

MARIN COMMUNITY COLLEGE DISTRICT

COUNTY OF MARIN

NOVATO, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2007

AND

INDEPENDENT AUDITOR'S REPORT

MARIN COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2007

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MARIN COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2007

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Marin Community College District
Novato, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Marin Community College District as of and for the year ended June 30, 2007, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of Marin Community College District as of June 30, 2007, and the results of its operations, changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007 on our consideration of Marin Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) on pages 3 through 10 is not a required part of the basic financial statements, but is supplemental information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting 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.

INDEPENDENT AUDITOR'S REPORT

(Continued)

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

Perry-Smith LLP

Sacramento, California
December 4, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

New Accounting Standards

Marin Community College District (the District) is now in its fifth year of complying with and preparing financial reports in accordance with Governmental Accounting Standards Board (GASB) Statements No. 34/35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*," issued in November 1999. The following discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2007 and the intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial standing, this analysis should be read in conjunction with the entire Independent Auditor's Report, particularly the District's financial statements beginning on page 11, and the notes to the basic financial statements beginning on page 18.

The California Community College Chancellor's Office, through its Fiscal and Accountability Standards Committee, has recommended the Business Type Activity (BTA) model for financial reporting and the District has adopted the BTA reporting model for these financial statements.

As required, the annual report consists of three basic financial statements that provide information on the District as a whole:

- Statement of Net Assets
- Statement of Revenues and Expenses and Change in Net Assets
- Statement of Cash Flows

Financial Highlights

- Marin County property values and local housing sales continued to rise, moving the District further into "Basic Aid" as receipts of local property taxes and enrollment fees exceeded the State's computational revenues under SB 361 for 2006-07 by about \$13 million. SB 361, enacted as part of the 2006 Budget Act, implemented major reforms to improve the equity and transparency of the California Community Colleges (CCC) funding model. SB 361 further established a funding model that would provide growth funding for credit courses at a uniform rate across the CCC system, thereby ensuring that funding remained equalized in the future. The funding model starts with a college/district base allocation, but its primary basis for calculating the revenue limit remains the Full-Time Equivalent Students (FTES).
- Fiscal year 2006-07 ended significantly better than originally budgeted due to additional revenue collections and lower spending. Unrestricted revenues were about \$933,000 higher, principally from one-time Prop.98 reversion funds, mandated cost reimbursements, and interest income; expenditures were approximately \$406,000 lower than budgeted, resulting in revenues exceeding expenditures by \$1.3 million over budgeted. Expenditure savings came from unfilled, but budgeted positions and related benefits and unspent balances from various budgeted cost centers. The year ended with reserve levels at 13.2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

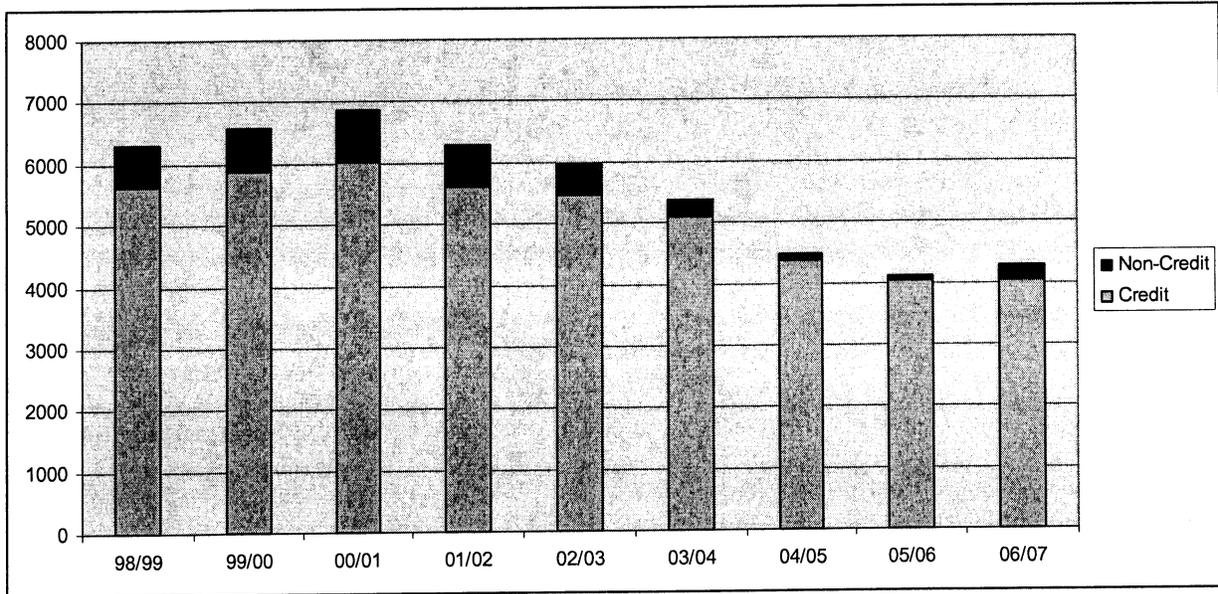
(Continued)

Fiscal Year Ending June 30, 2007

Financial Highlights (Continued)

- FTES totaled 4,293 representing a 4.0% increase over the prior fiscal year and the District continued its comprehensive enrollment management program to improve student access, strengthen outreach, expand marketing efforts, and broaden class offerings.

**FTES Statistics
1998/99 – 2006/07**



- Net costs for employee compensation rose about twelve percent compared to the prior year actual expenditures, as a result of salary increases of 8.9%, 3% and 3% for faculty, classified and administrators, respectively and increases in part-time certificated salaries as part of the enrollment growth initiative. Benefits costs increased by over nine percent, primarily driven by increases in medical benefits.
- During the preceding Fiscal Year 2005-06, the District pre-funded \$1 million of its approximate \$7.4 million unfunded liability (based on a second actuarial study completed in February 2007) in an early application under Government Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, and transferred the monies into a separate fund in the anticipation of the requirement of GASB 45 which will be required to be implemented in future years. At the April 2007 Board of Trustees meeting, the District joined the Community College League of California's Joint Powers Authority, an independent third party GASB 45 compliant trust fund, and expects to transfer the above amount plus accrued interest to the JPA in early spring 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

Financial Highlights (Continued)

- Major milestones achieved in the District's Capital Improvement and Modernization Program included:
 - Board approval to commence design on six of seven building projects, and formation of user groups (faculty, staff and students).
 - Hiring of three architects for major projects (two project architects were hired in 05-06).
 - Preliminary approval of Bond Spending Plan in October 2006 and a revision to the plan in February 2007.
 - Board acceptance of five-volume Bond Implementation Plan and Program Definition Document (April 2007).
 - Submittal of Initial Project Proposal for State funding for the Gateway project.
 - Completion of five infrastructure projects. Specifically, the Larkspur Annex, IVC Storm Drain Repairs, IVC Gas Main Replacement and two tree removal projects.
- The District provided Financial Aid to over 3,000 qualifying students this year translating to more than \$6.4 million in aid. This aid is provided through grants, loans, and work study from the Federal Government, the State Chancellor's Office and local funding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting 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. Net assets were reported as "Fund Balance" in our previous reporting model.

