

**REDWOODS COMMUNITY
COLLEGE DISTRICT**

Eureka, California

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2003

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Redwoods Community College District

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Redwoods Community College District

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Redwoods Community College District
Eureka, California

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Redwoods Community College District (the District) as of and for the year ended June 30, 2003, which collectively comprise the District's 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 for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of June 30, 2003, and the respective results of operations and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as of June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

The management's discussion and analysis on pages 5 through 14 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements. The accompanying supplemental information listed in the table of contents, including the Schedule of Expenditures of Federal 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Matson and Isom

October 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Redwoods Community College District

June 30, 2003

NEW ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. Redwoods Community College District (District) adopted these new standards in the 2002-03 fiscal year.

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

The following Management's Discussion and Analysis (MDA) provides an overview of the District's financial activities.

Major Adjustments Noted

As required by the accounting principles, the annual report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The information provided on the statements within the MDA include all funds, including the Student Association funds, but excludes the College of the Redwoods Foundation and College of the Redwoods Financing Corporation. Each statement will be discussed separately.

Under the BTA model of financial reporting, a single entity-wide statement is required to report financial activity for all funds of the District. As this is a variance from the previous fund-type presentation, the following information is provided to help with the understanding of the financial statements. Also, in the supplemental section of the audited financial statements, the typical fund-type format is presented with reconciliation to the BTA-type presentation.

FINANCIAL AND ATTENDANCE HIGHLIGHTS

The District's full-time equivalent students (FTES) eligible for State funding increased by .6% in 2002-03 to 5,649.95. At this level, the District will qualify for all available growth revenues without shifting any FTES from Summer 2003. In addition, the District will receive basic skills revenue for a portion of the above cap FTES. Despite the uncertainty in 2002-03 regarding growth revenues, the District achieved its goal of maximizing available State revenue.

Unduplicated headcount for 2002-03 increased by 108 or 1% to 10,615 as determined for State funding purposes.

Due to limited State revenues, the District estimated it would receive only 70% of its funded growth rate. Growth revenues were recorded at \$534,649. The most recent projections from the Chancellor's Office support this estimate, although the actual amount will not be known until the first annual apportionment for 2003-04 is issued, usually in late January.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

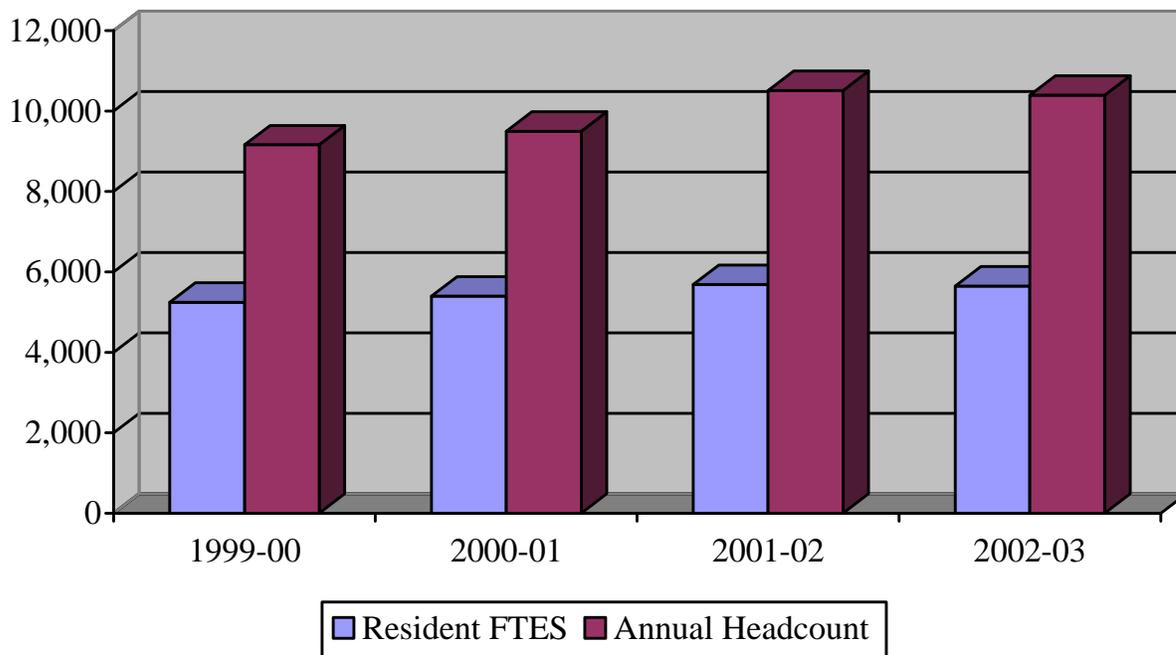
The District's cost of living adjustment (COLA) for 2002-03 was funded at \$439,238 or 2.00%. There was a statewide deficit in enrollment fees and property tax collections resulting in a reduction in funding of \$348,608. This deficit may be restored depending on the actual collections reported for the year.

Categorical revenues declined in 2002-03 by \$971,822, primarily as the result of a reduction in state funding. CalWorks and matriculation program funds were reduced in the initial State budget act. Later in the year, the State made further cuts to other categorical programs including Partnership for Excellence, instructional equipment and library materials, and technology.

The effective average annual yield of the District's funds placed in the Humboldt County Treasurer's Public Investment Pool for the year, including the College of the Redwoods Foundation (the Foundation), was 3.45%. The realized and unrealized net gain on equity investments for the Foundation was 1.38%.

The District issued a 12-month, \$5,000,000 Tax and Revenue Anticipation Note (TRAN) on July 3, 2002, as part of a program sponsored by the California School Boards Association, sold by competitive bid for \$5,060,400 at a coupon rate of 3.00% for a true interest rate cost of 1.67%.

