Description

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

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

Currently, the District has 710 active full-time employees who are eligible for postretirement health benefits and 430 retirees who receive postretirement health benefits.

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

B. Funding Policy

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

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

C. Annual OPEB Costs and Net OPEB Obligation

Before the implementation of GASB 45, the District's expenses for postretirement health benefits were recognized only when paid. The District's annual OPEB cost (expense) is now calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period of 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the year ended June 30, 2010:

	2010	2009
Annual required contribution (ARC)	$ 453,447	$ 4,907,633
Adjustment to ARC	4,415,337	-
Annual OPEB cost for the year	4,868,784	4,907,633
Contributions made for the year	-	(87,354,581)
Change in prepaid OPEB obligation	4,868,784	(82,446,948)
Net OPEB prepaid, beginning of the year	(82,446,948)	-
Net OPEB prepaid, end of year	$ (77,578,164)	$ (82,446,948)

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

C. Annual OPEB Costs and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2010 and 2009 is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of annual OPEB costs Contributed	Net OPEB Prepaid
06/30/2010	$ 4,868,784	0%	$ (77,578,164)
06/30/2009	$ 4,907,633	1728%	$ (82,446,948)

D. Funded Status Information

The District's funding status information is illustrated as follows:

Actuarial valuation date	February 1, 2010
Actuarial value of assets	$ 84,044,523
Actuarial accrued liability (AAL)	$ 67,675,250
Unfunded AAL (UAAL)	$ (87,528,266)
Funded ratio	129%
Covered payroll	$ 48,116,455
UAAL as a % of covered payroll	181.91%

As of June 30, 2010, the District has set aside approximately $84,782,678 in an external trust fund and the fair value of the trust fund as of June 30, 2010 was approximately $84,218,100.

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

E. Actuarial Methods and Assumptions

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

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

In the February 2010 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5% discount rate based on the assumption that a substantial portion of the ARC is funded. A 3.0% price inflation and a 3.0% wage inflation assumptions were used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

(Continued on following page)

NOTE 13 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2010. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual.*

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,013,768	$ 475,788	$ 41,304	$ -	$ 1,530,860
Ancillary services	4,695,452	1,722,411	6,581,021	31,156	13,030,040
Auxiliary operations	151,961	39,520	-	-	191,481
Community services and economic development	417,844	106,065	305,873	-	829,782
Depreciation expense	-	-	-	6,508,778	6,508,778
Institutional support services	9,974,949	7,062,009	6,266,047	-	23,303,005
Instructional	40,555,080	9,582,101	4,453,151	-	54,590,332
Instructional administration	7,382,212	2,450,978	655,067	-	10,488,257
Instructional support services	1,527,765	571,047	357,527	-	2,456,339
Long-term debt and other financing	-	-	6,239	-	6,239
Operations and maintenance of plant	2,580,798	1,332,953	4,065,695	-	7,979,446
Other student services	5,644,825	1,778,246	51,085,521	-	58,508,592
Physical property and related acquisitions	856,272	266,103	1,020,626	-	2,143,001
Planning, policymaking, and coordination	655,973	344,243	898,758	-	1,898,974
Student counseling and guidance	2,953,757	888,741	216,218	-	4,058,716
Transfers, student aid, and other outgo	-	-	213,441	-	213,441
Total	$ 78,410,656	$ 26,620,205	$ 76,166,488	$ 6,539,934	$ 187,737,283

(Continued on following page)

NOTE 13 FUNCTIONAL EXPENSES
(Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2009. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,019,408	$ 484,262	$ 64,405	$ -	$ 1,568,075
Ancillary services	4,422,478	1,712,229	7,618,898	31,156	13,784,761
Auxiliary services	144,607	67,815	-	-	212,422
Community services and economic development	301,834	81,028	168,571	-	551,433
Depreciation expense	-	-	-	6,603,303	6,603,303
Institutional support services	10,117,103	5,201,831	6,662,910	-	21,981,844
Instructional administration	7,598,148	2,542,453	1,254,548	-	11,395,149
Instructional activities	41,610,723	11,605,160	3,561,393	-	56,777,276
Instructional support services	1,568,793	622,350	350,029	-	2,541,172
Long-term debt and other financing	-	74,342	2,206,964	-	2,281,306
Other student services	6,040,359	1,859,113	31,330,129	-	39,229,601
Physical property and related acquisitions	422,129	132,751	485,998	-	1,040,878
Planning policy making and coordination	564,710	237,565	502,059	-	1,304,334
Plant operations and maintenance	2,609,096	1,380,525	4,407,197	-	8,396,818
Student counseling and guidance	3,154,053	919,795	213,156	-	4,287,004
Transfers, student aid and other outgo	-	-	95,136	-	95,136
Total	$ 79,573,441	$ 26,921,219	$ 58,921,393	$ 6,634,459	$ 172,050,512

(Continued on following page)

NOTE 14 COMMITMENTS

As of June 30, 2010, the District had unfinished construction contracts under the following project categories:

Bakersfield College Baseball/Softball Modernization	$ 465,052
Cerro Coso Community College Science Modernization	853,811
Cerro Coso Fine Arts	1,306,813
Porterville College Wellness Modernization	2,699,452
Porterville College Library Expansion	11,618
Other projects	76,387
	$ 5,413,133

As of June 30, 2009, the District had unfinished construction contracts under the following project categories:

Bakersfield College Thermal Energy Storage	$ 3,422,383
Bakersfield College Baseball/Softball Modernization	541,648
Delano Relocatables	1,335,188
Cerro Coso Community College Science Modernization	3,391,394
Porterville College Wellness Modernization	4,123,002
Porterville College Library Expansion	1,949,806
Other projects	50,900
	$ 14,814,321

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KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2010

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Mr. Stuart O. Witt	President	Ridgecrest	December 2010
Ms. Rose Marie Bans	Vice President	Northeastern Kern County	December 2012
Mr. John A. Rodgers	Clerk	Central Bakersfield	December 2010
Mr. Dennis Beebe	Member	Southwest Bakersfield	December 2012
Mr. John Corkins	Member	Porterville	December 2010
Mrs. Pauline Larwood	Member	Central Bakersfield	December 2010
Mrs. Kay S. Meek	Member	Southwest Bakersfield	December 2012

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Doris Givens	Associate Chancellor, Educational Services
Mr. Ibrahim Ali	Vice Chancellor, Human Resources
Mr. Sean James	Vice Chancellor, Operations

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
US Forest Service	10.679	$ 32,709
Passed through State Department of Education -		
Child Care Food Program	10.555	248,306
Total Department of Agriculture		281,015
Department of Labor:		
Workforce Investment Act Cluster		
Passed through County of Kern -		
WIA Adult Program - ARRA	17.258	102,083
Passed through State of California Employment Development Department -		
WIA Adult Program - ARRA	17.258	80,443
Total Workforce Investment Act Cluster		182,526
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	17.275	17,443
Total Department of Labor		199,969
Department of Energy		
Passed through State of California Employment Development Department -		
State Energy Program - ARRA	81.041	134,113
Total Department of Energy		134,113
Department of Education:		
Student Financial Aid Cluster		
Federal Supplemental Educational Opportunity Grants	84.007	493,283
Federal Direct Student Loans	84.268	6,433,948
Federal Work-Study Program	84.033	492,630
Federal Work-Study Program - ARRA	84.033	117,452
Federal Pell Grant Program	84.063	40,461,673
Academic Competitiveness Grant	84.375	213,441
Total Student Financial Aid Cluster		48,212,427

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Education: (Continued)		
Higher Education - Institutional Aid	84.031	542,356
TRIO - Student Support Services	84.042	145,493
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	1,095,054
Migrant Education - State Grant Program	84.011	13,223
Vocational Education - Tech Prep Education	84.243	271,000
Rehabilitation Services - Vocational Rehabilitation to States	84.126	163,550
Rehabilitation Services - Vocational Rehabilitation to States - ARRA	84.390	11,226
State Fiscal Stabilization - ARRA	84.394	590,684
Total Department of Education		51,045,013
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	54,625
Total Department of Health and Human Services		54,625
Total Federal Expenditures		$ 51,714,735

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

YEAR ENDED JUNE 30, 2010

	Program Revenues				
Description	Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Income	Total	Total Program Expenditures
Extended Opportunity Programs and Services	1,688,492	849	-	1,689,341	1,689,341
CalGrant	2,673,494	80,620	-	2,754,114	2,754,114
Disabled Students Programs and Services	1,344,584	169	-	1,344,753	1,344,753
CalWorks	646,038		(9,818)	636,220	636,220
Matriculation	725,653	(18,418)	-	707,235	707,235
Foster Parent	172,415	(15,799)		156,616	156,616
Project Care	260,934	(62,355)	-	198,579	198,579
BFAP	971,023	(15,878)	-	955,145	955,145
Small Business Center	113,764	(46,625)	-	67,139	67,139
Workplace Learning Center	122,303	(41,433)	-	80,870	80,870
PC Development Service	46,160	33,161	-	79,321	79,321
PC Development Center	522,755	-	-	522,755	522,755
Psych Tech	255,167	333,828	-	588,995	588,995
Career Tech Education 08/09	389,000	-	-	389,000	389,000
Basic Skills	358,496	-	-	358,496	358,496
All other categorical	1,535,632	-	295,924	1,831,556	1,831,556
	$ 11,825,910	$ 248,119	$ 286,106	$ 12,360,135	$ 12,360,135

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

ANNUALIZED ATTENDANCE AS OF JUNE 30, 2010

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2009 Only)			
1. Noncredit	6.93		6.93
2. Credit	2,126.56		2,126.56
B. Summer Intersession (Summer 2010 Prior to July 1, 2010)			
1. Noncredit	-		-
2. Credit	59.34		59.34
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,145.54		13,145.54
(b) Daily Census Contact Hours	752.46		752.46
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	46.64		46.64
(b) Credit	2,160.04		2,160.04
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	1,998.64		1,998.64
(b) Daily Census Procedure Courses	493.11		493.11
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	20,789.26		20,789.26
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	512.70		512.70
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	47.85		47.85
2. Credit	2,446.57		2,446.57
CCFS-320 Addendum			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	4.47		4.47
2. Credit	5,374.55		5,374.55

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2010 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 43,980,762	$ 23,396,919	$ 60,474,931	$ 57,669	$ 232,211
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	(18,752)	-			-
Audit adjustments	(184,294)	-	-	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-	1		1	1
Net adjustments and reclassifications	(203,046)	1	-	1	1
June 30, 2010 District Accounting Records Fund Balance	$ 43,777,716	$ 23,396,920	$ 60,474,931	$ 57,670	$ 232,212