Condensed financial information is as follows:
(In Thousands)

NET ASSETS

	2007	2006	% Change
Current Assets			
Cash and Cash Equivalents	\$ 13,125	\$ 17,772	(26.15)%
Other Current Assets	1,514	1,275	18.75 %
Total Current Assets	<u>14,639</u>	<u>19,047</u>	<u>(23.14)%</u>
Non-Current Assets			
Restricted Cash and Cash Equivalents	72,757	73,459	(0.96)%
Capital Assets, Net of Depreciation	38,523	27,366	40.77 %
Total Non-Current Assets	<u>111,280</u>	<u>100,825</u>	<u>10.37 %</u>
Total Assets	<u>125,919</u>	<u>119,872</u>	<u>5.04 %</u>
Current Liabilities			
Accounts Payable and Accrued Liabilities	7,778	5,353	45.30 %
Deferred Revenues	2,158	1,782	21.10 %
Claims Liability	82	75	9.33 %
Amounts Held on Behalf of Others	830	818	1.47 %
Long-Term Liabilities – Current Portion	5,674	6,379	(11.05)%
Total Current Liabilities	<u>16,522</u>	<u>14,407</u>	<u>14.68 %</u>
Non-Current Liabilities			
Long-Term Liabilities	70,410	76,061	(7.43)%
Total Liabilities	<u>86,932</u>	<u>90,468</u>	<u>(3.91)%</u>
Net Assets			
Invested in Capital Assets Restricted for Expendable Purposes	28,341	19,554	44.94 %
Unrestricted	5,786	8,794	(34.21)%
	4,860	1,056	360.23 %
Total Net Assets	<u>\$ 38,987</u>	<u>\$ 29,404</u>	<u>32.59 %</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

Statement of Net Assets (Continued)

- The \$239,000 net increase in "Other Current Assets" is principally comprised of increases in general fund receivables of \$280,000 and a \$38,000 decrease in prepaid expenditures.
- The net decrease in restricted cash of \$702,000 essentially relates to the Measure C construction spending, offset by earnings from interest income and collection of property taxes for debt repayment.
- The net increase in capital assets of about \$11 million represents additions to depreciable assets, net of actual depreciation of \$945,000 for 2006-07. Included in this category are the net values of buildings, land and equipment. The capitalization threshold was established at \$5,000 or higher (original acquisition cost).
- The \$2.4 million net increase in Accounts Payable and Accrued Liabilities principally relates to the following:
 - \$434,000 increase in trade payables
 - \$583,000 Basic Skills grant overpayment
 - \$178,000 in additional summer payroll and benefits as a result of increased enrollment growth initiatives adding sections in ESL, Nursing and Sciences
 - \$148,000 in the outstanding 4th quarter worker's comp payment
 - \$369,000 additional UPM Retiree Savings liability
 - \$208,000 trade payables adjustment
- Decreases in the current portion of long-term liabilities and non-current long-term liabilities relate to the debt of the underlying bond indenture and the repayment of outstanding debt.
- Net assets, previously reported as "fund balance" under the old reporting model, includes the value of all capital assets (net of accumulated depreciation).
- Restricted and/or reserved amounts include reserve for encumbrances, special reserves, capital projects reserves, inventories and prepaid items. The decrease in "Restricted for expendable purposes", relate to various scheduled maintenance project expenditures and costs for the facilities master plan in the Capital Outlay Fund.
- "Unrestricted net assets" reflects the uncommitted balance for all funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

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, as well as the non-operating revenues and expenses.

Operating Results

For the Years Ended June 30, 2007 and 2006

(In Thousands)

	2007	2006	% Change
Operating Revenues			
Net tuition and fees	\$ 3,952	\$ 3,833	3.10 %
Grants and contracts	7,655	7,473	2.44 %
Total Operating Revenues	<u>11,607</u>	<u>11,307</u>	<u>2.66 %</u>
 Operating Expense			
Salaries and benefits	41,437	36,857	12.43 %
Supplies and maintenance	9,333	9,708	(3.86)%
Depreciation	945	839	12.63 %
Total Operating Expenses	<u>51,715</u>	<u>47,404</u>	<u>9.09 %</u>
Loss from Operations	<u>(40,108)</u>	<u>(36,098)</u>	<u>11.11 %</u>
 Nonoperating Revenues and (Expenses)			
State apportionment	2,182	2,068	5.51 %
Property taxes	35,560	33,140	7.30 %
State revenues	1,566	745	110.20 %
Investment income	3,916	2,940	33.15 %
Interest expense on capital asset related debt	(3,337)	(4,085)	(18.31)%
Other non-operating revenues	1,045	1,416	(26.20)%
Total Non-Operating Revenues	<u>40,932</u>	<u>36,224</u>	<u>13.00 %</u>
 Other Revenues			
State and local capital income	39	196	(80.10)%
Property taxes	8,719	8,602	1.36 %
 Net Increase in Net Assets	<u>\$ 9,582</u>	<u>\$ 8,924</u>	<u>7.38 %</u>

- Operating revenues, tuition and enrollment fees, are slightly up and correspond to the increase in enrollments.
- As reported in the statement of revenues, expenses and change in net assets on page 13 of this report, the cost of all the District's governmental activities this year was \$51,715,000 an increase of approximately 9.1% compared to that of the prior year.
- Expenses for 2006-07 include depreciation of the District's plant and equipment of approximately \$945,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

Statement of Revenues, Expenses and Changes in Net Assets (Continued)

- 80% of all operating funds were directed to salary and benefit costs, a slight increase from the previous year.
- In the Non-operating Revenue and Expense areas, the increase in "State apportionment" represents an increase of \$91,000 in Partnership for Excellence funding.
- Amount funded through our local taxpayers by means of property taxes was \$44.3 million, approximately 6% higher than the previous year. General Fund property tax revenues increased about \$2.4 million or 7.3% over the prior year, the ad valorem taxes collected in the bond redemption fund added another \$8.7 million.
- Increases in both investment income and interest expense relate to activities in the bond redemption fund.

Statement of Cash Flows

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

(In Thousands)

	2007	2006
Cash (used in) provided by:		
Operating activities	\$ (36,750)	\$ (36,687)
Non-capital financing activities	40,293	46,375
Capital and related financing activities	(12,762)	(8,910)
Investing activities	3,869	3,316
Net increase in cash	(5,350)	4,094
Cash – beginning of fiscal year	91,231	87,137
Cash – end of fiscal year	\$ 85,881	\$ 91,231

- Operating activities includes tuition and fees, grants, and operating payments.
- Representing the largest cash in-flow, non-capital financing activities, includes property taxes, enrollment fees, State apportionments, and local revenues.
- Construction projects and capital debt are reported in capital and related financing activities. 2007 capital related financing activities relates to bond redemption.
- Cash flow is adequate for a small district; the District participates in Marin County Treasurer's Office investment pool to maximize interest earnings on excess cash.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Fiscal Year Ending June 30, 2007

Factors That May Affect the Future

- For 2007-08 the State economy continues to slow largely from effects of the housing and home loan sectors, state revenues are lagging below estimates, and other negative turns, the State budget's \$4.1 billion reserve presents a significant cushion. And while the situation could deteriorate further, no shortfalls are anticipated by the Chancellor's Office for this year. However, forecasts for 2008-09 anticipate a very challenging budget year and it is expected that the Department of Finance is preparing a range of budget tightening options for the Governor to consider in building the 2008-09 budget proposal.
- Following three years of enrollment fee increase, in 2007-08 the student enrollment fees, reduced in 2006-07 from \$26/unit to \$20/unit, remained at \$20/unit, which may further positively impact enrollment.
- District reserves were budgeted at 7.6% of General Fund Unrestricted expenditures in the 2007/08 Adoption Budget and the District will strive to align reserve levels in accordance with Board goals to increase reserve levels to 17%.