**Annual FTES and Headcount
Credit/Non-Credit Resident Students
(Reported for State Funding)**



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

Redwoods Community College District

STATEMENT OF NET ASSETS

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

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

Redwoods Community College District

	2003	2002	Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 7,522,519	\$ 6,458,280	16%
Receivables	2,916,499	7,655,552	-62%
Inventory, prepaid, and other assets	125,638	158,715	-21%
Total Current Assets	10,564,656	14,272,547	-26%
NONCURRENT ASSETS			
Restricted cash and cash equivalents	5,463,127	(369,342)	-1,579%
Capital asset - net	38,148,493	36,930,429	3%
Total Noncurrent Assets	43,611,620	36,561,087	19%
Total Assets	\$ 54,176,276	\$ 50,833,634	7%
LIABILITIES			
CURRENT LIABILITIES			
Accounts payables and accrued liabilities	\$ 1,708,283	\$ 3,107,990	-45%
Deferred revenue	988,278	1,066,523	-7%
Other current liabilities (including TRANS)	6,310,204	1,060,006	495%
Total Current Liabilities	9,006,765	5,234,519	72%
NONCURRENT LIABILITIES			
Long-term liabilities-noncurrent portion	10,842,718	12,634,329	-14%
Total Liabilities	19,849,483	17,868,848	11%
NET ASSETS			
Invested in capital assets - net	35,194,246	35,881,623	-2%
Restricted	78,989	70,756	12%
Unrestricted:			
Reserve for non-cash assets	125,638	158,715	-21%
Contractual obligations	450,961	356,953	26%
Designated for capital and other projects	790,678	1,080,158	-27%
General contingency reserve	(2,313,719)	(4,583,419)	-50%
Total Unrestricted	(946,442)	(2,987,593)	-68%
Total Net Assets	34,326,793	32,964,786	4%
Total Liabilities and Net Assets	\$ 54,176,276	\$ 50,833,634	7%

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2003

Current cash and cash equivalents consist mainly of cash in the County Treasury.

Receivables include receivables from State and federal grants as well as general apportionment earned but not received by year-end.

Inventory, prepaid expenses, and other assets consist primarily of stores inventory of \$68,000 and \$57,638 of prepayments to vendors.

Restricted cash and cash equivalents consist mainly of amounts relating to the tax revenue anticipation notes.

Net capital assets are the historical value of land, buildings, and equipment less accumulated depreciation. The notes to the financial statements contain a breakdown of the net assets. The District completed the learning resource center and other capital projects during the 2002-03 fiscal year and placed into service new capital assets totaling \$18,122,005.

Accounts payable and accrued liabilities consist mainly of accrued payroll and related benefits of \$277,887, and payables due to vendors of \$1,430,396.

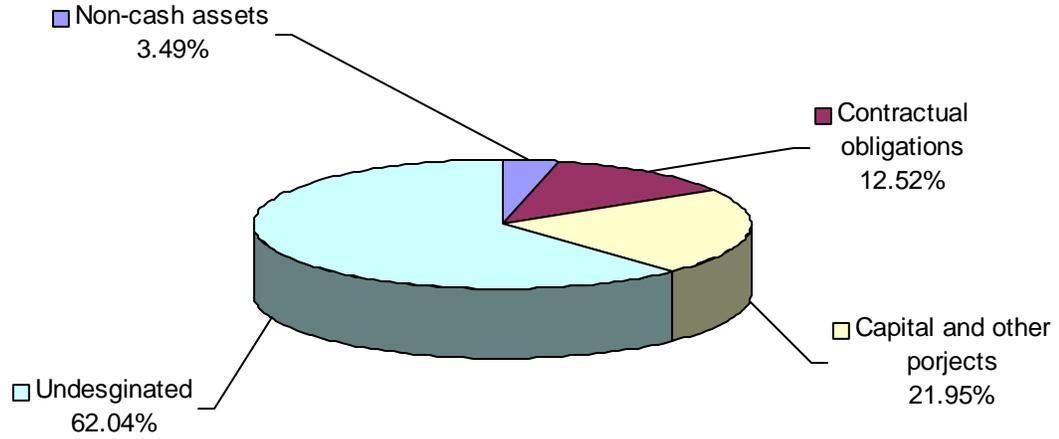
Deferred revenue relates to federal, State, and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when expended (up to the grant amount awarded). Also included are deferred enrollment fees for the 2003-04 fiscal year of \$528,875.

Other current liabilities include the TRANs debt payable of \$5,000,000. Long-term liabilities (non-current portion) are long-term debt to be paid in one year or later. Compensated absences payable of \$628,234 and post-employment health benefits of \$8,355,112 are the two major components of the non-current portion.

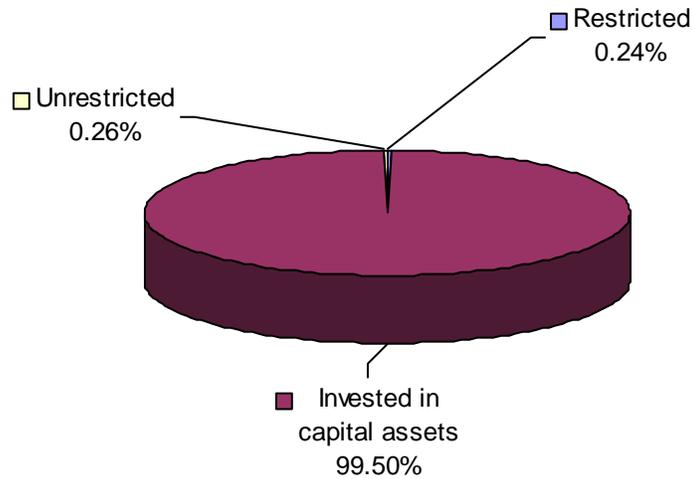
Unrestricted net assets include an amount reserved for non-cash assets, prepayments of \$57,638 and stores inventory of \$68,000; open purchase orders and other contractual obligations of \$450,961; and amounts reserved for capital and other projects of \$851,834. Board policy states that in accordance with fiscal policies recommended by the State Chancellor's Office, the District maintains a contingency reserve in the General Fund. Reserves are also maintained in other funds at a prudent level.