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ 64,356,301	$ 2,503,013	$ 154,773	$ 90,891	$ (59,827)	$ 251,136	$ 7,458	$ 473,559
	4,183	-	-	11,562	-	-	-
(93,239)	-	-	-	-	-	-	-
-	-	-	-	-	(251,136)	(7,458)	(473,559)
(2)	(1)	1	-	1	-	-	-
(93,241)	4,182	1	-	11,563	(251,136)	(7,458)	(473,559)
$ 64,263,060	$ 2,507,195	$ 154,774	$ 90,891	$ (48,264)	$ -	$ -	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 29,657,581	$ -	$ (5,244,338)	$ 202,221
Restricted cash and cash equivalents	4,785,452	29,948,165	-	-
Accounts receivable, net	20,237,962	4,475	241,671	39,165
Prepaid expenses	73,382	-	-	-
Inventories	-	-	-	-
Due from other funds	75,000	-	-	-
Total current assets	54,829,377	29,952,640	(5,002,667)	241,386
Noncurrent assets:				
Restricted investments	-	-	65,477,598	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	65,477,598	-
Total assets	$ 54,829,377	$ 29,952,640	$ 60,474,931	$ 241,386
LIABILITIES				
Accounts payable	$ 6,562,426	$ 2,900	$ -	$ 133,716
Deferred revenue	3,860,796	-	-	50,000
Due to other funds	-	6,552,820	-	-
Amounts held for others	-	-	-	-
Total liabilities	10,423,222	6,555,720	-	183,716
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	23,396,920	60,474,931	-
Reserved for special purposes	9,059,800	-	-	-
Unreserved:				
Undesignated	35,346,355	-	-	57,670
Total fund equity (deficit)	44,406,155	23,396,920	60,474,931	57,670
Total liabilities and fund equity (deficit)	$ 54,829,377	$ 29,952,640	$ 60,474,931	$ 241,386

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ 232,212	$ (2,374,128)	$ 350,794	$ 123,482	$ -	$ (10,662)	$ -
-	61,305,693	640	-	90,891	(453,102)	520,466
-	73,411	273,006	33,377	-	416,288	67,235
-	-	-	-	-	-	10,193
-	-	1,379,648	13,758	-	-	-
-	6,477,820	-	-	-	-	-
232,212	65,482,796	2,004,088	170,617	90,891	(47,476)	597,894
-	-	-	-	-	-	-
-	-	569,689	-	-	-	-
-	-	569,689	-	-	-	-
$ 232,212	$ 65,482,796	$ 2,573,777	$ 170,617	$ 90,891	$ (47,476)	$ 597,894
$ -	$ 1,151,392	$ 66,582	$ 15,843	$ -	$ 788	$ 169,740
-	68,344	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	428,154
-	1,219,736	66,582	15,843	-	788	597,894
-	-	-	-	-	-	-
232,212	64,263,060	2,507,195	-	90,891	(48,264)	-
-	-	-	154,774	-	-	-
232,212	64,263,060	2,507,195	154,774	90,891	(48,264)	-
$ 232,212	$ 65,482,796	$ 2,573,777	$ 170,617	$ 90,891	$ (47,476)	$ 597,894

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2010

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 22,937,162
Restricted cash and cash equivalents	24,258	585,423	96,807,886
Accounts receivable, net	-	-	21,386,590
Prepaid expenses	-	-	83,575
Inventories	-	-	1,393,406
Due from other funds	-	-	6,552,820
Total current assets	24,258	585,423	149,161,439
Noncurrent assets:			
Restricted investments	-	-	65,477,598
Capital assets, net	-	-	569,689
Total noncurrent assets	-	-	66,047,287
Total assets	$ 24,258	$ 585,423	$ 215,208,726
LIABILITIES			
Accounts payable	$ 305	$ 36,180	$ 8,139,872
Deferred revenue	16,495	75,686	4,071,321
Due to other funds	-	-	6,552,820
Amounts held for others	7,458	473,557	909,169
Total liabilities	24,258	585,423	19,673,182
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	83,871,851
Reserved for special purposes	-	-	76,104,894
Unreserved:			
Undesignated	-	-	35,558,799
Total fund equity (deficit)	-	-	195,535,544
Total liabilities and fund equity (deficit)	$ 24,258	$ 585,423	$ 215,208,726

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$ 16,242,418	$ -	$ -	$ -
Less: scholarship discount and allowance	8,745,756	-	-	-
Net tuition and fees	7,496,662	-	-	-
Grants and contracts, non-capital:				
Federal	4,195,829	-	-	248,306
State	10,112,534	438	-	3,193,497
Local	2,305,218	1	-	-
Auxiliary enterprise sales and charges	57,362	-	-	-
Other operating revenues	1,019,303	6,518,611	-	51,732
Total operating revenues	25,186,908	6,519,050	-	3,493,535
OPERATING EXPENDITURES/EXPENSES				
Salaries	73,424,683	-	-	3,038,633
Employee benefits	18,253,292	-	-	1,016,972
Payments to students	390,393	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	15,678,164	328,639	6,527,378	154,011
Capital outlay	2,570,421	-	-	-
Utilities	3,054,906	-	-	47,660
Depreciation	-	-	-	-
Total operating expenditures/expenses	113,371,859	328,639	6,527,378	4,257,276
OPERATING INCOME (LOSS)	(88,184,951)	6,190,411	(6,527,378)	(763,741)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	58,731,177	-	-	-
Local property taxes	39,105,935	-	-	-
State taxes and other revenues	3,381,110	76,769	-	-
Investment income, non-capital	433,060	87,049	1,986,004	6,211
Debt service	(5,731,676)	(59,113,424)	-	-
Cost of issuance	-	(326,262)	-	-
Other non-operating expenditures/expenses	(579,405)	-	-	-
Total non-operating revenues (expenditures)	95,340,201	(59,275,868)	1,986,004	6,211

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ -	$ 36,361	$ -	$ 100	$ -	$ -	$ -
-	-	-	-	-	-	-
-	36,361	-	100	-	-	-
-	-	-	-	493,283	47,044,637	-
-	-	-	-	-	2,754,114	-
21,974	11,445	(18,175)	-	-	-	-
-	-	6,765,587	1,222,890	-	-	-
-	197,410	301,855	-	-	-	-
21,974	245,216	7,049,267	1,222,990	493,283	49,798,751	-
-	442,876	856,651	417,702	-	-	-
-	113,359	181,667	170,283	-		-
-	-	-	-	493,283	49,798,750	-
-	13,464,702	5,363,718	581,696	-	-	-
-	562,122	-	11,873	-	-	-
-	2,265	699	6,480	-	-	-
-	-	31,156	-	-	-	-
-	14,585,324	6,433,891	1,188,034	493,283	49,798,750	-
21,974	(14,340,108)	615,376	34,956	-	1	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	698,505	4,183	-	-	-	-
-	-	-	-	-	-	-
-	(284,580)	-	-	-	-	-
-	-	-	-	-	-	-
-	413,925	4,183	-	-	-	-

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	7,155,250	(53,085,457)	(4,541,374)	(757,530)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	8,826,882	-	-
Gifts and grants, capital	-	-	-	-
Excess of revenues over (under) expenditures	7,155,250	(44,258,575)	(4,541,374)	(757,530)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,187,556	11,627,820	17,910,400	1,550,795
Operating transfers out	(3,433,407)	(4,752,539)	-	(673,997)
Bonds issued	-	42,875,000	-	-
Premium (discount) on bond issuance	-	1,360,424	-	-
Total other financing sources (uses)	(1,245,851)	51,110,705	17,910,400	876,798
Excess of revenues and other financing sources over (under) expenditures and other financing uses	5,909,399	6,852,130	13,369,026	119,268
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	38,496,756	16,544,790	47,105,905	(61,598)
FUND EQUITY (DEFICIT), END OF YEAR	$ 44,406,155	$ 23,396,920	$ 60,474,931	$ 57,670

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
21,974	(13,926,183)	619,559	34,956	-	1	-
-	3,110,580	-	-	-	-	-
-	-	-	-	-	-	-
-	501,912	-	-	-	-	-
21,974	(10,313,691)	619,559	34,956	-	1	-
-	9,391,723	-	-	-	-	-
-	(33,347,404)	(460,947)	-	-	-	-
-	6,810,000	-	-	-	-	-
-	(85,420)	-	-	-	-	-
-	(17,231,101)	(460,947)	-	-	-	-
21,974	(27,544,792)	158,612	34,956	-	1	-
210,238	91,807,852	2,348,583	119,818	90,891	(48,265)	-
$ 232,212	$ 64,263,060	$ 2,507,195	$ 154,774	$ 90,891	$ (48,264)	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 16,278,879
Less: scholarship discount and allowance	-	-	8,745,756
Net tuition and fees	-	-	7,533,123
Grants and contracts, non-capital:			
Federal	-	-	51,982,055
State	-	-	16,060,583
Local	-	-	2,320,463
Auxiliary enterprise sales and charges	-	-	8,045,839
Other operating revenues	-	-	8,088,911
Total operating revenues	-	-	94,030,974
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	78,180,545
Employee benefits	-	-	19,735,573
Payments to students	-	-	50,682,426
Supplies, materials, and other operating expenditures/expenses and services	-	-	42,098,308
Capital outlay	-	-	3,144,416
Utilities	-	-	3,112,010
Depreciation	-	-	31,156
Total operating expenditures/expenses	-	-	196,984,434
OPERATING INCOME (LOSS)	-	-	(102,953,460)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	58,731,177
Local property taxes	-	-	39,105,935
State taxes and other revenues	-	-	3,457,879
Investment income, non-capital	-	-	3,215,012
Debt service	-	-	(64,845,100)
Cost of issuance	-	-	(610,842)
Other non-operating expenditures/expenses	-	-	(579,405)
Total non-operating revenues (expenditures)	-	-	38,474,656

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2010

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	$ (64,478,804)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	3,110,580
Local property taxes and revenues, capital	-	-	8,826,882
Gifts and grants, capital	-	-	501,912
Excess of revenues over (under) expenditures	-	-	(52,039,430)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	42,668,294
Operating transfers out	-	-	(42,668,294)
Limited obligation improvement bonds issued	-	-	49,685,000
Premium (discount) on bond issuance	-	-	1,275,004
Total other financing sources (uses)	-	-	50,960,004
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(1,079,426)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	-	-	196,614,970
FUND EQUITY (DEFICIT), END OF YEAR	$ -	$ -	$ 195,535,544

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2010

Total Fund Equity - District Funds Included in the Reporting Entity		$ 195,535,544
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 209,747,865	
Accumulated depreciation	(70,138,212)	139,609,653
Nondepreciable capital assets		80,615,931
Other post employment benefits obligation		77,578,164
Deferred costs, net		3,922,966
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,218,875)
Retentions payable		(1,538,111)
Compensated absences	(2,952,410)	
Long-term debt	(318,518,944)	(321,471,354)
Net assets reported within the GASB 35 Statement of Net Assets		$ 173,033,918

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ (1,079,426)
Compensated absence expense addition reported within GASB 35 Statements	(230,111)
Depreciation expense reported within GASB 35 Statements	(6,508,778)
Amortization of bond issuance cost reported within the GASB 35 Statements	(239,205)
Amortization of bond premium reported within the GASB 35 Statements	484,331
Capital outlay expense not reported within the GASB 35 Statements	17,826,149
Retentions payable reported within the GASB 35 Statements	(1,474,088)
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	973,749
Costs from issuance of bonds not reported within the GASB 35 Statements	610,842
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(50,960,004)
Principal payments on debt not reported within the GASB 35 Statements	51,185,000
Prepaid expense of other post employment benefits reported within the GASB 35 Statements	(4,868,784)
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ 5,719,675

The accompanying notes to the supplementary information are an integral part of this supplementary information.