MARIN COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 13,124,584
Accounts receivable (Note 3)	953,292
Prepaid expenses	<u>560,469</u>
Total current assets	<u>14,638,345</u>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 2)	72,756,891
Capital assets, net (Note 4)	<u>38,523,309</u>
Total noncurrent assets	<u>111,280,200</u>
Total assets	<u>125,918,545</u>

LIABILITIES

Current liabilities:	
Accounts payable	7,777,914
Deferred revenue (Note 5)	2,157,672
Claims liability (Note 8)	81,932
Amounts held in trust (Note 2)	830,131
Compensated absences payable – current portion	43,481
Long-term debt - current portion (Note 6)	<u>5,630,554</u>
Total current liabilities	<u>16,521,684</u>
Noncurrent liabilities:	
Compensated absences payable – noncurrent portion	1,007,871
Premium on general obligation bonds (Note 6)	2,763,993
Long-term debt - noncurrent portion (Note 6)	<u>66,638,170</u>
Total noncurrent liabilities	<u>70,410,034</u>
Total liabilities	<u>86,931,718</u>

Commitments and contingencies (Note 11)

NET ASSETS

Invested in capital assets, net of related debt	\$ 28,340,452
Restricted for capital projects and debt service	5,786,089
Unrestricted	<u>4,860,286</u>
Total net assets	<u>\$ 38,986,827</u>

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

MARIN COMMUNITY COLLEGE DISTRICT

**COLLEGE OF MARIN FOUNDATION
(A Nonprofit Organization)**

STATEMENT OF NET ASSETS

June 30, 2007

ASSETS

Cash and cash equivalents (Note 2)	\$ 318,422
Investments (Note 2)	2,853,323
Accounts receivable	72,023
Prepaid expenses	<u>1,650</u>
Total assets	<u>3,245,418</u>

LIABILITIES

Accounts payable and accrued liabilities	6,544
Grants payable	<u>59,025</u>
Total liabilities	<u>65,569</u>

NET ASSETS

Unrestricted	2,646
Temporarily restricted	216,766
Permanently restricted	<u>2,960,437</u>
Total net assets	<u>\$ 3,179,849</u>

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

MARIN COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2007

Revenues:	
Operating revenues:	
Tuition and fees	\$ 4,741,392
Less: Scholarship discounts and allowances	<u>(789,866)</u>
Net tuition and fees	3,951,526
Grants and contracts, noncapital:	
Federal	3,208,061
State	<u>4,447,217</u>
Total operating revenues	<u>11,606,804</u>
Expenses:	
Operating expenses (Note 13):	
Salaries and benefits (Notes 8, 9 and 10)	41,436,375
Supplies, materials and other operating expenses and services	8,911,397
Equipment, maintenance and repairs	421,684
Depreciation (Note 4)	<u>944,934</u>
Total operating expenses	<u>51,714,390</u>
Loss from operations	<u>(40,107,586)</u>
Non-operating revenues (expenses):	
State apportionment, non capital	2,182,043
Local property taxes (Note 7)	35,559,776
State taxes and other revenues	1,566,324
Investment income, non-capital	540,842
Investment income, capital	3,374,905
Interest expense on capital asset-related debt, net	(3,336,457)
Other non-operating revenues	<u>1,044,746</u>
Total non-operating revenues (expenses)	<u>40,932,179</u>
Income before capital revenues	<u>824,593</u>
Capital revenues:	
Grants and gifts, capital	38,550
Property taxes	<u>8,719,223</u>
Total capital revenues	<u>8,757,773</u>
Increase in net assets	9,582,366
Net assets – beginning of year	<u>29,404,461</u>
Net assets – end of year	<u>\$ 38,986,827</u>

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

MARIN COMMUNITY COLLEGE DISTRICT

**COLLEGE OF MARIN FOUNDATION
(A Nonprofit Organization)**

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues:				
Contributions	\$ 121,323	\$ 431,393	\$ 104,598	\$ 657,314
Interest and dividend income	17,406		322,835	340,241
Other operating income	47,422	(67,780)	35,690	15,332
Net assets released from restrictions by payments	<u>532,273</u>	<u>(325,657)</u>	<u>(206,616)</u>	
Total revenues	<u>718,424</u>	<u>37,956</u>	<u>256,507</u>	<u>1,012,887</u>
Expenses:				
Grants and related activities	535,971			535,971
Salaries and benefits	94,324			94,324
Professional services	85,825			85,825
Other expenses	<u>21,330</u>			<u>21,330</u>
Total expenses	<u>737,450</u>			<u>737,450</u>
(Decrease) increase in net assets	(19,026)	37,956	256,507	275,437
Net assets, beginning of year	<u>21,672</u>	<u>178,810</u>	<u>2,703,930</u>	<u>2,904,412</u>
Net assets, end of year	<u>\$ 2,646</u>	<u>\$ 216,766</u>	<u>\$ 2,960,437</u>	<u>\$ 3,179,849</u>

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

MARIN COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

Cash flows from operating activities:	
Tuition and fees	\$ 3,900,438
Federal grants and contracts	3,053,511
State grants and contracts	4,845,067
Payments to employees	(41,037,727)
Payments to suppliers and vendors	(7,523,420)
Other receipts	<u>12,343</u>
Net cash used in operating activities	<u>(36,749,788)</u>
Cash flows from noncapital financing activities:	
State appropriations	2,182,043
Local property taxes	35,559,776
State taxes and other revenues	1,404,935
Other non-operating revenues	<u>1,146,484</u>
Net cash provided by noncapital financing activities	<u>40,293,238</u>
Cash flows from capital and related financing activities:	
Local revenue for capital purposes	8,757,773
Purchase of capital assets	(11,717,276)
Premium on issuance of capital debt	(125,637)
Principal paid on capital debt	(6,340,100)
Interest paid on capital debt, net	<u>(3,336,519)</u>
Net cash used in capital and related financing activities	<u>(12,761,759)</u>
Cash flows provided by investing activities:	
Interest income	<u>3,868,562</u>
Net decrease in cash and cash equivalents	(5,359,747)
Cash and cash equivalents, beginning of year	<u>91,231,222</u>
Cash and cash equivalents, end of year	<u>\$ 85,881,475</u>

(Continued)

MARIN COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
(Continued)
For the Year Ended June 30, 2007

Reconciliation of loss from operations to net cash used in operating activities:	
Loss from operations	\$ (40,107,586)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation expense	944,934
Changes in assets and liabilities:	
Receivables, net	(108,747)
Prepaid expenses	51,064
Accounts payable	2,047,177
Deferred revenue	300,959
Amounts held in trust	12,343
Compensated absences	<u>110,068</u>
Net cash used in operating activities	<u>\$ (36,749,788)</u>

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

MARIN COMMUNITY COLLEGE DISTRICT

**COLLEGE OF MARIN FOUNDATION
(Nonprofit Organization)**

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2007

Cash flows from operating activities:	
Increase in net assets	\$ 275,437
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Increase in accounts receivable	(72,023)
Increase in prepaid expenses	(191)
Decrease in accounts payable and accrued liabilities	(1,153)
Decrease in grants payable	<u>(8,375)</u>
Net cash provided by operating activities	<u>193,695</u>
Cash flows used in investing activities:	
Increase in investment securities	<u>(221,126)</u>
Net decrease in cash and cash equivalents	(28,431)
Cash and cash equivalents, beginning of year	<u>346,853</u>
Cash and cash equivalents, end of year	<u>\$ 318,422</u>

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

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Marin Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. While the District is a political subdivision of the state, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115 and is therefore exempt from federal taxes.