The District has elected to record its actuarially determined accrued liability for post employment health benefits. In arriving at the amount for unrestricted net assets, these liabilities have been deducted (together with other liabilities) from total assets. The unrestricted net asset value is a negative amount because the District is still a number of years away from fully funding its post employment health benefits. Over the past 10 years the District has improved funding its unfunded liability from 0% funded to 33%. The District intends to continue to set funds aside until its unfunded liability is fully funded.

Unrestricted Net Assets



Net Assets



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

Redwoods Community College District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
REVENUES			
Operating revenues:			
Net tuition and fees	\$ 2,406,801	\$ 2,038,893	18%
Grants, contracts, and other designated Revenues, non-capital	5,783,279	6,508,928	-11%
Auxiliary enterprise - net	231,006	-	100%
Other operating income (payments)	1,348,467	1,508,466	-11%
Total Operating Revenue	<u>9,769,553</u>	<u>10,056,287</u>	-3%
Total Operating Expenses	<u>36,812,910</u>	<u>30,009,169</u>	23%
Operating Income (Loss)	<u>(27,043,357)</u>	<u>(19,952,882)</u>	36%
Non-operating revenues (expenses):			
State apportionments, non-capital	14,812,431	13,730,576	8%
Local property taxes	8,539,030	8,608,064	-1%
Lottery and other revenue	2,283,334	3,140,904	-27%
Investment income	451,261	457,423	-1%
Other non-operating revenues (expenses) - net	306,057	39,168	681%
Total Non-operating Revenues (Expenses)	<u>26,392,113</u>	<u>25,976,135</u>	2%
Income before other revenues, expenses, gains or losses	(651,244)	6,023,253	-111%
Apportionment and property taxes, capital	2,198,507	10,275,627	-79%
Interest expense, capital	(185,256)	-	-100%
Increase (Decrease) in Net Assets	1,362,007	16,298,880	-92%
Net Assets - Beginning of year	<u>32,964,786</u>	<u>16,665,906</u>	98%
Net Assets - End of year	<u>\$ 34,326,793</u>	<u>\$ 32,964,786</u>	4%

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

Net tuition and fees consists of enrollment fees of \$682,623, non-resident tuition of \$778,156, and all other fees of \$951,818 less tuition waivers of \$5,796. Regular enrollment fees of \$11 per unit are set by the State for all community colleges and have not changed since the fall of 1999. Regular enrollment fees are included in the calculation of general apportionment.

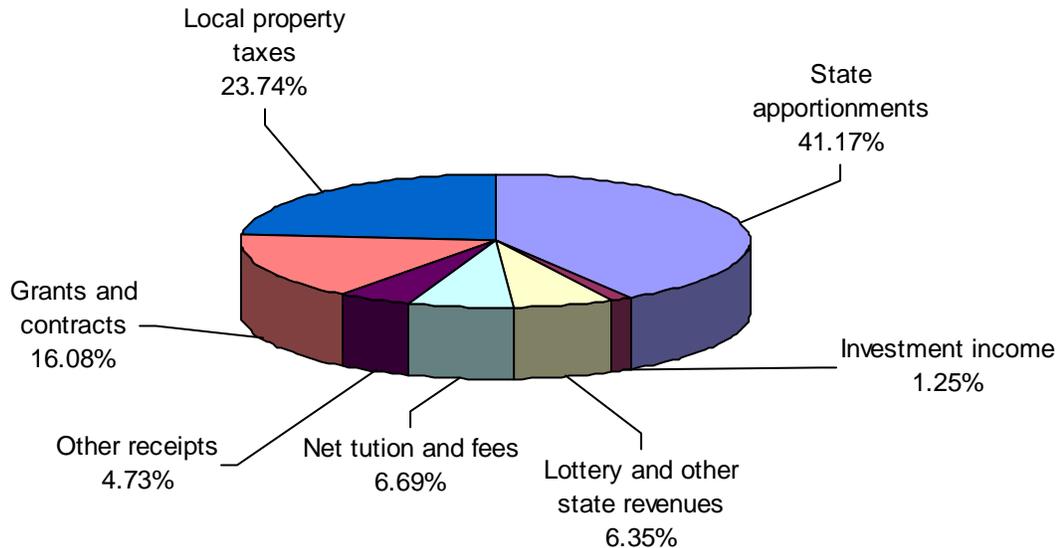
Other operating income (payments) consists primarily of rental and leases of \$374,855.

State apportionments, non-capital, consist of State apportionment of \$12,808,580, basic skills of \$12,310, and partners for excellence revenue of \$1,431,640. State apportionment represents total general apportionment earned less regular enrollment fees and property taxes.

Lottery and other revenue consist primarily of unrestricted State lottery revenue of \$849,961.

There was a decrease in investment income due to lower interest earning rates that occurred primarily in the General Fund of \$323,341, and Employee Benefit Trust Fund of \$126,329.