NOTE 1 PURPOSE OF SCHEDULES

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

The audit of the Kern Community College District for the year ended June 30, 2010 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

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

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2010, represents the basis of apportionment of the Kern Community College District's annual source of funding.

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

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted $6,797,869 in loans under the Federal Family Education Loan Program for the year ended June 30, 2010.

(Continued on following page)

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

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NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2010 and 2009, which comprise the District's basic financial statements and have issued our report thereon dated November 15, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

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

We noted certain other matters that we have reported to management of the District in a separate letter dated November 15, 2010.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 15, 2010

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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 that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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 the 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 15, 2010

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 15, 2010.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts

6. Apportionments – Enrollment Fee

7. Apportionments – Students Actively Enrolled

8. Open Enrollment

9. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds

2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

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

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

In our opinion, except for the finding 2010-1, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

November 15, 2010

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The Independent Auditors' Report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion on all major federal programs.

6. There are no audit findings (relative to the major federal award programs for Kern Community College District) that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Direct Student Loans (CFDA 84.268); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement. 2) State Fiscal Stabilization (CFDA 84.394) 3) WIA Adult Program (CFDA 17.258) and 4) State Energy Program (CFDA 81.041).

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. Kern Community College District was determined to be as a low-risk auditee.

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2010-1 – Open Enrollment

Statement of Condition: During our testing of open enrollment, we noted multiple courses listed in the class schedule that appeared to limit enrollment. Although the District's procedures over enrollment in these courses was not restrictive, the descriptions were. The descriptions included notes that the classes were designed for a specific type of student. However, the courses did not meet the requirements for limitation on enrollment and the descriptions did not affirm the availability of the course to all qualified students.

Cause of Condition: Lack of required verbiage affirming the availability of the course to all qualified students.

Effect of Condition: Students may be discouraged from enrolling in these courses because the descriptions indicate they are only for certain students.

Recommendation: For all courses designed to meet certain specialized needs or designed for certain students, we recommend the District also include verbiage affirming the availability of the course to all qualified students.

Response: The District will include the recommended verbiage to meet the expectations of "open enrollment."

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010

FINDINGS – STATE COMPLIANCE AUDIT

2009-1 Concurrent Enrollment – Physical Education Courses

Statement of Condition: During our testing in the prior year, we noted that the District did not have a process in place to ensure that concurrent enrollment in any single physical education section did not exceed 10% of total enrollment in the section. The District claimed 3.28 FTES of concurrent enrollment which should have been excluded as a result.

Cause of Condition: The individual campuses did not properly exclude the concurrent enrollment students that exceeded the 10% limitation when reviewing the data for the 320 submission.

Effect of Condition: The District was not in compliance with the Chancellor's Office requirements.

Recommendation: We recommended the District put a procedure in place to track concurrent enrollments in physical education classes to ensure that not greater than 10% of the enrollment in a given section is concurrent enrollment students.

Status: We noted no such problems in the current year.

2009-2 – Concurrent Enrollment

Statement of Condition: During our testing of concurrent enrollment in the prior year, we noted that the District did not have appropriate controls in place to ensure only concurrently enrolled students were coded as such in the Banner accounting software.

Cause of Condition: Students filled out enrollment application incorrectly, which led to them being classified as concurrent when they were not.

Effect of Condition: Without proper coding of students in Banner, the calculations necessary to comply with the 5% and 10% requirements may not be accurate.

Recommendation: We recommended the District implement procedures to ensure that all students are correctly classified as special-admit or regular-admit students.

Status: We noted no such problems in the current year.

KERN COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

FINDINGS – STATE COMPLIANCE AUDIT
(Continued)

2009-3 – Concurrent Enrollment

Statement of Condition: In a sample of thirty-six students in the prior year, one student file did not contain required documentation of the recommendation of the student's principal or school's authorized agent to enroll in community college courses.

Cause of Condition: The individual campuses need to be more diligent in their review and acceptance of concurrent enrollment applications.

Effect of Condition: The District was not in compliance with the Chancellor's Office requirements.

Recommendation: We recommended the District implement procedures to ensure that required principal or authorized agent recommendations are obtained from all concurrent enrollment students claimed for FTES.

Status: We noted improvement in this area by the District but still noted three students who did not have authorization forms.

NYSTROM & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2010, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

This letter does not affect our report dated November 15, 2010, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

NONE

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2009-C – SUSPENSION AND DEBARMENT

Finding

Federal guidelines (OMB Circular A-133 Compliance Supplement Section I) stipulate that recipients of Federal funds do not contract for goods or services totaling $25,000 or more with vendors who are suspended or debarred. While it does not appear the District has made such contracts, we noted there are no procedures in place to insure they do not contract with such entities.

Recommendation

We recommended the District implement procedures to ensure vendors paid with Federal dollars are not suspended or debarred. This can be accomplished through certification from the vendor or reference to the Excluded Parties List System, available online.

Status

The District put a procedure in place to ensure vendors contracted and paid with Federal dollars in excess of $25,000 are not suspended or debarred by requesting certification from any vendor contracted in excess of $25,000.

2009-2 – RETURN TO TITLE IV FUNDS

Finding

The District did not submit credits or payments to Title IV programs for unearned assistance within the required 45 days after the date the District determined that the student withdrew from the Porterville and Cerro Coso campuses. OMB Circular A-133 – Clusters – Student Financial Assistance Programs, Part N(4), requires institutions return Title IV funds no later than 45 days after the date the institution determines the student withdrew from a class or no later than 30 days after it determines that a student will not or has not begun attendance.

Recommendation

We recommended that the District develop procedures to assure that all funds are returned within 45 days of notification that a student has dropped.

Status

Financial Aid departments will use the process and worksheet the District's analyst developed, which populates much of the needed student data from Banner. Financial Aid departments will also add a check-off list on the worksheet to ensure that all the steps are properly completed and the funds returned. A Financial Aid Technician will also be trained as a backup in the completion of the Return to Title IV process. Financial Aid will continue discussions with the KCCD Banner Financial Aid Team to improve the Banner automation of Return to Title IV.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2010. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

Nystrom & Company LLP

NYSTROM & COMPANY LLP
Certified Public Accountants

November 15, 2010

KERN COMMUNITY COLLEGE DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEARS ENDED JUNE 30, 2011 AND 2010

KERN COMMUNITY COLLEGE DISTRICT

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KERN COMMUNITY COLLEGE DISTRICT

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INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

> To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.
>
> To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.
>
> To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
>
> To determine whether financial and financially related reports to state and federal agencies are presented fairly.
>
> To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

MATSON and ISOM
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the California State Department of Finance. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2011, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 remaining supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of State Financial Awards, which is presented for purposes of additional analysis as required by the California Community Colleges Chancellor's Office, are not a required part of the financial statements of the District. This supplementary information is the responsibility of management and was 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.

Matson and Isom

November 29, 2011

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

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

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

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

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.

- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.

- Capital assets are included in the statement presentations.

OVERVIEW

California budget issues remain the same. There is a parallel between the current budget situation in California and the 1993 comedy movie Ground Hog Day where the story's lead character, Phil, gets caught in a time loop causing him to relive February 2nd over and over again. So, as reported for several years running, once again the California State budget maintains a structural imbalance between revenues and expenditures, resulting in significant, ongoing annual budget deficits. In the movie Ground Hog Day, the time loop was not broken until Phil started making the right choices. Likewise, we do not see these structural budget deficits ending until the State Governor and Legislature finally take the most fiscally prudent approach to the budget and truly balance California's ongoing revenues with its ongoing expenditures.

The District has positioned itself financially in anticipation of continual funding reductions from the State. The District has accomplished this through the implementation of expenditure control initiatives, organizational changes, management of reserves, conservative budget planning and management of student enrollment limits. These actions have significantly increased overall reserves and concurrently tempered cost increases. The District's goal is to minimize the effect of these continuous State Budget deficits on the District's various stakeholders until the State's economy and funding recover. In addition, the District transferred a portion of its unrestricted reserves to debt repayment funds and capital outlay funds in anticipation of future debt service requirements. This transfer will also fund overdue scheduled maintenance facilities projects.

The District's total assets declined slightly from $510 million to $508 million. The decrease in assets was primarily due to a $12.3 million decrease in cash, which was offset by a $15.1 million increase in non-depreciable assets. Both changes are associated with construction work in progress. Total liabilities decreased slightly, from $337 million to $336 million. This $1 million decrease was primarily due to a decrease of $1.1 in long-term debt (non-current portion) and $618K decrease in compensated absences (non-current portion). The decrease was partially offset by $781K increase in current liabilities.

Overall revenues of $206.2 million were less than expenditures of $208 million, resulting in a decrease in net assets of $1.8 million. Overall revenues remained flat, increasing only $347K over the prior year. Expenditures increased $7.9 million over the prior year. This increase was primarily due to increased student financial aid payments of $3.9 million and an increase on interest expense on long-term debt of $4.2 million.

