

REDWOODS COMMUNITY COLLEGE DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

REDWOODS COMMUNITY COLLEGE DISTRICT
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FOR THE FISCAL YEAR ENDED
JUNE 30, 2008

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INTRODUCTION

AUDIT OBJECTIVES

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

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Redwoods Community
College District
Eureka, California

We have audited the accompanying financial statements of the business-type activities of the Redwoods Community College District (District) as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the District's primary government and blended component unit as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Management has not included the College of the Redwoods Foundation (Foundation) in the District's financial statements. Accounting principles generally accepted in the United States of America require the College of the Redwoods Foundation's assets, liabilities, revenues, and expenses, and changing its net assets and cash flows to be to be discretely presented within the District's financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the District's reporting entity is not reasonably determined.

In our opinion, because of the omission of the Foundation, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District's reporting entity, as of June 30, 2008, or the changes in financial position or cash flows thereof for the year then ended.

In addition, in our opinion, except for the effects of not including (discretely presented) financial information for the Foundation, as described above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the primary government and blended component unit of the District as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit

The Management's Discussion and Analysis (MD&A) on pages 4 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Nystrom & Company LLP

February 10, 2009

**MANAGEMENT’S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2008

INTRODUCTION

As required by accounting principles, the annual report consists of three basic financial statements that provide information on Redwoods Community College District (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 in the management’s discussion and analysis includes all funds, but excludes the College of the Redwoods Foundation. Each statement will be discussed separately.

Under the business-type activities 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.