Revenues



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

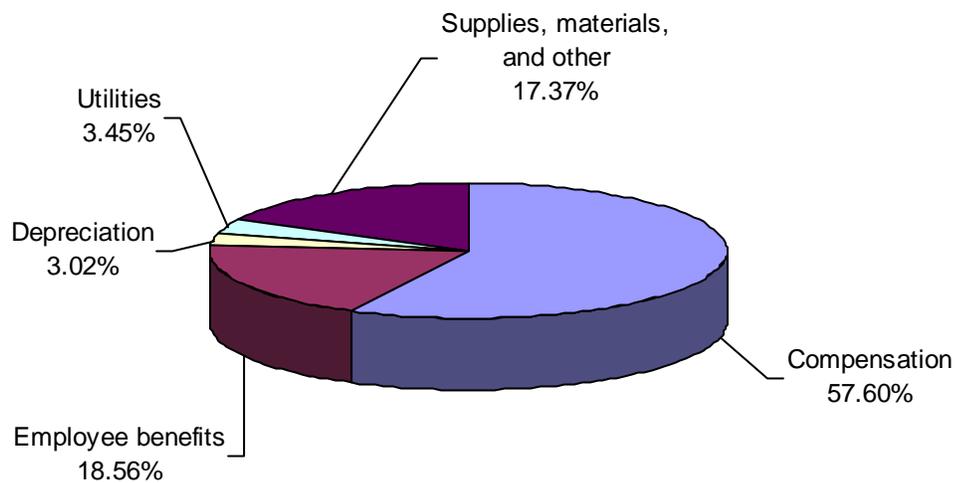
Redwoods Community College District

Operating Expenses (by natural classification)

	2003
Compensation	\$ 20,747,491
Employee benefits	6,687,133
Supplies, materials, other operating expenses, and services	6,258,533
Utilities	1,241,991
Depreciation	1,087,586
Payments to students	790,176
Total Operating Expenses	\$ 36,812,910

Compensation increased as a result of growth in staff, salary schedule improvements, and annual step increases for eligible employees. Employee benefits increased primarily due to increases in medical premiums.

Expenses



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2003

Redwoods Community College District

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 the need for external financing.

	2003
Cash provided (used) by:	
Operating activities	\$ (27,258,322)
Non-capital financing activities	28,029,853
Capital and related financing activities	5,644,709
Investment activities	480,794
Net Increase (Decrease) in Cash	6,897,034
Cash - Beginning of the Fiscal Year	6,088,612
Cash - End of the Fiscal Year	\$ 12,985,646

Cash receipts from operating activities consist primarily of State grants and contracts of \$4,206,172 million. Cash outlays were payments to or on behalf of employees of \$28,105,472.

General apportionment of \$16,693,753 and property taxes of \$10,880,043 are the primary sources of non-capital financing.

Purchase of capital assets is the main use of cash for capital and related financing activities.

Economic Factors That May Affect the Future

Projections of the State budget for 2003-04 and 2004-05 are not positive. Due to significant projected State deficits, a great deal of uncertainty exists over the State's ability to fund community colleges at current or guaranteed levels as required under Proposition 98.

The District has not had to make employer contributions to the employee CalPERS retirement system for the past several years until 2002-03 when a rate of over 2% was established. The employer contribution rate for 2003-04 has been set at 10.42% and is expected to increase for fiscal year 2004-05.

The District completed a three-year agreement with its classified staff bargaining unit covering the 2003-04 through 2005-06 fiscal years. The faculty unit contract expires at the end of 2003-04, and contract negotiations have begun for a new agreement for future years.

FINANCIAL SECTION

STATEMENT OF NET ASSETS

Redwoods Community College District

June 30, 2003	Primary Institution	Component Units
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,522,519	\$ 1,280,153
Accounts receivable, net	2,916,499	355,560
Stores inventory	68,000	408,056
Prepaid expenses	57,638	17,178
Total Current Assets	10,564,656	2,060,947
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	5,463,127	-
Long-term investments	-	1,428,231
Capital assets - net	38,148,493	-
Total Non-Current Assets	43,611,620	1,428,231
Total Assets	\$ 54,176,276	\$ 3,489,178
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
LIABILITIES		
Accounts payable	\$ 1,430,396	\$ 172,789
Accrued salaries and related benefits	277,887	-
Deferred revenue	988,278	2,835
Other accrued liabilities	65,329	-
Tax revenue anticipation notes	5,150,000	-
Current portion of long-term liabilities	1,094,875	-
Total Current Liabilities	9,006,765	175,624
NON-CURRENT LIABILITIES		
Long-term liabilities	10,842,718	-
Total Non-Current Liabilities	10,842,718	-
Total Liabilities	19,849,483	175,624
NET ASSETS		
Invested in capital assets - net of related debt	35,194,246	-
Restricted	78,989	2,228,428
Unrestricted	#VALUE!	#VALUE!
Total Net Assets	#VALUE!	#VALUE!
Total Liabilities and Net Assets	#VALUE!	#VALUE!

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

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

Redwoods Community College District

Year Ended June 30, 2003	Primary Institution	Component Units
OPERATING REVENUES		
Tuition and fees (gross)	\$ 2,412,597	\$ -
Scholarship discounts and allowances	(5,796)	-
Net Tuition and Fees	2,406,801	-
Grants and contracts, non-capital:		
Federal	1,908,616	-
State	3,625,276	-
Local	249,387	-
Other operating payments	1,348,467	-
Auxiliary enterprise sales and charges	231,006	2,103,662
Total Operating Revenues	9,769,553	2,103,662
OPERATING EXPENSES		
Salaries	20,747,491	-
Employee benefits	6,687,133	-
Supplies, materials, and other operating expenses and services	6,258,533	2,823,271
Utilities	1,241,991	-
Depreciation	1,087,586	1,070
Payments to students	790,176	305,947
Total Operating Expenses	36,812,910	3,130,288
Operating Income (Loss)	(27,043,357)	(1,026,626)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	14,812,431	-
Local property taxes	8,539,030	-
State taxes and other revenues	2,283,334	-
Investment income (loss) - non-capital	451,261	61,400
Financial aid revenues - federal	7,124,636	-
Financial aid expenses	(7,566,344)	-
Other non-operating revenues-grants/gifts, non-capital	747,765	1,197,403
Total Non-Operating Revenues (Expenses)	26,392,113	1,258,803
Income Before Other Revenues, Expenses Gains, or Losses	(651,244)	232,177
State apportionments, capital	2,198,507	-
Interest expense, capital	(185,256)	(101,090)
Increase (Decrease) in Net Assets	1,362,007	131,087
Net Assets - Beginning of Year	32,964,786	3,182,467
Net Assets - End of Year	\$ 34,326,793	\$ 3,313,554