STATEMENT OF NET ASSETS

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

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

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

STATEMENT OF CASH FLOWS

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

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KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF NET ASSETS

	June 30, 2011	June 30, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,949,719	$ 22,937,162
Restricted cash and cash equivalents	84,463,884	96,807,886
Accounts receivable, net	26,628,551	21,386,590
Prepaid expenses and other current assets	369,205	83,575
Inventories	18,589	1,393,406
Total current assets	134,429,948	142,608,619
Noncurrent assets:		
Restricted investments	66,625,155	65,477,598
Other post employment benefits obligation	72,709,380	77,578,164
Depreciable capital assets, net	134,823,631	140,179,342
Nondepreciable capital assets	95,719,204	80,615,931
Deferred costs, net	3,611,203	3,922,966
Total noncurrent assets	373,488,573	367,774,001
Total assets	$ 507,918,521	$ 510,382,620
LIABILITIES		
Current liabilities:		
Accounts payable	$ 11,581,047	$ 10,896,858
Deferred revenue	4,248,764	4,071,321
Compensated absences, current portion	1,887,121	1,780,385
Long-term debt, current portion	6,623,841	6,640,000
Amounts held for others	736,150	909,169
Total current liabilities	25,076,923	24,297,733
Noncurrent liabilities:		
Compensated absences, noncurrent portion	553,707	1,172,025
Long-term debt, noncurrent portion	310,735,207	311,878,944
Total noncurrent liabilities	311,288,914	313,050,969
Total liabilities	336,365,837	337,348,702
NET ASSETS		
Investments in capital assets, net of related debt	58,395,942	56,670,412
Restricted - expendable	33,960,296	37,881,171
Unrestricted	79,196,446	78,482,335
Total net assets	171,552,684	173,033,918
Total liabilities and net assets	$ 507,918,521	$ 510,382,620

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Years Ended June 30, 2011	2010
OPERATING REVENUES		
Tuition and fees	$ 17,016,895	$ 16,278,879
Less: scholarship discount and allowance	9,651,651	8,745,756
Net tuition and fees	7,365,244	7,533,123
Grants and contracts, non-capital:		
Federal	57,075,138	51,982,055
State	13,706,432	16,060,583
Local	2,651,930	2,320,463
Auxiliary enterprise sales and charges	7,199,433	8,045,839
Other operating revenues	2,125,818	1,570,300
Total operating revenues	90,123,995	87,512,363
OPERATING EXPENSES		
Salaries	76,569,402	78,410,656
Employee benefits	27,012,985	26,620,205
Payments to students	54,616,407	50,682,426
Supplies, materials, other operating expenses and services	22,565,896	22,372,052
Utilities	3,118,561	3,112,010
Depreciation	7,243,486	6,539,934
Total operating expenses	191,126,737	187,737,283
OPERATING LOSS	(101,002,742)	(100,224,920)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	53,527,889	58,731,177
Local property taxes, non-capital	44,325,964	39,105,935
State taxes and other revenues	3,707,191	3,457,879
Investment income, non-capital	2,705,725	3,215,012
Interest expense, capital asset-related debt	(16,599,220)	(12,441,225)
Other non-operating revenue (expense)	1,359,527	1,436,443
Total non-operating revenues (expenses)	89,027,076	93,505,221
LOSS BEFORE OTHER REVENUES AND EXPENSES	(11,975,666)	(6,719,699)
State apportionments, capital	1,025,570	3,110,580
Local property taxes and revenues, capital	9,468,862	8,826,882
Gifts and grants, capital	-	501,912
CHANGE IN NET ASSETS	(1,481,234)	5,719,675
NET ASSETS, BEGINNING OF YEAR	173,033,918	167,314,243
NET ASSETS, END OF YEAR	$ 171,552,684	$ 173,033,918

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2011	Years Ended June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 5,876,771	$ 7,931,252
Federal grants and contracts	56,034,396	51,798,334
State grants and contracts	14,454,625	18,348,857
Local grants and contracts	2,183,808	1,025,677
Payments to/on behalf of employees	(77,742,060)	(77,111,007)
Payments for benefits	(20,451,641)	(19,735,573)
Payments for scholarships and grants	(54,616,407)	(50,682,426)
Payments to suppliers	(20,053,049)	(22,032,939)
Payments for utilities	(3,118,561)	(3,112,010)
Auxiliary enterprise sales and charges	4,938,564	7,838,525
Other receipts	2,967,476	1,527,227
Net cash used by operating activities	(89,526,078)	(84,204,083)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	52,330,777	53,220,667
Local property taxes	44,325,964	39,105,935
State taxes and other revenues	2,885,912	3,399,852
Other receipts (payments)	(683,033)	(579,405)
Net cash provided by non-capital financing activities	98,859,620	95,147,049
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	1,025,570	3,110,580
Local property taxes, capital	9,468,862	8,826,882
Gifts and grants, capital	-	501,912
Purchases of capital assets	(16,439,927)	(17,757,321)
Interest paid on capital debt	(12,617,660)	(13,660,250)
Principal paid on capital debt	(6,640,000)	(51,185,000)
Proceeds from capital debt	1,980,000	50,349,162
Net cash used by capital and related financing activities	(23,223,155)	(19,814,035)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	43,678,934	47,108,822
Purchase of investments	(44,826,491)	(63,620,831)
Interest on investments	2,705,725	3,215,012
Net cash provided (used) by investing activities	1,558,168	(13,296,997)

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2011	2010
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,331,445)	(22,168,066)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	119,745,048	141,913,114
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 107,413,603	$ 119,745,048
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 22,949,719	$ 22,937,162
Restricted cash and cash equivalents	84,463,884	96,807,886
Total cash and cash equivalents	$ 107,413,603	$ 119,745,048
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (101,002,742)	$ (100,224,920)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	7,243,486	6,539,934
On behalf payments	2,042,560	2,015,848
Increase in allowance for doubtful accounts	449,209	706,839
(Increase) decrease in:		
Accounts receivable	(3,672,779)	1,643,777
Prepaid expenses and other current assets	(285,630)	(71,656)
Other post employment benefits obligation	4,868,784	4,868,784
Inventories	1,374,817	111,870
Increase (decrease) in:		
Accounts payable	(36,625)	661,598
Deferred revenue	177,443	(589,259)
Compensated absences	(511,582)	230,111
Amounts held for others	(173,019)	(97,009)
Net cash used by operating activities	$ (89,526,078)	$ (84,204,083)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	$ -	$ 610,842

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

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

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District's annual financial statements using the blending method.

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION AND ACCOUNTING

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

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

Exceptions to the accrual basis of accounting are as follows:

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

INVESTMENTS

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

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

RESTRICTED CASH AND INVESTMENTS

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

ACCOUNTS RECEIVABLE

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. The allowance for uncollectible accounts is calculated by applying certain percentages to each aging group. The allowance was estimated at $2,656,048 and $2,206,839 for the years ended June 30, 2011 and 2010, respectively.

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORY

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

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of $5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITAL ASSETS (Continued)

Contracting Public Agencies	Term	Facilities	Prepaid Amount
Joint Union High School District	50 Years	Gymnasium and Lecture Center	$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	$ 2,309,640

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

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

COMPENSATED ABSENCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was $311,763 and $239,205 for the years ended June 30, 2011 and 2010, respectively and is included in depreciation expense.

NET ASSETS

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

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

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

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

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

- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STATE APPORTIONMENTS

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

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

(Continued on following page)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ON-BEHALF PAYMENTS

GASB Statement 24 requires that direct on-behalf payments for fringe benefits and salaries made by an entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all Community College Districts in California. These payments are included in employee benefits expense and other non-operating revenues.

RECLASSIFICATIONS

Certain 2010 amounts have been reclassified to conform with the 2011 financial statement presentation.

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2011 and 2010, are displayed on the statement of net assets as follows:

	June 30, 2011	June 30, 2010
Cash and cash equivalents	$ 22,949,719	$ 22,937,162
Restricted cash and cash equivalents	84,463,884	96,807,886
Total cash and cash equivalents	$ 107,413,603	$ 119,745,048

Deposits – At June 30, 2011 and 2010, the carrying amount of the District's deposits is summarized as follows:

	June 30, 2011	June 30, 2010
Cash in County Treasury	$ 92,931,855	$ 97,828,886
Cash on hand and in banks	5,440,486	8,390,246
Cash held by Trustees	9,041,262	13,525,916
Total deposits	$ 107,413,603	$ 119,745,048

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.43 and 1.42 years at June 30, 2011 and 2010, respectively.

As of the date of these financial statements, the County of Kern's 2011 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

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

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, $675,982 and $750,000 of the bank balances at June 30, 2011 and 2010, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and/or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

As of June 30, 2011 and 2010, the District's restricted investments and deposits are as follows:

	June 30,	
	2011	2010
Investments in LAIF	$ 879,642	$ 875,190
Bank clearing account	424,861	425,063
Certificates of Deposit	11,837,207	8,136,255
Money Market	369,856	248,046
Corporate Bonds and Notes	12,395,544	12,903,429
Government Bonds and Notes	37,372,414	36,943,459
Foreign Bonds	3,345,631	5,946,156
Total investments	$ 66,625,155	$ 65,477,598

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

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

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

2. The District also diversifies through investing in credit quality securities. Over 75% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.

3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

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

June 30, 2011		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 879,642	$ 879,642	$ -	$ -
Bank clearing account	424,861	424,861	-	-
Certificates of Deposit	11,837,207	997,322	10,839,885	-
Money Market	369,856	369,856	-	-
Corporate Bonds and Notes	12,395,544	1,087,799	11,307,745	-
Government Bonds and Notes	37,372,414	1,060,970	35,547,545	763,899
Foreign Bonds	3,345,631	200,440	3,145,191	-
Total investments	$ 66,625,155	$ 5,020,890	$ 60,840,366	$ 763,899

June 30, 2010		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	$ 875,190	$ 875,190	$ -	$ -
Bank clearing account	425,063	425,063	-	-
Certificates of Deposit	8,136,255	2,161,213	5,975,042	-
Money Market	248,046	248,046	-	-
Corporate Bonds and Notes	12,903,429	2,035,804	10,614,407	253,218
Government Bonds and Notes	36,943,459	1,934,997	34,153,242	855,220
Foreign Bonds	5,946,156	310,856	5,635,300	-
Total investments	$ 65,477,598	$ 7,991,169	$ 56,377,991	$ 1,108,438

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

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

June 30, 2011		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 879,642	$ -	$ -	$ -	$ -	$ 879,642
Bank clearing account	424,861	424,861	-	-	-	-
Certificates of Deposit	11,837,207	11,837,207	-	-	-	-
Money Market	369,856	369,856	-	-	-	-
Corporate Bonds and Notes	12,395,544	-	6,651,538	5,744,006	-	-
Government Bonds and Notes	37,372,414	37,372,414	-	-	-	-
Foreign Bonds	3,345,631	299,414	3,046,217	-	-	-
Total investments	$ 66,625,155	$ 50,303,752	$ 9,697,755	$ 5,744,006	$ -	$ 879,642