The decision to include potential component units in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance criterion. The District identified the College of Marin Foundation (Foundation) as a potential component unit.

The Foundation is a nonprofit, tax-exempt organization dedicated to providing financial benefits generated from fundraising efforts and investments earnings to the District. The funds contributed by the Foundation to the District are significant to the District's financial statements. The District applied the criteria for identifying component units in accordance with GASB Statement 39 and therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's financial statements.

Basis of Presentation

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. The District adopted and applied these new standards beginning in 2002-03 as required. 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 adopted and applied this standard for the 2003-04 fiscal year as required. The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's financial statements provide a comprehensive one-line look at its financial activities. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All significant intra-agency transactions have been eliminated.

The Foundation's financial statements are prepared on the accrual basis of accounting. Recognition of contributions is dependent upon whether the contribution is restricted or unrestricted. Net assets are classified on the Statement of Net Assets as unrestricted, temporarily restricted or permanently restricted net assets based on the absence or existence of donor-imposed restrictions.

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after that date.

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less. Funds invested in investment pools are considered cash equivalents.

Restricted Cash and Cash Equivalents

Cash that is externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, is classified as non current assets in the statement of net assets.

Fair Value of Investments

The District records its investment in Marin County Treasury at fair value. Changes in fair value are reported as revenue in the Statement of Revenues, Expenses and Change in Net Assets. The fair value of investments including the Marin County Treasury external investment pool at June 30, 2007 approximated their carrying value.

The Foundation's investments are valued at fair market value based upon quoted market prices, when available, or estimates of fair value in the Statement of Net Assets and unrealized and realized gains and losses are included in the Statement of Revenues, Support, Expenses and Change in Net Assets.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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. 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 does not record an allowance for doubtful accounts. When receivables are determined to be uncollectable, a direct write-off is recorded.

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. For equipment, the District's capitalization policy included 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 ranging from 5 - 50 years depending on asset type.

The District evaluates capital assets for financial impairment as events or changes in circumstances indicate that the carrying amounts of such assets may not be fully recoverable.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year end as liabilities of the District.

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expenditure or 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 for certain STRS and PERS employees, when the employee retires.

Deferred Revenue

Revenue from federal, state and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The District's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of associated 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 include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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. Although the Governing Board may designate these funds for special purposes, the funds remain unrestricted.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to utilize available restricted resources, followed by unrestricted resources.

The Foundation's net assets are classified as follows:

Unrestricted: Unrestricted net assets consist of all resources of the Foundation, which have not been specifically restricted by a donor.

Temporarily restricted: Temporarily restricted net assets consist of cash and other assets received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Revenue, Expense, and Change in Net Assets as net assets released from restriction.

Permanently restricted: Permanently restricted net assets are nonexpendable net assets consisting of endowment and similar type funds in which the donor has stipulated as condition of the gift, that the principal be maintained in perpetuity.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

As more fully described in Note 8, the District is partially self-insured with regard to dental and vision claims and certain other risks. The amount of the outstanding liability at June 30, 2007 for dental and vision claims includes estimates of future claim payments for known cases as well as provisions for incurred but not reported claims and adverse development on known cases which occurred through that date. Outstanding claims which are expected to become due and payable within the subsequent fiscal year are reflected as an accounts and claims payable liability and the balance of the estimated liability is reflected as a current liability in the Internal Service Fund.

State Apportionments

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

Classification of Revenue

The District has classified its revenues as either operating or nonoperating revenues. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35 including state appropriations, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses 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) most federal, state and local grants and contracts and federal appropriations, and (3) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics on nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 35, 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 in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

District cash and cash equivalents at June 30, 2007, consisted of the following:

Pooled Funds:	
Cash in County Treasury	\$ 84,271,125
Deposits:	
Cash on hand and in banks	292,155
Cash in revolving account	20,369
Cash held by Fiscal Agent	<u>1,297,826</u>
Total cash and cash equivalents	<u>85,881,475</u>
Less: restricted cash and cash equivalents:	
Cash in County Treasury	70,628,934
Cash held by Fiscal Agent	1,297,826
Cash held in trust	<u>830,131</u>
Total restricted cash and cash equivalents	<u>72,756,891</u>
Net cash and cash equivalents	<u>\$ 13,124,584</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Marin County Treasury. The County pools and invests the cash. Those pooled funds are carried at fair value, which approximates cost.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial risk classifications is required.

The District's deposits in the fund are considered to be highly liquid. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The Marin County Treasurer has indicated that there are no derivatives in the pool as of June 30, 2007.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Foundation cash, cash equivalents and investments at June 30, 2007 consisted of the following:

Cash in banks:	
Unrestricted	\$ 6,440
Restricted	<u>311,982</u>
Total cash and cash equivalents	<u>\$ 318,422</u>
Investment in mutual funds and debt instruments	<u>\$ 2,853,323</u>

Cash with Fiscal Agent

Cash with Fiscal Agent of \$1,297,826 is held by a trustee for the improvement of campus facilities.

Cash Held in Trust

Cash held in trust of \$830,131 relates to agency funds held by the District on behalf of others.

Custodial Credit Risk

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 agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized.

Cash balances held in banks are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). At June 30, 2007, the carrying amount of the District's cash on hand and in banks was \$312,524 and the bank balance was \$415,768. The bank balance amount insured by the FDIC was \$117,309.

The Foundation maintains substantially all of its cash in banks and are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2007, the carrying amount of the Foundation's cash in banks was \$318,422 and the bank balance was \$485,474. The bank balance amount insured by the FDIC was \$385,474.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

Under provision of the District and Foundation's policies and in accordance with Sections 53601 and 53602 of the California Government code, the District and Foundation may invest in the following types of investments:

- Local agency bonds, notes or warrants within the state
- Securities of the U.S. Government or its agencies
- Certificates of Deposit with commercial banks
- Commercial paper
- Repurchase Agreements

Interest Rate Risk

The District and Foundation's investment policies do not limit cash and investment maturities as a means of managing their exposure to fair value losses arising from increasing interest rates. At June 30, 2007, the District and Foundation had no significant interest rate risk related to cash and investments held.

Concentration of Credit Risk

The District and Foundation do not place limits on the amount they may invest in any one issuer. At June 30, 2007, the District and Foundation had no concentration of credit risk.

3. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 are summarized as follows:

Federal	\$ 395,636
State	269,787
Local and other	<u>287,869</u>
	<u>\$ 953,292</u>

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

4. CAPITAL ASSETS

Capital asset activity consists of the following:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Balance June 30, 2007</u>
Land	\$ 3,119,170			\$ 3,119,170
Land improvements	1,714,905		\$ 1,400,198	3,115,103
Building improvements	32,425,458			32,425,458
Machinery and equipment	3,222,613	\$ 809,638		4,032,251
Construction-in-progress	<u>7,441,229</u>	<u>11,292,060</u>	<u>(1,400,198)</u>	<u>17,333,091</u>
Total	<u>47,923,375</u>	<u>12,101,698</u>	<u> </u>	<u>60,025,073</u>
Less accumulated depreciation:				
Land improvements	1,650,137	38,152		1,688,289
Building improvements	16,808,068	646,512		17,454,580
Machinery and equipment	<u>2,098,625</u>	<u>260,270</u>	<u> </u>	<u>2,358,895</u>
Total	<u>20,556,830</u>	<u>944,934</u>	<u> </u>	<u>21,501,764</u>
Capital assets, net	<u>\$ 27,366,545</u>	<u>\$ 11,156,764</u>	<u>\$ -</u>	<u>\$ 38,523,309</u>

5. DEFERRED REVENUE

Deferred revenue consists of the following at June 30, 2007:

Deferred federal and state revenue	\$ 909,239
Deferred tuition and student fees	751,683
Deferred local grant revenue and other	<u>496,750</u>
Total deferred revenue	<u>\$ 2,157,672</u>

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM DEBT

General Obligation Bonds

In April 2005, the District issued Series A, 2004 General Obligation Bonds aggregating \$75,000,000. The bonds mature through 2030 and bear interest at rates ranging from 3% to 5%. The proceeds from the issuance will be used to finance the acquisition, construction and modernization of certain District property and facilities. Resulting from the bond issuance, the District received a premium of \$3,015,265 and paid issuance costs of \$559,158. The premium and issuance costs are amortized over the life of the bond repayment. At June 30, 2007, the District has unamortized premiums and issuance costs of \$2,763,992 and \$512,562, respectively.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 5,485,000	\$ 3,091,821	\$ 8,576,821
2009	6,135,000	2,792,350	8,927,350
2010	325,000	2,757,850	3,082,850
2011	460,000	2,744,388	3,204,388
2012	600,000	2,715,738	3,315,738
2013-2017	5,755,000	12,822,167	18,577,167
2018-2022	11,790,000	10,618,306	22,408,306
2023-2027	20,425,000	6,558,399	26,983,399
2028-2030	<u>17,825,000</u>	<u>951,719</u>	<u>18,776,719</u>
	<u>\$ 68,800,000</u>	<u>\$ 45,052,738</u>	<u>\$ 113,852,738</u>

Lease Revenue Bonds

In June 2003, the District issued \$3,070,834 of Lease Revenue Bonds with effective interest rates ranging from 2.0% to 4.25% and maturing through May 2033. The bond proceeds are being used to fund various capital improvement projects throughout the District.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 30,000	\$ 38,839	\$ 68,839
2009	35,000	38,201	73,201
2010	40,000	37,326	77,326
2011	45,000	36,226	81,226
2012	55,000	34,876	89,876
2013-2017	380,000	142,238	522,238
2018-2022	647,655	329,988	977,643
2023-2027	846,672	1,682,067	2,528,739
2028-2032	776,961	2,199,563	2,976,524
2033	<u>149,546</u>	<u>515,455</u>	<u>665,001</u>
	<u>\$ 3,005,834</u>	<u>\$ 5,054,779</u>	<u>\$ 8,060,613</u>

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM DEBT (Continued)

Energy Efficiency Revenue Bonds

In 1997, the District issued \$1,539,671 of Energy Efficiency Revenue Bonds. The bonds are issued through the State Public Works Board of the State of California, are interest free, and mature through 2011. The bond proceeds are being used to fund energy retrofitting projects throughout the District.

Year Ending June 30,	Lease Payments
2008	\$ 109,977
2009	109,977
2010	109,977
2011	109,977
	\$ 439,908

Capital Lease Obligations

The District has entered into various lease-purchase agreements for equipment under agreements which provide for title to pass upon expiration of the lease period.

Year Ending June 30,	Principal	Interest	Total
2008	\$ 5,577	\$ 1,712	\$ 7,289
2009	6,070	1,218	7,288
2010	6,607	682	7,289
2011	4,728	132	4,860
	\$ 22,982	\$ 3,744	\$ 26,726

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

6. LONG-TERM DEBT (Continued)

Total Long-Term Debt

Year Ending June 30,	Principal	Interest	Total
2008	\$ 5,630,554	\$ 3,132,372	\$ 8,762,926
2009	6,286,047	2,831,769	9,117,816
2010	481,584	2,795,858	3,277,442
2011	619,705	2,780,746	3,400,451
2012	655,000	2,750,614	3,405,614
2013-2017	6,135,000	12,964,404	19,099,404
2018-2022	12,437,655	10,948,295	23,385,950
2023-2027	21,271,672	8,240,466	29,512,138
2028-2032	18,601,961	3,151,281	21,753,242
2033	149,546	515,455	665,001
	<u>\$ 72,268,724</u>	<u>\$ 50,111,260</u>	<u>\$ 122,379,984</u>

Changes in long-term debt (excluding compensated absences) are as follows:

	General Obligation Bonds	Lease Revenue Bonds	Energy Efficiency Revenue Bonds	Capitalized Lease Obligations	Total
Balance, July 1, 2006	\$75,000,000	\$ 3,030,834	\$ 549,885	\$ 28,105	\$78,608,824
Principal payments	<u>6,200,000</u>	<u>25,000</u>	<u>109,977</u>	<u>5,123</u>	<u>6,340,100</u>
Balance, June 30, 2007	<u>\$68,800,000</u>	<u>\$ 3,005,834</u>	<u>\$ 439,908</u>	<u>\$ 22,982</u>	<u>\$72,268,724</u>

7. PROPERTY TAXES

All property taxes are levied and collected by the Tax Assessor of the County of Marin and paid upon collection to the various taxing entities including the District. Secured taxes are levied on July 1 and are due in two installments on November 1 and February 1, and become delinquent on December 10 and April 10, respectively. The lien date for secured and unsecured property taxes is March 1 of the preceding fiscal year.

8. RISK MANAGEMENT

The District administers dental and vision insurance programs on behalf of the District's eligible employees on a cost-reimbursement basis. The District records an estimated liability for dental and vision claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience. A formal actuarial study has not been performed, however, the District calculated the estimated amount based on historical experience.