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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2003	Primary Institution	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,570,686	\$ -
Federal grants and contracts	1,746,925	-
State grants and contracts	4,206,172	-
Local grants and contracts	66,042	-
Payments to suppliers	(9,185,844)	(2,576,153)
Payments to/on behalf of employees	(28,105,472)	-
Payments to/on behalf of students	(790,176)	(305,947)
Auxiliary enterprise sales and charges	-	2,103,662
Other receipts (payments)	2,233,345	-
Net Cash Used by Operating Activities	(27,258,322)	(778,438)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionment and receipts	16,693,753	-
Property taxes	10,880,043	-
Financial aid, scholarship, loan trust receipts - federal	7,124,636	-
Financial aid, scholarship, loan trust disbursements	(7,566,344)	-
Other receipts (payments)	897,765	895,036
Net Cash from Non-Capital Financing Activities	28,029,853	895,036
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt	301,000	-
Proceeds from tax revenue anticipation notes	5,000,000	-
State apportionments for capital purposes	3,837,164	-
Purchases of capital assets	(2,259,393)	-
Principal paid on capital debt	(1,048,806)	-
Interest paid on capital debt	(185,256)	(101,090)
Net Cash from Capital and Related Financing Activities	5,644,709	(101,090)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	480,794	61,400
Net Purchase of Investments	480,794	61,400
Net Increase in Cash and Cash Equivalents	6,897,034	76,908
Cash and Cash Equivalents Balance - Beginning of Period	6,088,612	1,203,245
Cash and Cash Equivalents Balance - End of Period	\$ 12,985,646	\$ 1,280,153

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

STATEMENT OF CASH FLOWS*Redwoods Community College District*

Page 2 of 2

<u>Year Ended June 30</u>	<u>Primary Institution</u>	<u>Component Units</u>
Operating loss	\$(27,043,357)	\$ (1,026,626)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation Expense	1,087,586	1,070
Changes in assets and liabilities:		
Receivables - net	1,182,932	-
Inventories	(1,444)	90,988
Prepaid expenses	(11,410)	(10,020)
Accounts payable	(1,677,594)	166,150
Accrued salaries and benefits	(721,918)	-
Deferred revenue	(78,245)	-
Other liabilities	5,128	-
Net Cash Used by Operating Activities	\$(27,258,322)	\$ (778,438)

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity Redwoods Community College District (the District) is a political subdivision of the State of California and provides higher education in portions of four counties. The District consists of one community college, with two educational centers and two branches located throughout the service area (the Primary Institution).

For financial reporting purposes, the District includes all funds, agencies, and authorities that are controlled by or dependent on the District's executive and legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District.

As result, the financial statements of the District include the financial activities of the District and the combined totals of the trust and agency funds, which represent the various scholarships and student organizations within the District.

The Redwoods Community College District, the College of the Redwoods Financing Corporation, and the College of the Redwoods Foundation have financial and operational relationships that meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB), for inclusion of the corporations as component units of the District. Accordingly, the financial activities of the component units have been included in the financial statements of the District.

The following are those aspects of the relationship between the District, and the component units that satisfy the GASB.

Accountability

The Corporations operate under a master agreement with the District in accordance with the California Education Code requirements.

The District is able to impose its will upon the Corporations.

The Corporations provide specific financial benefits or impose specific financial burdens on the District.

Scope of Public Service

The Corporations are nonprofit, public benefit corporations incorporated under the laws of the State of California. College of the Redwoods Foundation was formed to promote and assist the educational services of the Redwoods Community College District. The College of the Redwoods Financing Corporation was formed for the sole purpose of providing financing assistance to the District for construction and acquisition of major capital facilities. At the end of the lease term, title of all corporate property will pass to the District for no additional consideration.

Discrete Presentation

For financial presentation purposes, the Foundation's financial activities have been discretely presented with the financial activities of the District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation The District implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements, and Management's Discussion and Analysis, for State and Local Governments*, Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and University*, Statement No. 37, *Basic Financial Statements, and Management's Discussion and Analysis, for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB 34 established new financial reporting requirements for all state and local governments. The financial statement presentation required by GASB No. 34, 35, 37 and 38 provides a comprehensive, entity-wide perspective of the District's net assets, changes in net assets, and cash flows, and replaces the fund-group perspective previously required. The District now follows the "business-type" reporting requirement of GASB No. 35 that provides a comprehensive one-line look at the District's financial activities. The District also adopted GASB 39, *Determining Whether Certain Organizations are Component Units*. This statement provides guidance for presenting component units separately (discrete presentation) from the primary institution in the financial statements.

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

Exceptions to the accrual basis of accounting are as follows:

Summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30, with the revenue being recorded in the fiscal year in which the program is predominately conducted.

The District has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The District has elected not to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community College.

Cash and Cash Equivalents The District considers demand deposits and all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

June 30, 2003

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Humboldt County Treasury as part of the common investment pool. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, State registered warrants, notes, or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Information regarding the amount of dollars invested in derivatives with the County was not available.

Inventories Inventories, primarily bookstore merchandise, are carried at the lower of cost or market using the first-in, first-out (FIFO) method.

Investments Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Fair value is determined from quoted market prices. The District is restricted by State law and the Board's investment policy in the types of investments that can be made.

Permissible investments include the County Treasury, the State Local Agency Investment Fund (LAIF), federally insured deposits, and individual securities. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Moody's indices. In addition, maturities may not exceed five years. The proportion of investments in each of the permissible categories is restricted as defined in the State Government Code and further limited by the District's investment policy. The maximum average maturity of funds invested is three years. The District's investment policy established safety of principal as the primary investment objective. The District's investment strategy is to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity.