June 30, 2010		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	$ 875,190	$ -	$ -	$ -	$ -	$ 875,190
Bank clearing account	425,063	425,063	-	-	-	-
Certificates of Deposit	8,136,255	8,136,255	-	-	-	-
Money Market	248,046	248,046	-	-	-	-
Corporate Bonds and Notes	12,903,429	-	6,980,362	5,923,067	-	-
Government Bonds and Notes	36,943,459	36,943,459	-	-	-	-
Foreign Bonds	5,946,156	1,523,824	4,111,475	310,857	-	-
Total investments	$ 65,477,598	$ 47,276,647	$ 11,091,837	$ 6,233,924	$ -	$ 875,190

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

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

(Continued on following page)

NOTE 2 CASH AND INVESTMENTS
(Continued)

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 and 2010, consist of the following:

	June 30,	
	2011	2010
Tuition and fees	$ 6,135,211	$ 4,398,632
Less allowance for doubtful accounts	2,656,048	2,206,839
Tuition and fees, net	3,479,163	2,191,793
Federal grants and contracts	3,401,026	2,358,185
State grants and contracts	381,427	1,023,547
Local grants and contracts	1,267,847	998,523
State apportionment	13,093,568	11,896,456
State taxes and other revenues	1,491,790	670,511
Unbilled construction receivables	-	1,450
Auxiliaries	2,845,032	584,163
Other	668,698	1,661,962
Total	$ 26,628,551	$ 21,386,590

(Continued on following page)

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,675,746	$ -	$ -	$ -	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	58,630,545	15,522,839	-	(419,566)	73,733,818
Total nondepreciable assets	$ 80,615,931	$ 15,522,839	$ -	$ (419,566)	$ 95,719,204
Depreciable capital assets:					
Site improvements	$ 6,102,692	$ -	$ -	$ -	$ 6,102,692
Buildings	173,630,499	6,800	-	50,955	173,688,254
Equipment	15,043,621	581,975	-	118,327	15,743,923
Computer equipment	13,972,008	806,186	-	250,284	15,028,478
Vehicles	1,979,641	73,248	-	-	2,052,889
	210,728,461	1,468,209	-	419,566	212,616,236
Less accumulated depreciation:					
Site improvements	4,683,717	311,759	-	-	4,995,476
Buildings	40,628,061	3,227,092	-	-	43,855,153
Equipment	10,818,117	1,331,909	-	-	12,150,026
Computer equipment	12,652,164	2,244,068	-	-	14,896,232
Vehicles	1,767,060	128,658	-	-	1,895,718
	70,549,119	7,243,486	-	-	77,792,605
Total depreciable assets, net	$ 140,179,342	$ (5,775,277)	$ -	$ 419,566	$ 134,823,631

(Continued on following page)

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2010, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	$ 15,675,746	$ -	$ -	$ -	$ 15,675,746
Joint use facilities agreements	6,309,640	-	-	-	6,309,640
Construction in progress	48,066,281	11,301,742	-	(737,478)	58,630,545
Total nondepreciable assets	$ 70,051,667	$ 11,301,742	$ -	$ (737,478)	$ 80,615,931
Depreciable capital assets:					
Site improvements	$ 6,086,852	$ 15,840	$ -	$ -	$ 6,102,692
Buildings	171,435,737	1,530,027	-	664,735	173,630,499
Equipment	14,526,630	516,991	-	-	15,043,621
Computer equipment	12,342,879	1,556,386	-	72,743	13,972,008
Vehicles	1,957,828	21,813	-	-	1,979,641
	206,349,926	3,641,057	-	737,478	210,728,461
Less accumulated depreciation:					
Site improvements	4,356,848	326,869	-	-	4,683,717
Buildings	37,435,097	3,192,964	-	-	40,628,061
Equipment	9,604,981	1,213,136	-	-	10,818,117
Computer equipment	10,951,934	1,700,230	-	-	12,652,164
Vehicles	1,660,325	106,735	-	-	1,767,060
	64,009,185	6,539,934	-	-	70,549,119
Total depreciable assets, net	$ 142,340,741	$ (2,898,877)	$ -	$ 737,478	$ 140,179,342

(Continued on following page)

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2011 and 2010, consist of the following:

	June 30,	
	2011	2010
Accrued payroll and related liabilities	$ 3,584,254	$ 4,245,330
Construction payables	2,793,997	2,242,876
Interest payable	1,741,956	1,572,263
Other	3,460,840	2,836,389
Total	$ 11,581,047	$ 10,896,858

NOTE 6 SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2009 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

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

Short-term debt activity for the year ended June 30, 2010 was as follows:

	June 30, 2009 Balance	Drawn	Repaid	June 30, 2010 Balance
Participation in California Community College Financing Authority 2010 Tax and Revenue Anticipation Bonds	$ -	$ 2,307,560	$ (2,307,560)	$ -

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2011:

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

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	$ 83,086,673	$ 41,173,971	$ 46,944,210	$ 77,316,434
Limited obligation improvement bonds	4,984,928	6,724,580	550,106	11,159,402
General obligation bonds	146,893,684	3,406,473	4,602,049	145,698,108
Other post-employment benefit bonds	84,970,000	-	625,000	84,345,000
Total	$ 319,935,285	$ 51,305,024	$ 52,721,365	$ 318,518,944
Compensated absences	$ 2,722,299	$ 2,011,496	$ 1,781,385	$ 2,952,410
Memo total	$ 322,657,584	$ 53,316,520	$ 54,502,750	$ 321,471,354

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2011 and 2010:

	June 30,	
	2011	2010
Certificates of Participation		
2008 Conversion of 2004 Variable Rate Certificates of Participation issued in the original amount of $40,280,000 by the Corporation. Final maturity 2034. Interest rates 3.50% to 4.75%.	$ 37,700,000	$ 38,670,000
Reoffering of 2010 Refunding Certificates of Participation issued in the original amount of $42,875,000 by the Corporation. Final maturity 2014. Interest rate 4%.	42,875,000	42,875,000
Total certificates of participation	80,575,000	81,545,000
Discount on certificates of participation	(3,705,554)	(4,228,566)
Net certificates of participation	76,869,446	77,316,434
Limited Obligation Improvement Bonds		
2004 Refunding Bonds issued in the original amount of $7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	3,895,000	4,465,000
2010A Lease Revenue Bonds issued in the original amount of $6,810,000. Final maturity 2035. Interest rates 3.00% to 5.125%.	6,545,000	6,810,000
Total limited obligation improvement bonds	10,440,000	11,275,000
Discount on limited obligation improvement bonds	(107,287)	(115,598)
Net limited obligation improvement bonds	10,332,713	11,159,402

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30,	
	2011	2010
General Obligation Improvement Bonds		
Bonds issued in the original amount of $7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,571,066	7,686,198
Bonds issued in the original amount of $4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,493,785	4,425,982
Bonds issued in the original amount of $75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	11,188,344	12,518,421
Bonds issued in the original amount of $54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	53,629,128	54,659,573
Bonds issued in the original amount of $49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	58,564,965	56,676,287
Total general obligation bonds	135,447,288	135,966,461
Premium on general obligation bonds	9,044,601	9,731,647
Net general obligation bonds	144,491,889	145,698,108

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30, 2011	June 30, 2010
CEC Loan		
Energy Conservation Assistance Loan with a principal amount of $2,200,000 however only $1,980,000 has been drawn. Final maturity 2026 and interest rate of 3%. Interest only payments until June 2013.	1,980,000	-
Other Post-employment Benefit Bonds		
2008 Taxable OPEB (Other Post-Employment Benefit) Bonds, Series A issued in the original amount of $85,880,000. Final maturity 2047. Interest rate 6.01%.	83,685,000	84,345,000
Total long-term debt	317,359,048	318,518,944
Less current portion	6,623,841	6,640,000
Total long-term debt, noncurrent portion	$ 310,735,207	$ 311,878,944

Refunded Debt

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

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

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Refunded Debt (Continued)

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

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

Accretion

General obligation bonds as of June 30, 2011 and 2010 have been increased by $17,456,685 and $13,800,856, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

(Continued on following page)

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Accretion (Continued)

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

Year Ended	Bonds			Bond	
June 30,	Principal	Interest	Total	Premium	Total
2012	$ 6,623,841	$ 12,601,173	$ 19,225,014	$ 173,686	$ 19,398,700
2013	8,006,367	11,793,606	19,799,973	173,686	19,973,659
2014	50,312,383	12,948,600	63,260,983	213,617	63,474,600
2015	6,340,649	12,670,132	19,010,781	583,324	19,594,105
2016	6,358,953	12,911,239	19,270,192	583,324	19,853,516
2017 – 2021	59,684,972	40,508,613	100,193,585	2,940,271	103,133,856
2022 – 2026	48,967,869	56,751,281	105,719,150	841,803	106,560,953
2027 – 2031	32,645,573	69,936,764	102,582,337	80,356	102,662,693
2032 – 2036	30,524,996	18,105,650	48,630,646	(358,307)	48,272,339
2037 – 2041	17,010,000	11,147,649	28,157,649	-	28,157,649
2042 – 2046	22,785,000	5,209,017	27,994,017	-	27,994,017
2047 – 2051	5,410,000	162,571	5,572,571	-	5,572,571
Total	$ 294,670,603	$ 264,746,295	559,416,898	5,231,760	564,648,658
Less interest (excluding accretion of $17,456,685)			(247,289,610)	-	(247,289,610)
Net principal			$ 312,127,288	$ 5,231,760	$ 317,359,048

(Continued on following page)

NOTE 8 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2011 and 2010 were $49,919 and $287,909, respectively.

The future minimum lease payments as of June 30, 2011, are as follows:

Year Ended June 30,	Amount
2012	$ 39,676
2013	36,989
2014	34,026
2015	8,333
2016	-
Total	$ 119,024

NOTE 9 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

(Continued on following page)

NOTE 9 PENSION PLANS

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS)* (Continued)

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

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

At June 30, 2011 and 2010, the District employed 348 and 405 certificated employees with a total annual payroll of $38,682,117 and $38,681,823, respectively.

(Continued on following page)

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Public Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government* Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2011 and 2010, was 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

NOTE 9 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2011 and 2010, was 10.707% and 9.709% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2009	2010	2011
STRS	$ 3,730,600	$ 3,670,070	$ 3,699,805
PERS	2,195,468	2,297,515	2,377,447
Total	$ 5,926,068	$ 5,967,585	$ 6,077,252

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

The State of California makes contributions to CalSTRS on behalf of the District equaling approximately 4.517% of covered members' gross salaries. The contribution for the years ending June 30, 2011, 2010 and 2009 are estimated to have been $2,042,560, $2,015,848 and $1,931,783, respectively. A District contribution to CalPERS was not required for the years ended June 30, 2011, 2010 and 2009. The payment amounts have been reflected in the basic financial statements as a component of employee benefits expense and other non-operating revenues.