FINANCIAL AND ATTENDANCE HIGHLIGHTS

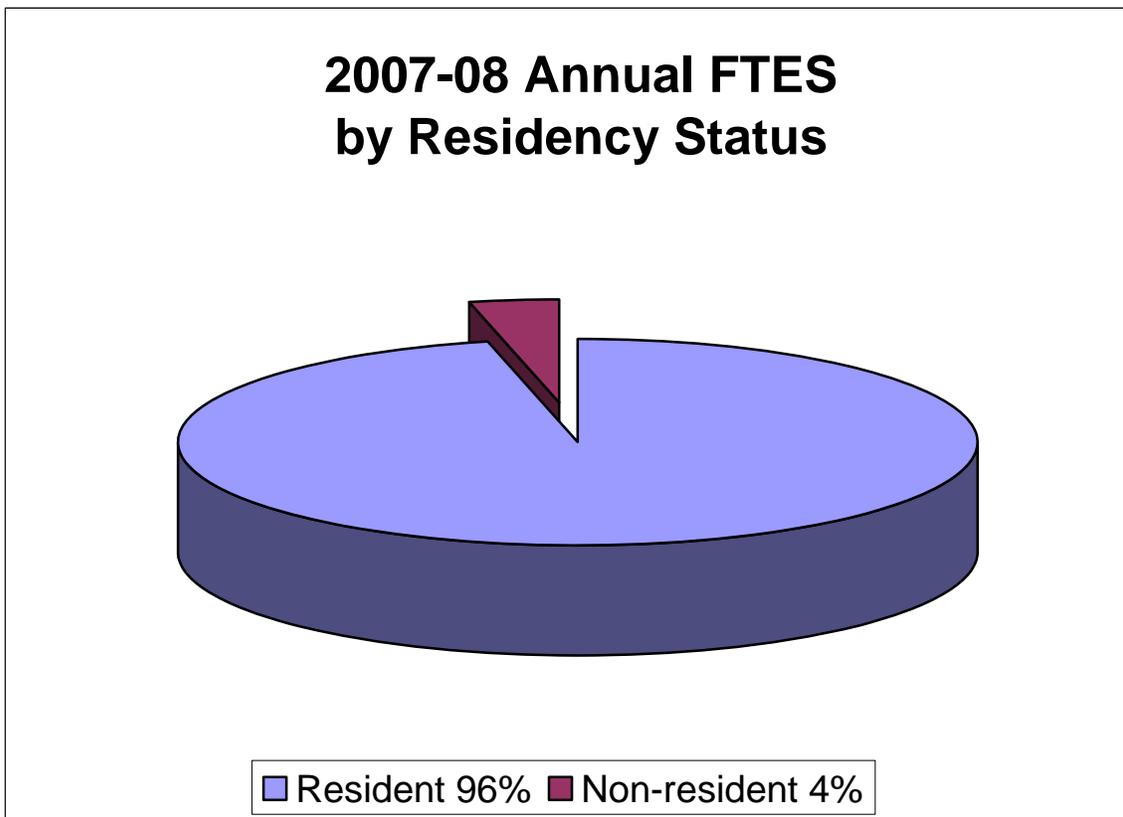
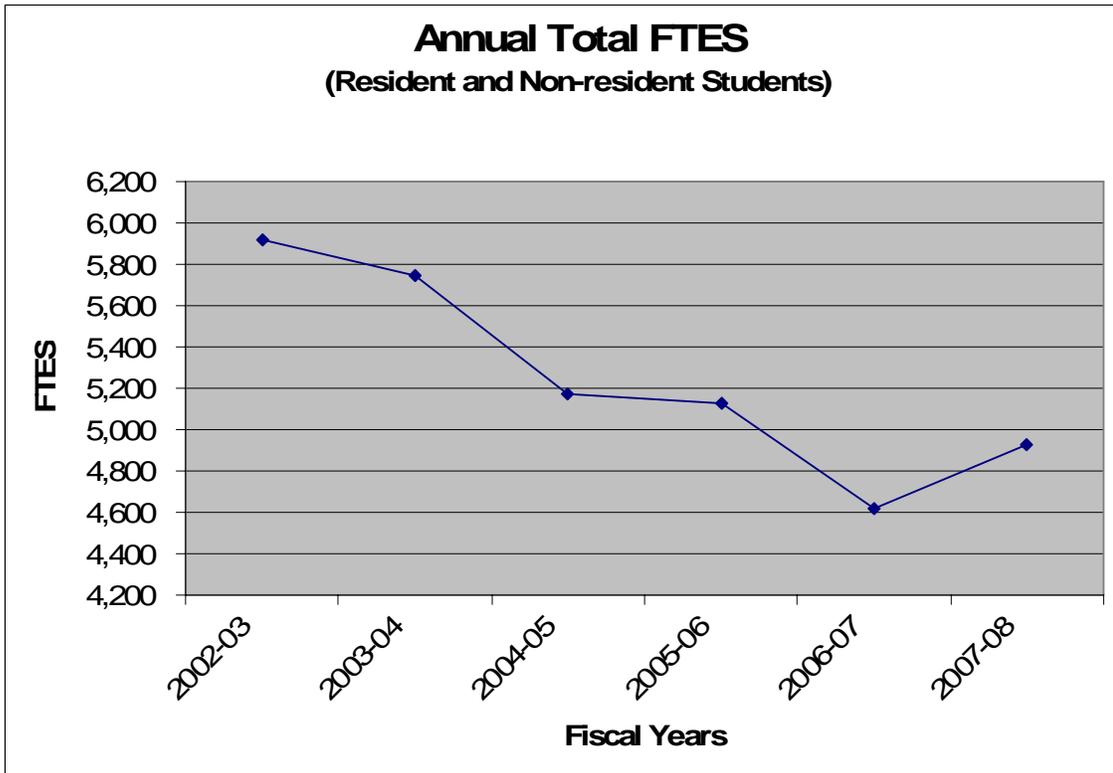
Under the provisions of SB 361, the state allocates funding to each of 72 Community College Districts based on annual apportionments provisions in the state budget act. This funding formula provides base funding for each college, approved education centers, and qualifying rural districts. Additional unrestricted funds are allocated based on a state-wide rate times each district’s full-time equivalent students (FTES) for state resident students. Funding rates can change from year to year due to state budget provisions for cost of living adjustments (COLA), augmentations, or funding reductions.

The District’s FTES eligible for state funding decreased by 8.8% in 2006-07 to 4,482 and increased by 5.8% in 2007-08 to 4,744. Due to stability provisions in the state allocation formula, districts lose funding for declines in FTES in the year following the loss of FTES, if not restored. Therefore, the District partially restored the FTES and funding during 2007-08, losing the funding for 170 FTES not restored to the level earned in 2005-06 of 4,914. A COLA of 4.53% was provided in the state budget act for 2007-08.

Overall, unrestricted District revenues declined slightly in 2007-08 from the prior year. Categorically funded program revenues from non-capital grants and entitlements decreased substantially in 2007-08. Federal, state, and local sources all declined due to reduced entitlements available and lower District participation rates.

**FULL-TIME EQUIVALENT STUDENTS (FTES)
Credit/Non-credit Resident and Non-resident Students**

Academic Year	Non- resident		Total	Percentage Change		
	Resident			Resident	Non-Res	Total
2002-03	5,650	266	5,916			
2003-04	5,515	232	5,747	-2.4%	-12.8%	-2.9%
2004-05	4,974	198	5,172	-9.8%	-14.7%	-10.0%
2005-06	4,914	216	5,130	-1.2%	9.1%	-0.8%
2006-07	4,482	135	4,617	-8.8%	-37.5%	-10.0%
2007-08	4,744	179	4,923	5.8%	32.6%	6.6%



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2008

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.