Restricted Cash and Cash Equivalents Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other non-current assets, is classified as a non-current asset in the statement of net assets.

Capital Assets Capital assets are recorded at cost on the date of acquisition, or fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed on a straight-line basis using the half-year convention over the estimated useful life of the assets, generally 50 years for buildings, 10 years for land improvements, 8 years for equipment, 5 years for library books, and 3 years for technology equipment.

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

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. The District has a load-banking program for eligible faculty employees whereby the employee may accrue overload service toward a paid leave.

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

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

Restricted net assets, non-expendable, 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 be expended or added to principal depending on donor stipulations.

Restricted net assets, expendable, include resources in which the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

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

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; and (3) most federal, State, and local grants and contracts and federal appropriations.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues, such as State appropriations and investment income, according to GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting* and GASB 34.

Scholarship Discounts and Allowances and Financial Aid Student tuition and fee revenues are reported net of scholarship discounts and allowances in the Statement of Activities. The District offers Board of Governor's Grants (BOGG) to qualified students, and these tuition waivers are reported as scholarship discounts and allowances.

Risk Management The District retains risk for liability and property damage on the first \$350,000 of each claim. The District also retains risk for workers' compensation claims on the first \$350,000 of each claim. Estimated losses and changes in prior year reserve balances are expensed in the current period.

Coverage in excess of retained risk limits for property damage and liability is purchased through an insurance broker. Certain liability coverage in excess of \$1,000,000 and up to \$45,000,000 is provided by pooled insurance as a member of a joint powers authority of California community colleges and school districts.

Estimates Used in Financial Reporting In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses, during the reporting period. Actual results could differ from those estimates. The District's largest source of revenues, known as "Program Based Funding," includes property taxes, enrollment fees, and State revenues. Each of these revenue types is subject to some estimation at the date of the financial statements.

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

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

Purchase orders, contracts, and other commitments for expenditures are encumbered in order to reserve that portion of the applicable appropriation as an extension of formal budgetary integration. Encumbrances are liquidated when the commitments are paid. Any outstanding encumbrances lapse at June 30 and are generally re-encumbered in the subsequent years.

3. CASH AND INVESTMENTS

The District's cash deposits are classified into three categories of credit risk based upon the following criteria:

Category	Description
1	The deposits are insured or collateralized with securities held by the District or by its agent in the District's name.
2	The deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3	The deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the District's name.

Description	Categories			Bank Balance	Carrying Amount
	1	2	3		
INSURED (FDIC)	\$ 391,172	\$ -	\$ -	\$ 391,172	\$ 451,079
UNINSURED	-	-	287,888	287,888	287,888
Total	\$ 391,172	\$ -	\$ 287,888	\$ 679,060	738,967
County Treasurer's Pooled Funds					13,526,832
Total Deposits					\$ 14,265,799

The District's investments are classified into three categories of credit risk based upon the following criteria:

Category	Description
1	The investment is insured or registered, or securities are held by the District or by its agent in the District's name.
2	The investment is uninsured and unregistered, with securities held by the counterparty's trust department or agent in the District's name.
3	The investment is uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the District's name.

Description	Categories			Fair Value
	1	2	3	
Certificates of deposit	\$ 75,050	\$ -	\$ -	\$ 75,050
Equity securities	1,000,000	-	353,181	1,353,181
U.S. Government securities	-	-	-	-
Total Investments	\$ 1,075,050	\$ -	\$ 353,181	\$ 1,428,231

June 30, 2003

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003:

Federal grants and contracts	\$ 796,598
State grants and contracts	366,059
Local grants and contracts	183,345
State apportionment non-capital	882,647
State-capital	431,300
Local property taxes	-
Auxiliaries	366,206
Interest receivable	76,360
Tuition and fees	128,663
Other	40,881
Total	\$ 3,272,059

5. CAPITAL ASSETS

Changes in capital assets consist of the following:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Land	\$ 1,960,294	\$ -	\$ -	\$ 1,960,294
Site improvements	5,084,193	-	-	5,084,193
Buildings and improvements	27,243,771	17,798,761	-	45,042,532
Construction in progress	15,810,998	160,437	15,810,998	160,437
Equipment	2,597,438	93,123	5,357	2,685,204
Vehicles	901,162	32,129	-	933,291
Library books and film	115,611	37,555	-	153,166
Total	53,713,467	18,122,005	15,816,355	56,019,117
Less accumulated depreciation	16,783,038	1,087,586	-	17,870,624
Total Capital Assets - Net	\$ 36,930,429	\$ 17,034,419	\$ 15,816,355	\$ 38,148,493

6. TAX REVENUE ANTICIPATION NOTES

On July 3, 2002, the District issued \$5,000,000 of tax revenue anticipation notes (TRANS) at an interest rate of 3.00%, due July 3, 2003. These TRANS were issued under the authority of the California Government Code. Proceeds from the issuance of TRANS were used to meet fiscal 2002-2003 expenditures, including operating expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the District.

On July 3, 2003, the District issued \$3,485,000 of TRANS at an interest rate or 2.0% due July 6, 2004.

7. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2003, is shown below:

	Beginning Balance	Additions	Payments and Reductions	Ending Balance	Current Portion
Capital lease obligations	\$ 3,702,053	\$ 301,000	\$ 1,048,806	\$ 2,954,247	\$ 1,094,875
Accrued compensated absences	577,164	51,070	-	628,234	-
Post-employment health care benefits	8,355,112	-	-	8,355,112	-
Total	\$ 12,634,329	\$ 352,070	\$ 1,048,806	\$ 11,937,593	\$ 1,094,875

Capital Leases Obligations

The District leased various equipment under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2004	\$ 1,236,097
2005	741,751
2006	440,746
2007	101,483
2008	97,330
2009-2013	505,616
2014-2018	357,417
Total	3,480,440
Less amount representing interest	526,193
Present Value of Net Minimum Lease Payments	\$ 2,954,247

June 30, 2003

8. EMPLOYEE RETIREMENT SYSTEMS**State Teachers' Retirement System (STRS)*****Plan Description***

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$877,105, \$783,400, and \$665,805, respectively, and equal 100% of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to STRS for early retirement incentives granted to terminated employees at June 30, 2003.