NOTE 10 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

(Continued on following page)

NOTE 11 RISK MANAGEMENT

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

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

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2011		September 30, 2010
	SISC I	SISC II	SISC III
Total assets	$ 93,923,692	$ 49,811,860	$ 251,295,365
Total liabilities	63,099,280	33,038,659	98,032,970
Fund balance	$ 30,824,412	$ 16,773,201	$ 153,262,395
Total revenues	$ 11,548,714	$ 18,374,095	$ 1,007,164,422
Total expenditures	15,068,287	22,036,858	1,044,275,890
Net increase (decrease) in fund balance	$ (3,519,573)	$ (3,662,763)	$ (37,111,468)

(Continued on following page)

NOTE 11 RISK MANAGEMENT
(Continued)

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

The District has recorded $350,000 of excess insurance reserves being held by SISC as of June 30, 2011.

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2011 and September 30, 2010, respectively.

Financial statements are available from SISC upon request.

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides postemployment health care benefits for eligible employees who retire with CalPERS or CalSTRS pension benefits immediately upon termination of employment from the District through the Kern Community College District Postretirement Health Benefits Plan (the Plan). The Plan is a single employer OPEB plan and obligations of the Plan members and the District are based on negotiated contracts with the various bargaining units of the District. The District implemented the new reporting requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* (GASB 45) prospectively for the fiscal year ended June 30, 2010.

A. Plan Description

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

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

Currently, the District has 725 active full-time employees who are eligible for postretirement health benefits and 451 retirees who receive postretirement health benefits.

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

B. Funding Policy

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

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

C. Annual OPEB Costs and Net OPEB Obligation

Before the implementation of GASB 45, the District's expenses for postretirement health benefits were recognized only when paid. The District's annual OPEB cost (expense) is now calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) over a period of 30 years. The following table shows the components of the District's OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan for the year ended June 30, 2011:

	2011	2010
Annual required contribution (ARC)	$ 453,447	$ 453,447
Adjustment to ARC	4,415,337	4,415,337
Annual OPEB cost for the year	4,868,784	4,868,784
Contributions made for the year	-	-
Change in prepaid OPEB obligation	4,868,784	4,868,784
Net OPEB prepaid, beginning of the year	(77,578,164)	(82,446,948)
Net OPEB prepaid, end of year	$ (72,709,380)	$ (77,578,164)

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

C. Annual OPEB Costs and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and 2010, and 2009 is as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage of annual OPEB costs Contributed	Net OPEB Prepaid
06/30/2011	$ 4,868,784	0%	$ (72,709,380)
06/30/2010	$ 4,868,784	0%	$ (77,578,164)
06/30/2009	$ 4,907,633	1728%	$ (82,446,948)

D. Funded Status Information

The District's funding status information is illustrated as follows:

Actuarial valuation date	February 1, 2010
Actuarial value of assets	$ 84,044,523
Actuarial accrued liability (AAL)	$ 67,675,250
Unfunded AAL (UAAL)	$ (87,528,266)
Funded ratio	129%
Covered payroll	$ 46,757,426
UAAL as a % of covered payroll	187.20%

As of June 30, 2011, the District has set aside approximately $84,782,678 in an external trust fund and the fair value of the trust fund as of June 30, 2011 was approximately $89,379,733.

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

E. Actuarial Methods and Assumptions

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

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

In the February 2010 actuarial valuation, the entry-age normal cost method was used. The actuarial assumptions included a 5% discount rate based on the assumption that a substantial portion of the ARC is funded. A 3.0% price inflation and a 3.0% wage inflation assumptions were used as well as an annual cost trend rate of 4.0%. Unfunded actuarial accrued liabilities are amortized to produce payments (principal and interest), which are a level percent of payroll over a 30-year period.

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

CONDENSED FINANCIAL STATEMENTS

The financial information for the OPEB Trust are presented below.

Statement of Plan Net Assets

	June 30, 2011
ASSETS	
Cash and cash equivalents	$ 51
Interest receivable	99,917
Long-term investments	89,379,681
Total assets	89,479,649
LIABILITIES	
Benefits payable	604,978
Total liabilities	604,978
Net assets	$ 88,874,671

	June 30, 2011
ADDITIONS	
Investment income:	
Net realized and unrealized losses in investments	$ 12,039,977
Dividends and interest	1,497,942
Total investment income	13,537,919
Total additions to net assets	13,537,919
DEDUCTIONS	
Benefit expenses	$ 4,998,616
Total deductions	4,998,616
Increase in net assets	8,539,303
Net assets, beginning of year	80,335,368
Net assets, end of year	$ 88,874,671

(Continued on following page)

NOTE 12 OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

NOTES TO THE CONDENSED OPEB FINANCIAL STATEMENTS

Plan Provisions

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

Summary of Significant Accounting Polices

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

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

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

(Continued on following page)

NOTE 13 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2011. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual.*

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 986,971	$ 409,844	$ 46,432	$ -	$ 1,443,247
Ancillary services	4,305,696	1,445,559	6,090,879	29,991	11,872,125
Auxiliary operations	72,515	25,202	-	-	97,717
Community services and economic development	878,768	161,247	723,674	-	1,763,689
Depreciation expense	-	-	-	7,213,495	7,213,495
Institutional support services	8,931,462	9,838,430	7,082,164	-	25,852,056
Instructional	41,616,854	8,781,117	3,147,643	-	53,545,614
Instructional administration	6,743,758	2,031,617	1,353,220	-	10,128,595
Instructional support services	1,427,195	461,716	292,512	-	2,181,423
Long-term debt and other financing	-	-	74,715	-	74,715
Operations and maintenance of plant	2,453,051	1,137,486	4,254,075	-	7,844,612
Other student services	4,872,422	1,475,534	55,083,278	-	61,431,234
Physical property and related acquisitions	806,873	215,109	729,989	-	1,751,971
Planning, policymaking, and coordination	821,150	315,297	1,084,546	-	2,220,993
Student counseling and guidance	2,652,687	714,827	129,859	-	3,497,373
Transfers, student aid, and other outgo	-	-	207,878	-	207,878
Total	$ 76,569,402	$ 27,012,985	$ 80,300,864	$ 7,243,486	$ 191,126,737

(Continued on following page)

NOTE 13 FUNCTIONAL EXPENSES
(Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2010. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual.*

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	$ 1,013,768	$ 475,788	$ 41,304	$ -	$ 1,530,860
Ancillary services	4,695,452	1,722,411	6,581,021	31,156	13,030,040
Auxiliary operations	151,961	39,520	-	-	191,481
Community services and economic development	417,844	106,065	305,873	-	829,782
Depreciation expense	-	-	-	6,508,778	6,508,778
Institutional support services	9,974,949	7,062,009	6,266,047	-	23,303,005
Instructional	40,555,080	9,582,101	4,453,151	-	54,590,332
Instructional administration	7,382,212	2,450,978	655,067	-	10,488,257
Instructional support services	1,527,765	571,047	357,527	-	2,456,339
Long-term debt and other financing	-	-	6,239	-	6,239
Operations and maintenance of plant	2,580,798	1,332,953	4,065,695	-	7,979,446
Other student services	5,644,825	1,778,246	51,085,521	-	58,508,592
Physical property and related acquisitions	856,272	266,103	1,020,626	-	2,143,001
Planning, policymaking, and coordination	655,973	344,243	898,758	-	1,898,974
Student counseling and guidance	2,953,757	888,741	216,218	-	4,058,716
Transfers, student aid, and other outgo	-	-	213,441	-	213,441
Total	$ 78,410,656	$ 26,620,205	$ 76,166,488	$ 6,539,934	$ 187,737,283

(Continued on following page)

NOTE 14 COMMITMENTS

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

Bakersfield College Thermal Energy Storage	$ 1,178,293
Bakersfield College PV Solar Project	489,702
Cerro Coso Community College Science Modernization	803,393
Cerro Coso Student Center Modernization	1,046,102
Porterville College Wellness Modernization	2,694,452
Other projects	494,499
	$ 6,706,441

As of June 30, 2010, the District had unfinished construction contracts under the following project categories:

Bakersfield College Baseball/Softball Modernization	$ 465,052
Cerro Coso Community College Science Modernization	853,811
Cerro Coso Fine Arts	1,306,813
Porterville College Wellness Modernization	2,699,452
Porterville College Library Expansion	11,618
Other projects	76,387
	$ 5,413,133

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KERN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

JUNE 30, 2011

BOARD OF TRUSTEES

Name	Office	Area	Term Expires
Ms. Rose Marie Bans	President	Northeastern Kern County	December 2012
Mr. John S. Corkins	Vice President	Porterville	December 2014
Mrs. Kay S. Meek	Clerk	Southwest Bakersfield	December 2012
Mr. Stuart O. Witt	Member	Ridgecrest	December 2014
Mr. John A. Rodgers	Member	Central Bakersfield	December 2014
Mr. Dennis L. Beebe	Member	Southwest Bakersfield	December 2012
Mrs. Pauline F. Larwood	Member	Central Bakersfield	December 2014

ADMINISTRATION

NAME	Office
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Doris Givens	Associate Chancellor, Educational Services
Mr. Ibrahim Ali	Vice Chancellor, Human Resources
Mr. Sean James	Vice Chancellor, Operations

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Agriculture:		
US Forest Service	10.679	$ 15,975
Passed through State Department of Education -		
Child Care Food Program	10.555	229,674
Total Department of Agriculture		245,649
Department of Labor:		
Workforce Investment Act Cluster		
Passed through County of Kern -		
WIA Adult Program - ARRA	17.258	300,665
Passed through State of California Employment Development Department -		
WIA Adult Program - ARRA	17.258	333,754
Total Workforce Investment Act Cluster		634,419
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	17.275	550,668
Total Department of Labor		1,185,087
Department of Energy		
Passed through State of California Employment Development Department -		
State Energy Program - ARRA	81.041	226,537
Total Department of Energy		226,537
Department of Education:		
Student Financial Aid Cluster		
Federal Supplemental Educational Opportunity Grants	84.007	437,737
Federal Direct Student Loans	84.268	6,322,821
Federal Work-Study Program	84.033	478,718
Federal Work-Study Program - ARRA	84.033	-
Federal Pell Grant Program	84.063	44,832,503
Academic Competitiveness Grant	84.375	207,878
Total Student Financial Aid Cluster		52,279,657