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
ASSETS				
Current assets	\$ 10,991,617	\$ 9,748,238	\$ 1,243,379	13%
Restricted cash and cash equivalents	22,328,289	14,777,173	7,551,116	51%
Capital assets and deferred costs, net	<u>49,457,868</u>	<u>41,639,377</u>	<u>7,818,491</u>	19%
Total Assets	<u><u>82,777,774</u></u>	<u><u>66,164,788</u></u>	<u><u>16,612,986</u></u>	25%
LIABILITIES				
Current liabilities	5,894,853	4,888,652	1,006,201	21%
Long-term liabilities	<u>40,421,624</u>	<u>25,930,110</u>	<u>14,491,514</u>	56%
Total Liabilities	<u><u>46,316,477</u></u>	<u><u>30,818,762</u></u>	<u><u>15,497,715</u></u>	50%
NET ASSETS				
Investments in capital assets, net of related debt	36,802,818	35,848,021	954,797	3%
Restricted - expendable	679,708	858,195	(178,487)	-21%
Unrestricted	<u>(1,021,229)</u>	<u>(1,360,190)</u>	<u>338,961</u>	-25%
Total net assets	<u><u>36,461,297</u></u>	<u><u>35,346,026</u></u>	<u><u>1,115,271</u></u>	3%
Total liabilities and net assets	<u><u>\$ 82,777,774</u></u>	<u><u>\$ 66,164,788</u></u>	<u><u>\$ 16,612,986</u></u>	25%

The voters of the District approved a \$40,320,000 bond measure on the November 2004 ballot under the provisions of Proposition 39. The first series of bonds were issued May 19, 2005, providing \$18,000,000 for equipment and facilities needs of the District. The second series of bonds were issued July 10, 2007, providing an additional \$15,000,000. It is expected that bonds representing the remaining authorized amount of \$7,320,000 will be issued in 2009 or 2010. Restricted cash and cash equivalents as of June 30, 2007 and 2008 consisted mainly of unspent proceeds from the 2005 and 2007 series bond issues.

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 capital assets. In addition to routine replacements and new acquisitions of capital assets, the District used general obligation bond funds for modernization projects on the facilities at Del Norte and Mendocino Coast Education Centers and the Health/Technology building at the Eureka campus. During the state construction plan review processes, seismic concerns have surfaced causing a shift in District planning for remaining facilities on the Eureka campus. New plans are being developed to utilize state construction funds to augment District bond funds to build new classrooms and administrative space. A new master planning process is being conducted and will be used to determine the allocation of the remaining uncommitted bonds funds.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2008

Fiscal policies adopted by the Chancellor's Office recommend the District maintain a contingency reserve in the General Fund of 5% of unrestricted expenditures and other outgo. The District plans to maintain its General Fund reserve level at this 5% level with any additional reserves to be used for one-time purposes in the next fiscal year.

The District has elected to record its actuarially determined accrued liability for postemployment health benefits in arriving at the amount for unrestricted net assets. These accrued liabilities have been deducted (together with other liabilities) from total assets. Through changes in board policy and collective bargaining contracts, newly hired employees will no longer participate in this program. For eligible plan participants, the District funds the current service liability, and makes annual contributions for its prior service liability. The District intends to continue to set funds aside until its unfunded accrued liability is fully funded. As last determined in September of 2006, the unfunded liability was \$6,885,363. The funds set aside to pay future benefits total \$4,898,810 as of June, 30, 2008.

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.