California Public Employees Retirement System (CalPERS)***Plan Description***

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

June 30, 2003

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2002-03 was 2.894% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$194,270, \$-0-, and \$-0-, respectively, and equal 100% of the required contributions for each year.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. Those and similar benefits for active employees are provided through a joint powers authority whose premiums are based on the benefits paid during the year. The District recognizes the cost of providing those benefits to retirees by expensing the related annual insurance premiums, which amounted to \$ 657,868 in 2002-03.

The District has estimated the present value of the postemployment health care benefits at June 30, 2003, to be \$8,355,112. This estimate was computed as part of an actuarial valuation performed November 2001. Actuarial assumptions used to value the liability included annual health care inflation factor of 4.00% and a discount rate of 6.00%.

10. COMMITMENTS AND CONTINGENCIES

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

The District has entered into various operating leases for land, buildings, and equipment. All leases contain termination clauses providing for cancellation upon written notice to lessors. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

11. JOINT POWERS AGREEMENT

The District participates in property, liability, and workers' compensation insurance programs organized by the Northern California Community College Self Insurance Authority (NCCCSIA). The NCCCSIA is a Joint Powers Authority created to provide self-insurance programs to Northern California Community Colleges.

The District participates in a health insurance benefits program organized by the North Coast Schools Medical Insurance Group (NCSMIG), which is a joint powers authority, created to provide self-insurance programs for school districts.

June 30, 2003

The District is a participant in the Schools Excess Liability Fund (SELF). SELF is a joint powers authority created to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of a self-funded excess liability fund for public educational agencies, which are parties thereto. Should excess liability claims exceed amounts funded to SELF by all participants, the District may be required to provide additional funding.

The JPAs are independently accountable for their fiscal matters, and thus are not component units of the District for financial reporting purposes.

Condensed financial information for June 30, 2003, as well as the District's share of assets, liabilities, and fund balance for the JPAs, were not available for disclosure as of the date of this report.

SUPPLEMENTARY INFORMATION

ORGANIZATION
June 30, 2003

Redwoods Community College District

The District, a political subdivision of the State of California, was established on July 1, 1964, and commenced operations on July 1, 1965. Its territories encompass portions of Humboldt, Del Norte, Mendocino, and Trinity counties. There were no changes in boundaries during the fiscal year.

GOVERNING BOARD

Name	Office	Term Expires
Thomas Ross	President	2005
Will Smith	Vice President	2005
Tracy Coppini	Clerk	2005
Dr. John E. Burke	Member	2003
Rick Bennett	Member	2006
Yvonne Gower	Member	2003
Milton Dobkin	Member	2003
Bruce Emad	Member	2003
George Truett	Member	2005

**SCHEDULE OF WORKLOAD MEASURES
FOR STATE GENERAL APPORTIONMENT**

Redwoods Community College District

June 30, 2003

The full-time equivalent resident students eligible for 2002-03 State apportionment reported to the State of California as of June 30, 2003, are summarized below:

	Annual Report
Summer intersession	277.14
Census weekly procedure classes	4,772.11
Census daily procedure classes	97.98
Independent study and work experience classes	47.74
Actual hours of positive attendance classes	454.98
Total	5,649.95

The apprenticeship clock hours for 2002-03 reported to the State of California as of June 30, 2003, are summarized below:

	Annual Report
July 1, 2002 - December 31, 2002	-
January 1, 2002 - April 15, 2002	-
April 16, 2003 - June 30, 2003	-
Total	-

The gross square footage eligible for 2002-03 State apportionment reported to the State of California as of June 30, 2003, is summarized below:

	Annual Report
Existing facilities	479,810
New facilities	-
Total	479,810

The full-time equivalent students in leased space eligible for 2002-03 State apportionments reported to the State of California as of June 30, 2003, is summarized below:

	Annual Report
FTES in leased space	194.88
Total	194.88

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Redwoods Community College District

Year Ended June 30, 2003	Federal Catalog Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION		
Pell grant	84.063	\$ 4,973,726
College work study	84.033	195,806
Supplemental education opportunity grants	84.007	191,977
Upward bound program	84.047A	358,898
Student support services	84.042A	266,286
Vocational and Applied Technology Education Act		
Block grant	84.048	286,914
Tech. prep.	84.049	85,025
U.S. DEPARTMENT OF LABOR		
Work Force Investment Act	17.250	121,681
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Temporary Assistance to Needy Families	93.558	54,569
U.S. DEPARTMENT OF THE INTERIOR		
Bureau of Indian Affairs	15.124	61,735
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Americorps	94.006	316,672
U.S. DEPARTMENT OF AGRICULTURE		
Forest reserve	10.665	210,668
Child and adult care food	10.558	24,602
Total Federal Programs		\$ 7,148,559

See the accompanying notes to the supplemental information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Redwoods Community College District