MARIN COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. RISK MANAGEMENT (Continued)

The dental and vision claims reserve activity for the year ended July 1, 2006 through June 30, 2007 is as follows:

Liability balance, July 1, 2006	\$ 75,428
Claims and changes in estimates	611,776
Claims payments	<u>(605,272)</u>
Liability balance, June 30, 2007	<u>\$ 81,932</u>

9. EMPLOYEE RETIREMENT SYSTEMS

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

State Teachers' Retirement System (STRS)

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of 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). 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 State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, postretirement 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. Disability benefits of up to 90 percent of final compensation to members with five years of service. 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.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

State Teachers' Retirement System (STRS) (Continued)

Funding Policy

Active members of the DB Plan are required to contribute 8% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The district contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

Annual Pension Cost

The District's total contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,438,974, \$1,310,553 and \$1,177,367, respectively and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the state. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements. In their most recent actuarial valuation of the DB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors. In their most recent actuarial valuation of the CB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

9. EMPLOYEE RETIREMENT SYSTEMS (Continued)

California Public Employees' Retirement System (CalPERS)

Plan Description

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. 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 less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation. The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

The District pays the active plan members required contribution of 7% of their salary, and the District also contributes an actuarially determined rate. The District's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ends in July 2003. The required employer contribution rate for fiscal year 2006-2007 was 9.124% of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2007, 2006 and 2005 were \$843,411, \$881,547 and \$855,659, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

10. ADDITIONAL EMPLOYEE BENEFITS

Post-Retirement Health Care Benefits

In addition to the pension benefits described in Note 9, the District provides post-retirement health care benefits to employees hired prior to 1988 and who retire from the District and meet the specific eligibility requirements set forth in their prospective employment contracts.

The District pays medical and dental insurance premiums to maintain the level of coverage enjoyed by the retiree immediately preceding retirement up until the age of 70 or death of the retiree. Expenditures for post-retirement health care benefits are recognized as the premiums are paid. Currently, 83 employees meet those eligibility requirements. For the year ended June 30, 2007, expenditures of approximately \$787,008 were recognized for post-retirement health care benefits. The approximate unfunded accumulated future liability based on current costs for current retirees of the District at June 30, 2007 amounts to \$4,705,381.

11. COMMITMENTS AND CONTINGENCIES

Contingent Liabilities

There are various claims and legal actions pending against the District for which no provision has been made in the general purpose financial statements. In the opinion of the District, any liabilities arising from these claims and legal actions are not considered significant.

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements or future revenue offsets subsequently determined will not have a material effect on the District's financial position.

12. JOINT POWERS AGREEMENTS

Marin Community College District participates in Joint Power Agreements (JPAs), with Northern California Community College Self Insurance Authority (NCCCSIA), Schools Excess Liability Fund (SELF), Marin Schools Insurance Authority (MSIA) and Statewide Association of Community Colleges (SWACC). The relationship between Marin Community College District and the JPAs is such that the JPAs are not component units of Marin Community College District for financial reporting purposes.

The JPAs are governed by boards consisting of a representative from each member district. The boards control the operations of the JPAs, including the selection of management and approval of operating budgets, independent of any influence by the member district beyond their representation on the governing board. NCCCSIA, SELF and SWACC provide property and liability insurance for its members. MSIA provides workers' compensation insurance for its members. Marin Community College District pays a premium commensurate with the level of coverage requested.

MARIN COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

12. JOINT POWERS AGREEMENTS (Continued)

Member districts share surpluses and deficits proportionate to their participation in the JPAs. The JPAs are independently accountable for their fiscal matters and maintain their own accounting records. Budgets are not subject to any approval other than that of the governing board.

Condensed financial information of the JPAs for the most current year for which audited information is available, is as follows:

	June 30, 2006 <u>NCCCSIA</u>	June 30, 2007 <u>SELF</u>	June 30, 2007 <u>MSIA</u>	June 30, 2006 <u>SWACC</u>
Total assets	\$ 10,744,510	\$ 215,903,000	\$ 16,246,257	\$ 30,679,415
Total liabilities	\$ 4,449,199	\$ 185,793,000	\$ 12,537,571	\$ 18,515,000
Net assets	\$ 6,295,311	\$ 30,110,000	\$ 3,708,686	\$ 12,164,415
Total revenues	\$ 7,662,603	\$ 47,931,000	\$ 12,581,931	\$ 15,466,033
Total expenses	\$ 7,176,360	\$ 45,867,000	\$ 9,192,597	\$ 15,542,649
Change in net assets	\$ 486,243	\$ 2,064,000	\$ 3,389,334	\$ (76,616)

13. OPERATING EXPENSES

The following schedule details the functional classifications of the operating expenses reported in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2007.

<u>Functional Classifications</u>	<u>Salaries and Benefits</u>	<u>Supplies, Materials and Other Operating Expenses</u>	<u>Equipment, Maintenance and Repairs</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$21,947,240	\$ 282,211	\$ 6,724		\$22,236,175
Academic Support	2,666,988	447,730	15,996		3,130,714
Student Services	4,249,020	273,540	2,858		4,525,418
Operating and Maintenance of Plant	1,665,945	1,550,256	7,036		3,223,237
Institution Support	8,247,840	2,346,413	387,360		10,981,613
Public Service	1,854,800	747,446	620		2,602,866
Auxiliary Operations	804,542	150,667	1,090		956,299
Student Aid		3,113,134			3,113,134
Depreciation				\$ 944,934	944,934
Totals	<u>\$41,436,375</u>	<u>\$ 8,911,397</u>	<u>\$ 421,684</u>	<u>\$ 944,934</u>	<u>\$51,714,390</u>

MARIN COMMUNITY COLLEGE DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

14. SUBSEQUENT EVENTS

On July 2, 2007, the District issued \$ 10,500,000 of Tax and Revenue Anticipation Notes (TRANS) maturing on June 30, 2008, with interest at 4.5% to provide for cash flow deficits during the fiscal year. The notes are a general obligation of the District and are payable solely from revenues and cash receipts generated by the District during the fiscal year ending June 30, 2008.

SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

Board of Trustees
Marin Community College District
Novato, California

We have audited the basic financial statements of Marin Community College District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 4, 2007. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the California Community Colleges Contracted District Audit Manual, presented by the Chancellor's office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental financial and statistical information is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of Marin Community College District and includes the following schedules:

- Organization
- Schedule of Federal Financial Awards
- Schedule of State Financial Awards
- Schedule of Workload Measures for State General Apportionment
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Basic Financial Statements
- Notes to Supplemental Information

The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Perry-Smith LLP

December 4, 2007

MARIN COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2007

Marin Community College District was established in 1926, and is comprised of two campuses, Kentfield and Indian Valley. There were no changes in the boundaries of the District during the current year.

The Governing Board and District Administration for the fiscal year ended June 30, 2007 were composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Wanden Treanor	President	2009
Carole Hayashino	Vice President	2007
Phil Kranenburg	Clerk	2007
Barbara Dolan	Trustee	2009
Greg Brockbank	Trustee	2009
Harry Moore	Trustee	2007
Eva Long, Ph.D.	Trustee	2007
Hoa Long Tan	Student Trustee	2008

DISTRICT ADMINISTRATION

Frances L. White, Ph.D.
Superintendent/President

Mr. Albert J. Harrison, II
Vice President, College Operations

MARIN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Student Financial Aid Cluster:			
Federal College Work Study	84.003		\$ 250,954
Pell Grants	84.063		2,484,206
Pell Grant Administration	84.063		6,486
Federal Supplemental Educational Opportunity Grant	84.007		165,580
Vocation and Applied Technology Education Act	84.048		164,534
Independent Living	84.169		<u>10,200</u>
Total U.S. Department of Education			<u>3,081,960</u>
<u>U.S. Department of Health and Human Services</u>			
Temporary Assistance for Needy Families (TANF)	93.558		13,408
Child Development Training Consortium	93.575		20,396
Foster Care Education	93.658		<u>76,900</u>
Total U.S. Department of Health and Human Services			<u>110,704</u>
<u>U.S. Department of Agriculture</u>			
Child Care Food Program	10.558		<u>15,127</u>
<u>U.S. Department of Veterans Affairs</u>			
Veterans Administration	64.115		<u>270</u>
Total federal categorical awards and allowances			<u>\$ 3,208,061</u>

See accompanying notes to
supplemental information.