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL EXPENDITURES:		
Department of Education: (Continued)		
Higher Education - Institutional Aid	84.031	358,336
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	1,117,432
Migrant Education - State Grant Program	84.011	21,577
Vocational Education - Tech Prep Education	84.243	345,559
Rehabilitation Services - Vocational Rehabilitation to States	84.126	144,658
Rehabilitation Services - Vocational Rehabilitation to States - ARRA	84.390	18,867
Fund for the Improvement of Postsecondary Education	84.116	19,821
State Fiscal Stabilization - ARRA	84.394	67,047
Total Department of Education		54,372,954
National Science Foundation		
Education and Human Resources	47.076	46,597
Department of Health and Human Services:		
Passed through State Department of Education -		
Administration for Children and Families -		
Temporary Assistance for Needy Families (TANF)	93.558	29,019
General Center - Child Care	93.596	224,854
CCAP Infant Toddler Resource	93.713	2,306
Foster Parent Training	96.658	50,972
Total Department of Health and Human Services		307,151
Total Federal Expenditures		$ 56,383,975

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

YEAR ENDED JUNE 30, 2011

Description	Program Revenues Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Income	Total	Total Program Expenditures
Extended Opportunity Programs and Services	1,586,233	(593)	-	1,585,640	1,585,640
CalGrant	2,729,125	(111,792)	-	2,617,333	2,617,333
Disabled Students Programs and Services	1,246,726	(169)	-	1,246,557	1,246,557
CalWorks	460,538	-	18,081	478,619	478,619
Matriculation	702,485	-	-	702,485	702,485
Foster Parent	120,438	(25,192)		95,246	95,246
Project Care	274,477	-	-	274,477	274,477
BFAP	919,258	-	-	919,258	919,258
Small Business Center	134,903	(11,903)	-	123,000	123,000
PC Development Service	88,240	(9,160)	-	79,080	79,080
PC Development Center	351,556	-	-	351,556	351,556
Psych Tech	811,080	(294,400)	-	516,680	516,680
Career Tech Education	680,000	-	-	680,000	680,000
Basic Skills	450,297	4,062	-	454,359	454,359
All other categorical	821,975	-	(355,991)	465,984	465,984
	$ 11,377,331	$ (449,147)	$ (337,910)	$ 10,590,274	$ 10,590,274

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT

ANNUALIZED ATTENDANCE AS OF JUNE 30, 2011

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2010 Only)			
1. Noncredit	2.36		2.36
2. Credit	1,877.67		1,877.67
B. Summer Intersession (Summer 2011 Prior to July 1, 2011)			
1. Noncredit	-		-
2. Credit	39.55		39.55
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,465.67		13,465.67
(b) Daily Census Contact Hours	609.85		609.85
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	47.12		47.12
(b) Credit	1,817.14		1,817.14
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	2,251.48		2,251.48
(b) Daily Census Procedure Courses	471.53		471.53
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	20,582.37		20,582.37
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	537.10		537.10
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	50.00		50.00
2. Credit	2,520.88		2,520.88

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS

YEAR ENDED JUNE 30, 2011

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2011 Annual Financial and Budget Report (CCFS-311) Fund Balance	$ 35,410,228	$ 24,973,035	$ 70,646,131	$ 271,533	$ 250,540
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	(650,625)	18,228			-
Audit adjustments		-	-	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	-			2	
Net adjustments and reclassifications	(650,625)	18,228	-	2	-
June 30, 2011 District Accounting Records Fund Balance	$ 34,759,603	$ 24,991,263	$ 70,646,131	$ 271,535	$ 250,540

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
$ 55,558,318	$ 2,335,692	$ 259,874	$ 90,891	$ (113,890)	$ 261,800	$ 15,827	$ 308,175
(172,231)	-	631	-	47,231	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(261,800)	(15,827)	(308,175)
-	(3)	-	-	-	-	-	-
(172,231)	(3)	631	-	47,231	(261,800)	(15,827)	(308,175)
$ 55,386,087	$ 2,335,689	$ 260,505	$ 90,891	$ (66,659)	$ -	$ -	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2011

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 19,053,044	$ -	$ 3,833,571	$ 432,738
Restricted cash and cash equivalents	3,713,737	25,957,552	-	-
Accounts receivable, net	21,996,695	25,753	187,405	35,978
Prepaid expenses	19,205	-	-	-
Inventories	-	-	-	-
Due from other funds	75,000	-	-	-
Total current assets	44,857,681	25,983,305	4,020,976	468,716
Noncurrent assets:				
Restricted investments	-	-	66,625,155	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	66,625,155	-
Total assets	$ 44,857,681	$ 25,983,305	$ 70,646,131	$ 468,716
LIABILITIES				
Accounts payable	$ 6,087,829	$ 17,650	$ -	$ 147,181
Deferred revenue	4,010,249	-	-	50,000
Due to other funds	-	974,392	-	-
Amounts held for others	-	-	-	-
Total liabilities	10,098,078	992,042	-	197,181
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	24,991,263	70,646,131	-
Reserved for special purposes	8,333,269	-	-	-
Unreserved:				
Undesignated	26,426,334	-	-	271,535
Total fund equity (deficit)	34,759,603	24,991,263	70,646,131	271,535
Total liabilities and fund equity (deficit)	$ 44,857,681	$ 25,983,305	$ 70,646,131	$ 468,716

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ 250,540	$ (165,678)	$ (560,566)	$ 123,564	$ -	$ (17,494)	$ -
-	55,211,768	640	-	90,891	(1,385,349)	450,655
-	162,948	2,660,786	133,669	-	1,357,905	67,412
-	-	-	-	-	-	-
-	-	5,814	12,775	-	-	-
-	899,392	-	-	-	-	-
250,540	56,108,430	2,106,674	270,008	90,891	(44,938)	518,067
-	-	-	-	-	-	-
-	-	541,349	-	-	-	-
-	-	541,349	-	-	-	-
$ 250,540	$ 56,108,430	$ 2,648,023	$ 270,008	$ 90,891	$ (44,938)	$ 518,067
$ -	$ 645,972	$ 312,334	$ 9,503	$ -	$ 21,721	$ 85,456
-	76,371	-	-	-	-	20,463
-	-	-	-	-	-	-
-	-	-	-	-	-	412,148
-	722,343	312,334	9,503	-	21,721	518,067
-	-	-	-	-	-	-
250,540	55,386,087	2,335,689	-	90,891	(66,659)	-
-	-	-	260,505	-	-	-
250,540	55,386,087	2,335,689	260,505	90,891	(66,659)	-
$ 250,540	$ 56,108,430	$ 2,648,023	$ 270,008	$ 90,891	$ (44,938)	$ 518,067

KERN COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2011

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 22,949,719
Restricted cash and cash equivalents	37,297	386,693	84,463,884
Accounts receivable, net	-	-	26,628,551
Prepaid expenses	-	-	19,205
Inventories	-	-	18,589
Due from other funds	-	-	974,392
Total current assets	37,297	386,693	135,054,340
Noncurrent assets:			
Restricted investments	-	-	66,625,155
Capital assets, net	-	-	541,349
Total noncurrent assets	-	-	67,166,504
Total assets	$ 37,297	$ 386,693	$ 202,220,844
LIABILITIES			
Accounts payable	$ 1,709	$ 6,598	$ 7,335,953
Deferred revenue	19,760	71,921	4,248,764
Due to other funds	-	-	974,392
Amounts held for others	15,828	308,174	736,150
Total liabilities	37,297	386,693	13,295,259
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	95,637,394
Reserved for special purposes	-	-	66,329,817
Unreserved:			
Undesignated	-	-	26,958,374
Total fund equity (deficit)	-	-	188,925,585
Total liabilities and fund equity (deficit)	$ 37,297	$ 386,693	$ 202,220,844

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2011

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	$ 16,842,884	$ -	$ -	$ -
Less: scholarship discount and allowance	9,651,651	-	-	-
Net tuition and fees	7,191,233	-	-	-
Grants and contracts, non-capital:				
Federal	4,883,830	-	-	456,834
State	8,558,904	-	-	2,530,195
Local	2,470,822	-	-	1,500
Auxiliary enterprise sales and charges	54,837	-	-	-
Other operating revenues	484,728	5,567,041	-	38,179
Total operating revenues	23,644,354	5,567,041	-	3,026,708
OPERATING EXPENDITURES/EXPENSES				
Salaries	72,790,423	-	-	2,540,723
Employee benefits	19,023,521	-	-	939,752
Payments to students	246,205	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	15,922,863	107,352	4,433,469	169,228
Capital outlay	1,526,193	-	-	-
Utilities	3,064,811	-	-	44,850
Depreciation	-	-	-	-
Total operating expenditures/expenses	112,574,016	107,352	4,433,469	3,694,553
OPERATING INCOME (LOSS)	(88,929,662)	5,459,689	(4,433,469)	(667,845)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	53,527,889	-	-	-
Local property taxes	44,325,964	-	-	-
State taxes and other revenues	3,631,573	75,618	-	-
Investment income, non-capital	371,264	143,715	1,514,166	3,857
Debt service	(5,729,119)	(13,528,541)	-	-
Cost of issuance	-	-	-	-
Other non-operating expenditures/expenses	(683,033)	-	-	-
Total non-operating revenues (expenditures)	95,444,538	(13,309,208)	1,514,166	3,857

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
$ -	$ 175,664	$ -	$ (1,653)	$ -	$ -	$ -
-	-	-	-	-	-	-
-	175,664	-	(1,653)	-	-	-
-	-	-	-	437,737	51,296,737	-
-	-	-	-	-	2,617,333	-
18,328	168,517	(7,288)	51	-	-	-
-	-	5,810,449	1,334,147	-	-	-
-	162,924	300,540	-	-	-	-
18,328	507,105	6,103,701	1,332,545	437,737	53,914,070	-
-	473,856	830,900	445,082	-	-	-
-	115,875	167,483	205,010	-		-
-	-	-	-	437,737	53,932,465	-
-	14,537,780	5,195,597	564,816	-	-	-
-	201,748	-	5,426	-	-	-
-	1,751	669	6,480	-	-	-
-	-	29,991	-	-	-	-
-	15,331,010	6,224,640	1,226,814	437,737	53,932,465	-
18,328	(14,823,905)	(120,939)	105,731	-	(18,395)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	672,503	220	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	672,503	220	-	-	-	-