Year Ended June 30, 2003	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue	Total	
CATEGORICAL APPORTIONMENTS								
Extended opportunity programs and services	\$ 795,511	\$ 910	\$ 796,421	\$ 795,511	\$ -	\$ 102,779	\$ 692,732	\$ 692,732
CARE supplement	136,388	6,916	143,304	136,388	-	60,427	75,961	75,961
Disabled students programs and services	1,014,167	-	1,014,167	1,014,167	-	13,761	1,000,406	1,000,406
Subtotal	1,946,066	7,826	1,953,892	1,946,066	-	176,967	1,769,099	1,769,099
CATEGORICAL PROGRAM ALLOWANCES								
BFAP allowance	59,281	-	59,281	59,281	-	-	59,281	75,333
Cal Grant	-	-	-	526,616	2,489	-	529,105	529,105
Cal-SOAP	-	-	-	406,395	147,288	-	553,683	553,683
California Conservation Corp.	16,000	-	16,000	16,000	-	-	16,000	16,000
CalWorks	268,934	-	268,934	227,170	41,764	-	268,934	268,934
CDE instructional material	-	-	-	820	-	-	820	820
Child care	215,783	2,307	218,090	215,783	2,271	-	218,054	218,054
Economic development - north/far north regional consortium	7,251	-	7,251	-	6,000	-	6,000	6,000
Economic development - associate degree	50,626	-	50,626	50,626	-	41,040	9,586	9,586
Economic development - industry driven regulation	-	49,464	49,464	-	-	-	-	-
Foster parent training	202,387	-	202,387	88,716	113,671	-	202,387	202,387
Instructional equipment	88,952	-	88,952	88,952	-	40,472	48,480	48,480
Maintenance allowance	2,108	-	2,108	1,468	640	-	2,108	2,108
Matriculation	230,649	-	230,649	230,649	-	-	230,649	230,649
Northern California Indian	6,414	-	6,414	-	6,414	-	6,414	6,414
Prop 20 state lottery	87,775	-	87,775	87,775	-	-	87,775	87,775
Staff development	-	9,201	9,201	9,201	-	1,439	7,762	7,762
Staff diversity	-	3,364	3,364	15,429	-	3,328	12,101	12,101
Student financial aid administration	-	6,402	6,402	-	-	-	-	-
Teacher and reading development partner	212,413	-	212,413	206,250	6,163	-	212,413	212,413
Technology model applications pilot project	-	41,040	41,040	41,040	-	41,040	-	-
Telecommunications and technology	-	220,916	220,916	82,498	-	43,475	39,023	39,023
Subtotal	1,448,573	332,694	1,781,267	2,354,669	326,700	170,794	2,510,575	2,526,627
Total State Programs	\$3,394,639	\$ 340,520	\$3,735,159	\$4,300,735	\$ 326,700	\$ 347,761	\$4,279,674	\$4,295,726

See the accompanying notes to the supplemental information.

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

*Redwoods Community
College District*

June 30, 2003

There were no adjustments or reclassifications necessary to reconcile the Annual Financial and Budget Report with the audited Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets other than those items related to GASB Statements 34 and 35.

**NOTES TO THE SUPPLEMENTAL
INFORMATION**

June 30, 2003

Redwoods Community College District

1. PURPOSE OF SCHEDULES

Schedule of Workload Measures for State General Apportionments

A full-time equivalent student 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.

Schedule of Expenditures of Federal and State Awards

This schedule is prepared on the modified accrual basis of accounting. OMB Circular A-133 requires disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with OMB Circular A-133 and State requirements.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Form CCFS-311 to the audited financial statements.

OTHER REPORTS

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

To the Members of the Board of Trustees
Redwoods Community College District

We have audited the financial statements of Redwoods Community College District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Matson and Isom

October 31, 2003

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

To the Members of the Board of Trustees
Redwoods Community College District

COMPLIANCE

We have audited the compliance of Redwoods Community College District (the District) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

INTERNAL CONTROL OVER COMPLIANCE

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

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

Continued

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

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

Matson and Isom

October 31, 2003

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Members of the Board of Trustees
Redwoods Community College District

We have audited the financial statements of the Redwoods Community College District (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *California Community Colleges Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following:

SALARIES OF CLASSROOM INSTRUCTORS
APPORTIONMENT FOR INSTRUCTIONAL SERVICE
AGREEMENTS/CONTRACTS
REQUIRED DATA ELEMENTS
STUDENTS ACTIVELY ENROLLED
USES OF MATRICULATION FUNDS
ALLOCATION OF COSTS
EOPS ADMINISTRATOR REQUIREMENTS
GANN LIMIT CALCULATION
ENROLLMENT FEE
ECONOMIC DEVELOPMENT PROGRAM
SCHEDULED MAINTENANCE PROGRAM
OPEN ENROLLMENT

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

Based on our audit, for the items tested, we found the District complied with the State laws and regulations referred to above. Further based on our examination for items not tested, nothing came to our attention to indicate the District had not complied with the State laws and regulations.

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

Matson and Isom

October 31, 2003

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2003

Redwoods Community College District

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Reportable conditions not identified as material weaknesses?	No
Noncompliance material to financial statements noted?	No

FEDERAL COMPLIANCE

Internal control over major programs	
Material weaknesses identified?	No
Reportable conditions not identified as material weaknesses?	No
Type of auditors' report issued on compliance for major program	Unqualified
Audit findings disclosed relative to major federal award programs?	No
Identification of major programs CFDA No. 84.007, 84.033, 84.063	Student Financial Assistance Cluster
Threshold for distinguishing types A and B programs	\$300,000
Determined to be a low-risk auditee?	No

STATE COMPLIANCE

Internal control over state programs	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for state programs	Unqualified

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2003

Redwoods Community College District

**SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT**

None

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

None

CORRECTIVE ACTION PLAN

June 30, 2003

Redwoods Community College District

See corrective action plan filed under separate cover.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2003

Redwoods Community College District

FINANCIAL STATEMENTS AUDIT

(02-1)

Reportable Condition

Condition

The cash in county treasury and other bank accounts were not reconciled and reviewed on a timely basis. This was the result of the implementation of the District's new management information system, and delays in reconciliations were expected.

Criteria

District needs to reconcile cash accounts to ensure the accuracy of transactions and balances reported in financial information.

Effect

Cash account balances not reconciled or reviewed in a timely manner could allow a misstatement in financial information.

Recommendation

The District needs to ensure that all cash accounts are reconciled and reviewed in a timely manner.

Current Status

Fully Implemented