MARIN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2007

	Program Entitlements			Program Revenues				
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue/Accounts Payable	Total	Program Expenditures
Extended Opportunity Programs and Services	\$ 543,419		\$ 543,419	\$ 543,419		\$ 697	\$ 542,722	\$ 542,722
Cooperative Agencies Resources for Education	73,616		73,616	73,616			73,616	73,616
Disabled Student Programs & Services	1,448,203	8,252	1,456,455	1,456,455		17,255	1,439,200	1,439,200
TANF	13,409		13,409	13,409			13,409	13,409
Cal Works	117,330		117,330	117,330		3,169	114,161	114,161
OTF – Career Technology	148,563		148,563		\$ 148,563		148,563	148,563
Proposition 20, Lottery-Instructional Supplies	86,993	153,561	240,554	240,554		137,032	103,522	103,522
Matriculation - Credit	359,977		359,977	359,977		32,334	327,643	327,643
Matriculation – Non-credit	127,174		127,174	127,174			127,174	127,174
Administrative 2% Enrollment Fee Waivers	14,611		14,611	14,611			14,611	14,611
California Highway Patrol-Racial Profiling		129	129					
Faculty/Staff Diversity	10,089	13,983	24,072	24,072		11,325	12,747	12,747
OTF – Faculty Staff Development	18,669		18,669	18,669		18,669		
Nursing Capacity	183,115	177,784	360,899	360,899		131,603	229,296	229,296
Peace Officers Training		707	707	707		572	135	135
Transfers & Articulation	5,000		5,000	5,000		333	4,667	4,667
Telecommunications Tech. Infrastructure	46,958	72,442	119,400	119,400		69,630	49,770	49,770
Instructional Equipment & Library Materials	100,000	124,887	224,887	224,887		38,198	186,689	186,689
OTF – Instructional Equipment & Library Materials	175,380		175,380	175,380		175,380		
BAFP Administrative	189,249		189,249	189,249			189,249	189,249
Cal Grants	263,146		263,146	263,146			263,146	263,146
Scheduled Maintenance & Repair	100,000		100,000	100,000		100,000		
OTF – Scheduled Maintenance & Repair	175,380		175,380	175,380		60,698	114,682	114,682
Basic Skills	60,416		60,416		60,416			
OTF – Basic Skills	50,000		50,000	50,000		50,000		
Child Care Food Program – Preschool	1,044		1,044	941	103		1,044	1,044
Child Development Bailout Funds	148,101		148,101	148,101			148,101	148,101
Child Development Contract Funds	138,171		138,171	160,323		5,475	154,848	154,848
Child Development Instructional Materials Fund	686		686	686			686	686
CCAP6211 Infant Toddler Grant	2,154		2,154	2,154			2,154	2,154
Total State Programs	\$ 4,600,853	\$ 551,745	\$ 5,152,598	\$ 4,965,539	\$ 209,082	\$ 912,786	\$ 4,261,835	\$ 4,261,835

See accompanying notes to supplemental information.

MARIN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT
Annualized Attendance as of June 30, 2007

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession			
1. Noncredit	-		-
2. Credit	-		-
B. Summer Intersession			
1. Noncredit	7		7
2. Credit	260		260
C. Primary Terms			
1. Census Procedure Courses			
a. Weekly Census Contact Hours	3,092		3,092
b. Daily Census Contact Hours	324		324
2. Actual Hours of Attendance Procedure Courses			
a. Noncredit	241		241
b. Credit	285		285
3. Independent Study/Work Experience			
a. Weekly Census Contact Hours	84		84
b. Daily Census Contact Hours	-		-
c. Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	<u>4,293</u>	<u>-</u>	<u>4,293</u>
Supplemental Information:			
E. In-Service Training Courses (FTES)	-		-
H. Basic Skills Courses and Immigrant Education			
a. Noncredit	165		165
b. Credit	46		46

See accompanying notes to
supplemental information.

MARIN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

There were no adjustments proposed to any funds of the District.

See accompanying notes to
supplemental information.

MARIN COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTAL INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedules of Federal and State Financial Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, this schedule was prepared by the District. Differences exist between the revenues shown on the schedule and the general purpose financial statements for the following reasons:

- Various program revenues are recorded in the current year for prior year claims, related expenditures were incurred in prior years.
- Amounts reported as revenue may not represent final claim amounts, due to the timing of filing the final claims, and the closing of the District's records.

B - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

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

This schedule provides the information necessary to reconcile the fund balance of all funds and account groups reported on the CCFS-311 to the audited financial statements.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Marin Community College District
Novato, California

We have audited the basic financial statements of Marin Community College District for the year ended June 30, 2007, and have issued our report thereon dated December 4, 2007.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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):

General Directives

Management Information System Implementation – State General Apportionment
Required Data Elements

Administration

Apportionments – Apportionment for Instructional Service Agreements/Contracts
Apportionments – Residency Determination For Credit Courses
Apportionments – Concurrent Enrollment of K-12 Students In Community College Credit
Courses
Apportionments – Enrollment Fee
Apportionments – Students Actively Enrolled
Fiscal Operations – Salaries of Classroom Instructors (50 Percent Law)
Fiscal Operations – Gann Limit Calculation
Open Enrollment
Minimum Conditions – "Standards of Scholarship"
Student Fees – Instructional Materials Fees and Health Fees

Student Services

Matriculation – Uses of Matriculation Funds
CalWorks – Use of State and Federal TANF Funding

**INDEPENDENT AUDITOR'S REPORT
ON STATE COMPLIANCE REQUIREMENTS**
(Continued)

Special Programs

Allocation of Costs (DSPS & EOPS)

Facilities

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 examination.

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

In our opinion, the Marin Community College District complied, in all material respects with the aforementioned requirements except as discussed in the Schedule of Audit Findings and Questioned Costs Section of this report, for the year ended June 30, 2007.

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

Perry-Smith LLP

Sacramento, California
December 4, 2007

**INDEPENDENT AUDITOR'S 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
Marin Community College District
Novato, California

We have audited the basic financial statements of Marin Community College District as of and for the year ended June 30, 2007, and have issued our report thereon dated December 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

(Continued)

Compliance and Other Matters

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

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

Perry-Smith LLP

Sacramento, California
December 4, 2007

**INDEPENDENT AUDITOR'S 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
Marin Community College District
Novato, California

Compliance

We have audited the compliance of Marin Community College 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. Marin Community College District's major federal programs are identified in the accompanying schedule of Federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marin Community College District's management. Our responsibility is to express an opinion on Marin Community College District's compliance based on our audit.

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

In our opinion, Marin Community College 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 Marin Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Marin Community College 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 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 Marin Community College District's internal control over compliance.