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2011

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	6,514,876	(7,849,519)	(2,919,303)	(663,988)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	9,468,862	-	-
Gifts and grants, capital	-	-	-	-
Excess of revenues over (under) expenditures	6,514,876	1,619,343	(2,919,303)	(663,988)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	557,275	-	13,090,503	1,062,374
Operating transfers out	(16,718,703)	(25,000)	-	(184,521)
Bonds issued	-	-	-	-
Premium (discount) on bond issuance	-	-	-	-
Total other financing sources (uses)	(16,161,428)	(25,000)	13,090,503	877,853
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(9,646,552)	1,594,343	10,171,200	213,865
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	44,406,155	23,396,920	60,474,931	57,670
FUND EQUITY (DEFICIT), END OF YEAR	$ 34,759,603	$ 24,991,263	$ 70,646,131	$ 271,535

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
18,328	(14,151,402)	(120,719)	105,731	-	(18,395)	-
-	1,025,570	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
18,328	(13,125,832)	(120,719)	105,731	-	(18,395)	-
-	2,268,859	-	-	-	-	-
-	-	(50,787)	-	-	-	-
-	1,980,000	-	-	-	-	-
-	-	-	-	-	-	-
-	4,248,859	(50,787)	-	-	-	-
18,328	(8,876,973)	(171,506)	105,731	-	(18,395)	-
232,212	64,263,060	2,507,195	154,774	90,891	(48,264)	-
$ 250,540	$ 55,386,087	$ 2,335,689	$ 260,505	$ 90,891	$ (66,659)	$ -

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2011

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	$ -	$ -	$ 17,016,895
Less: scholarship discount and allowance	-	-	9,651,651
Net tuition and fees	-	-	7,365,244
Grants and contracts, non-capital:			
Federal	-	-	57,075,138
State	-	-	13,706,432
Local	-	-	2,651,930
Auxiliary enterprise sales and charges	-	-	7,199,433
Other operating revenues	-	-	6,553,412
Total operating revenues	-	-	94,551,589
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	77,080,984
Employee benefits	-	-	20,451,641
Payments to students	-	-	54,616,407
Supplies, materials, and other operating expenditures/expenses and services	-	-	40,931,105
Capital outlay	-	-	1,733,367
Utilities	-	-	3,118,561
Depreciation	-	-	29,991
Total operating expenditures/expenses	-	-	197,962,056
OPERATING INCOME (LOSS)	-	-	(103,410,467)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	53,527,889
Local property taxes	-	-	44,325,964
State taxes and other revenues	-	-	3,707,191
Investment income, non-capital	-	-	2,705,725
Debt service	-	-	(19,257,660)
Cost of issuance	-	-	-
Other non-operating expenditures/expenses	-	-	(683,033)
Total non-operating revenues (expenditures)	-	-	84,326,076

(Continued on following page)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND EQUITY - DISTRICT FUNDS INCLUDED IN THE REPORTING ENTITY

YEAR ENDED JUNE 30, 2011

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	$ (19,084,391)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	1,025,570
Local property taxes and revenues, capital	-	-	9,468,862
Gifts and grants, capital	-	-	-
Excess of revenues over (under) expenditures	-	-	(8,589,959)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	16,979,011
Operating transfers out	-	-	(16,979,011)
Limited obligation improvement bonds issued	-	-	1,980,000
Premium (discount) on bond issuance	-	-	-
Total other financing sources (uses)	-	-	1,980,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	(6,609,959)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR	-	-	195,535,544
FUND EQUITY (DEFICIT), END OF YEAR	$ -	$ -	$ 188,925,585

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF FUND EQUITY TO NET ASSETS

JUNE 30, 2011

Total Fund Equity - District Funds Included in the Reporting Entity		$ 188,925,585
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	$ 211,633,989	
Accumulated depreciation	(77,351,707)	134,282,282
Nondepreciable capital assets		95,719,204
Other post employment benefits obligation		72,709,380
Excess insurance reserve		350,000
Deferred costs, net		3,611,203
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,741,956)
Retentions payable		(2,503,138)
Compensated absences	(2,440,828)	
Long-term debt	(317,359,048)	(319,799,876)
Net assets reported within the GASB 35 Statement of Net Assets		$ 171,552,684

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS

YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	$ (6,609,959)
Compensated absence expense addition reported within GASB 35 Statements	511,582
Depreciation expense reported within GASB 35 Statements	(7,213,495)
Amortization of bond issuance cost reported within the GASB 35 Statements	(311,763)
Amortization of bond premium reported within the GASB 35 Statements	155,725
Capital outlay expense not reported within the GASB 35 Statements	16,989,397
Retentions payable reported within the GASB 35 Statements	(1,318,415)
Excess insurance reserve reported within the GASB 35 Statements	350,000
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(3,825,522)
Principal payments on debt not reported within the GASB 35 Statements	6,640,000
Proceeds from debt not reported within the GASB 35 Statements	(1,980,000)
Prepaid expense of other post employment benefits reported within the GASB 35 Statements	(4,868,784)
Net change in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	$ (1,481,234)

The accompanying notes to the supplementary information are an integral part of this supplementary information.

NOTE 1 PURPOSE OF SCHEDULES

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

The audit of the Kern Community College District for the year ended June 30, 2011 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

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

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2011, represents the basis of apportionment of the Kern Community College District's annual source of funding.

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

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

(Continued on following page)

NOTE 2 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

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

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

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

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MATSON and ISOM
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2011 and 2010, which comprise the District's basic financial statements and have issued our report thereon dated November 29, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

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

We noted certain other matters that we have reported to management of the District in a separate letter dated November 29, 2011.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

November 29, 2011

MATSON and ISOM
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

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

Board of Trustees
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern Community College District (District) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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 that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 the 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

November 29, 2011

MATSON and ISOM
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated November 29, 2011.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

421. Salaries of Classroom Instructors: 50 Percent Law

423. Apportionment for Instructional Service Agreements/Contracts

424. State General Apportionment Required Data Elements

425. Residency Determination for Credit Courses

426. Students Actively Enrolled

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

431. GANN Limit Calculation

432. Enrollment Fee

433. CalWORKs – Use of State and Federal TANF Funding

435. Open Enrollment

437. Student Fee – Instructional Materials and Health Fees

473. Economic and Workforce Development (EWD)

474. Extended Opportunity Programs and Services (EOPS)

475. Disabled Student Programs and Services (DSPS)

477. Cooperative Agencies Resources for Education (CARE)

478. Preference for Veterans and Qualified Spouses for Federally Funded Qualified Training Programs

479. To Be Arranged Hours (TBA)

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

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

In our opinion, except for the finding 2011-1, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2011.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, others within the District, California Community Colleges Chancellor's Office, California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Matson and Isom

November 29, 2011

KERN COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of Kern Community College District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The Independent Auditors' Report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion on all major federal programs.

6. There are no audit findings (relative to the major federal award programs for Kern Community College District) that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Direct Student Loans (CFDA 84.268); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement. 2) Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors (CFDA 17.275) 3) WIA Adult Program (CFDA 17.258) State Energy Program (CFDA 81.041), Higher Education-Institutional Aid (CFDA 84.031), and Vocational Education-Tech Prep (84.243).

8. The threshold used for distinguishing between Type A and B programs was $300,000.

9. Kern Community College District was determined to be as a low-risk auditee.

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2011-1 – EOPS

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

Cause of Condition: Oversight in initial review of the EOPS applicant.

Effect of Condition: Such student received $325 in services from the EOPS program that she was not eligible to receive.

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

Response: The District plans to review the requirements with all EOPS staff to ensure only California residents who meet the requirements receive EOPS/CARE funds and services.

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

FINDINGS – STATE COMPLIANCE AUDIT

2010-1 – Open Enrollment

Statement of Condition: During our testing of open enrollment, we noted multiple courses listed in the class schedule that appeared to limit enrollment. Although the District's procedures over enrollment in these courses was not restrictive, the descriptions were. The descriptions included notes that the classes were designed for a specific type of student. However, the courses did not meet the requirements for limitation on enrollment and the descriptions did not affirm the availability of the course to all qualified students.

Cause of Condition: Lack of required verbiage affirming the availability of the course to all qualified students.

Effect of Condition: Students may be discouraged from enrolling in these courses because the descriptions indicate they are only for certain students.

Recommendation: For all courses designed to meet certain specialized needs or designed for certain students, we recommend the District also include verbiage affirming the availability of the course to all qualified students.

Response: The District will include the recommended verbiage to meet the expectations of "open enrollment."

Status: We noted no such classes in the current year.

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

FINDINGS – STATE COMPLIANCE AUDIT
(Continued)

2009-3 – Concurrent Enrollment

Statement of Condition: In a sample of thirty-six students in the prior year, one student file did not contain required documentation of the recommendation of the student's principal or school's authorized agent to enroll in community college courses.

Cause of Condition: The individual campuses need to be more diligent in their review and acceptance of concurrent enrollment applications.

Effect of Condition: The District was not in compliance with the Chancellor's Office requirements.

Recommendation: We recommended the District implement procedures to ensure that required principal or authorized agent recommendations are obtained from all concurrent enrollment students claimed for FTES.

Status: All of the students tested in the current year had the required authorization forms.

MATSON and ISOM
CERTIFIED PUBLIC ACCOUNTANTS

REDDING, CALIFORNIA

INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2011, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control.

This letter does not affect our report dated November 29, 2011, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

2011-1 Direct Loans

Finding

One of the requirements of the Direct Loan Student Financial Aid program is that the District reconcile the School Account Statement (SAS) data file monthly to the internal financial records. The District was not performing such reconciliations.

Recommendation

We recommend that the District develop a procedure to reconcile these amounts monthly.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2009-2 – RETURN TO TITLE IV FUNDS

Finding

The District did not submit credits or payments to Title IV programs for unearned assistance within the required 45 days after the date the District determined that the student withdrew from the Porterville and Cerro Coso campuses. OMB Circular A-133 – Clusters – Student Financial Assistance Programs, Part N(4), requires institutions return Title IV funds no later than 45 days after the date the institution determines the student withdrew from a class or no later than 30 days after it determines that a student will not or has not begun attendance.

Recommendation

We recommended that the District develop procedures to assure that all funds are returned within 45 days of notification that a student has dropped.

Response

Financial Aid departments will use the process and worksheet the District's analyst developed, which populates much of the needed student data from Banner. Financial Aid departments will also add a check-off list on the worksheet to ensure that all the steps are properly completed and the funds returned. A Financial Aid Technician will also be trained as a backup in the completion of the Return to Title IV process. Financial Aid will continue discussions with the KCCD Banner Financial Aid Team to improve the Banner automation of Return to Title IV.

Status

We continue to note late return of Title IV funds.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2011. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

Matson and Isom

MATSON AND ISOM
Certified Public Accountants

November 29, 2011