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

(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in the District'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 District'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 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District'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 weaknesses in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Perry-Smith LLP

Sacramento, California
December 4, 2007

FINDINGS AND RECOMMENDATIONS

MARIN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

June 30, 2007

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

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

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

Identification of major programs:

_____ CFDA Number(s) _____	_____ Name of Federal Program or Cluster _____
84.003, 84.063, 84.007	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

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

STATE AWARDS

Internal control over state programs:

Material weakness identified? _____ Yes X No

Significant deficiency(ies) identified not considered as material weakness? _____ Yes X No

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

MARIN COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS

June 30, 2007

STATE COMPLIANCE

1. APPORTIONMENT – STUDENTS ACTIVELY ENROLLED

Criteria

CCR, Title 5, Sections 58003.1, 58004, 58005, and 58051 requires that 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).

Condition

One student tested for census reporting was inadvertently excluded from the supporting schedules used to complete the District's attendance report.

Effect

The District has underreported the amount of FTES generated for credit courses.

Cause

One student was reported as dropped in the attendance system when the student actually withdrew from the course after the census date.

Fiscal Impact

There is no fiscal impact of the finding as the District is a basic aid district.

Recommendation

The District should closely monitor and review students who drop classes to ensure they are reported correctly within the attendance system.

Corrective Action Plan

The District agrees and will closely monitor add/drop activities in the Legacy system for Spring 2008. Effective Summer 2008, student registration will be on the new Banner Student system, allowing students to electronically submit their add/drop requests.

MARIN COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2007

STATE COMPLIANCE (Continued)

2. APPORTIONMENT – STUDENTS ACTIVELY ENROLLED

Criteria

CCR, Title 5, Section 58003.4 requires each district to have the ability to support timely, accurate and complete information for the workload measures used in the calculation of State General Apportionment for Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hour of attendance and Apprenticeship courses.

Condition

There were two errors on the CCFS-320 P2 attendance report:

- Attendance contact hours for non-residents for weekly census classes were overstated by 263.50 hours.
- Attendance contact hours for daily census classes for resident and non-resident classes were incorrectly input on Part III, Section C5 and C6 causing a total understatement of 98,151.75 hours.

Effect

The CCFS-320 P2 report which is an estimate of the District's attendance through spring semester, was understated.

Cause

During the completion of the CCFS-320 P2 report, clerical errors occurred causing attendance data to be input incorrectly.

Fiscal Impact

There is no fiscal impact to this finding as the District is a basic aid district.

Recommendation

The District should review procedures related to the preparation and review of the attendance report to ensure the report is prepared accurately.

Corrective Action Plan

The District corrected the attendance hours in its annual filing of the CCFS 320 consistent with directives from the State Chancellor's Office. The District will continue to review and monitor the attendance reports for accuracy.

MARIN COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2007

INTERNAL CONTROLS

3. PAYROLL

Criteria

Best practices for internal control and safeguarding of assets.

Condition

The Accounts Receivable Technician and Payroll Technician have the ability to add or change employee master file information maintained in the payroll system, including the creation of new employee profiles and modification of pay rates.

Effect

There exists the potential that fictitious employees could be added to the master file, or pay rates could be altered.

Cause

Due to lack of staffing, the segregation of duties and limitation on responsibilities was not implemented.

Fiscal Impact

Not applicable.

Recommendation

The District should restrict the ability to change employee master file data exclusively to the Human Resource Department

Corrective Action Plan

The District is transitioning from the County payroll to an in-house payroll, planning to go live with Banner Human Resources and Payroll elective January 1, 2008 and have a fully functioning payroll by July 1, 2008. As part of this conversion, maintaining the employee master files becomes the exclusive responsibility of the HR Department.

MARIN COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS
(Continued)
June 30, 2007

INTERNAL CONTROLS (Continued)

4. BANK RECONCILIATIONS

Criteria

Best practices for internal control and safeguarding of assets.

Condition

The Cash in County reconciliations are not being signed or initialed by either the preparer or the reviewer of the reconciliation.

Effect

Funds could be misappropriated.

Cause

The reconciliation is being completed and reviewed electronically. However, there is no procedure in place to document who prepared the reconciliation and who reviewed the reconciliation.

Fiscal Impact

Not applicable.

Recommendation

The District should develop procedures to note when electronic review has occurred either through an electronic signature or other manual log.

Corrective Action Plan

The District will print Cash in County bank reconciliation worksheets and document who prepared such reconciliations and indicate reviewer sign-offs.

5. INFORMATION TECHNOLOGY DEPARTMENT POLICIES AND PROCEDURES

Criteria

Internal Control – Policies and Procedures

Condition

The District has not developed or approved a formal disaster recovery plan related to the District's Information Technology Department operations.

MARIN COMMUNITY COLLEGE DISTRICT

SUMMARY OF FINDINGS AND RECOMMENDATIONS

(Continued)
June 30, 2007

INTERNAL CONTROLS (Continued)

**5. INFORMATION TECHNOLOGY DEPARTMENT POLICIES AND PROCEDURES
(Continued)**

Effect

The District's system is subject to undue interruption of service.

Cause

The District has not completed a formal disaster recovery plan as they are in the process of purchasing or converting to a new system.

Fiscal Impact

Not applicable.

Recommendation

The District should develop and implement a disaster recovery plan to ensure electronic information, including student records and fiscal documentation, can be recreated in the event of a computer system failure.

Corrective Action Plan

The District agrees and as part of the implementation of its new Banner administrative system will prepare and document an appropriate disaster recovery plan.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

MARIN COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

June 30, 2007

Findings	Recommendations	Current Status	District Explanation if Not Fully Implemented
<p>1. Non-Credit Courses The District did not complete the required self-assessment checklists for Non-credit Courses.</p>	<p>The District should ensure all required self-assessment checklists are completed for all Non-credit Courses.</p>	Implemented.	
<p>2. Payroll The Accounts Receivable Technician and Payroll Technician have the ability to add or change employee master file information maintained in the payroll system, including the creation of new employee profiles and modification of pay rates.</p>	<p>The District should restrict the ability to change employee master file data exclusively to the Human Resource Department.</p>	Not implemented.	See current year finding #3.
<p>3. Journal Entry Testing The District does not have formal policies and procedures in place for review of journal entries.</p>	<p>Journal entries meeting a certain threshold, as determined by the District, should be reviewed by an independent employee.</p>	Implemented.	
<p>4. Cash Receipts – Kentfield Cashiers Office Checks received are not being consistently endorsed immediately upon receipt.</p>	<p>All checks should be restrictively endorsed upon receipt.</p>	Implemented.	
<p>5. Bank Reconciliations District bank reconciliations for March and April 2006 were not signed or initialed by the reviewer of the reconciliation.</p>	<p>The District should continue to monitor this control requirement to ensure the review of all bank reconciliations is properly completed.</p>	Not implemented.	See current year finding #4.
<p>6. Information Technology Department Policies and Procedures The District has not developed or approved a formal disaster recovery plan related to the District's Information Technology Department operations.</p>	<p>The District should develop and implement a disaster recovery plan to ensure electronic information, including student records and fiscal documentation, can be recreated in the event of a computer system failure.</p>	Not implemented.	See current year finding #5.