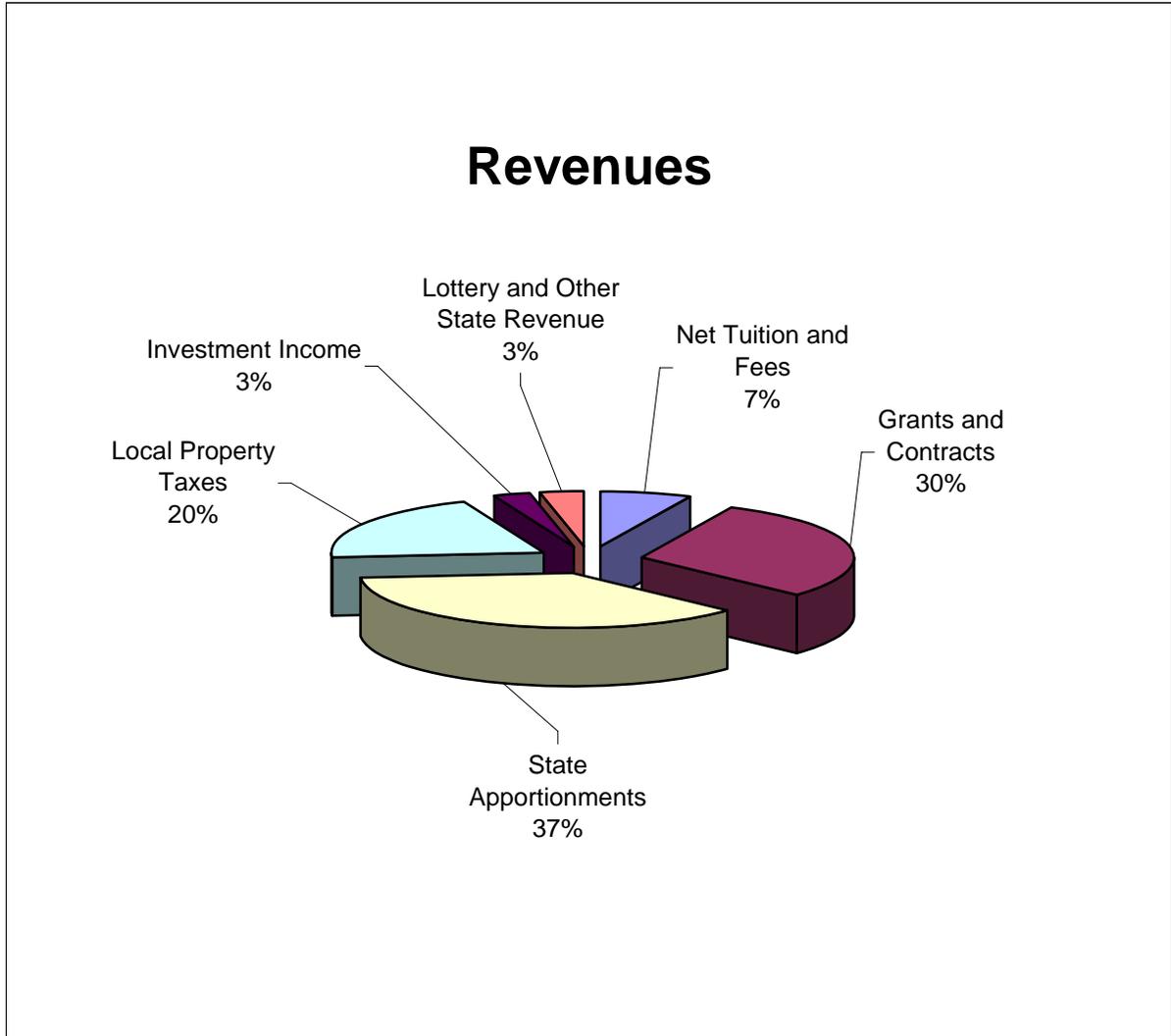
	<u>2008</u>	<u>2007</u>	<u>Change</u>	
OPERATING REVENUES AND EXPENSES				
Operating revenues				
Net tuition and fees	\$ 3,203,640	\$ 2,973,000	\$ 230,640	8%
Grants and contracts - non-capital	14,100,600	14,593,888	(493,288)	-3%
Auxiliary enterprise sales and charges	<u>90,958</u>	<u>91,881</u>	<u>(923)</u>	-1%
Total operating revenues	17,395,198	17,658,769	(263,571)	-1%
Operating expenses	<u>45,519,365</u>	<u>45,446,866</u>	<u>72,499</u>	0%
Operating Loss	(28,124,167)	(27,788,097)	(336,070)	1%
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, non-capital	17,241,164	17,596,897	(355,733)	-2%
Local property taxes	9,572,024	8,623,313	948,711	11%
State taxes and other revenues	1,154,377	1,764,454	(610,077)	-35%
Investment income	1,364,285	790,346	573,939	73%
Interest expense - capital asset-related debt	(1,490,481)	(854,976)	(635,505)	74%
Amortization of bond issuance costs	(39,573)	(24,950)	(14,623)	0%
Other non-operating revenues	<u>1,149,434</u>	<u>1,061,572</u>	<u>87,862</u>	8%
Non-operating revenues	<u>28,951,230</u>	<u>28,956,656</u>	<u>(5,426)</u>	0%
INCOME BEFORE OTHER REVENUES AND EXPENSES				
	827,063	1,168,559	(341,496)	-29%
State apportionments and grants, capital	<u>288,208</u>	<u>76,258</u>	<u>211,950</u>	278%
INCREASE IN NET ASSETS	1,115,271	1,244,817	(129,546)	-10%
NET ASSETS, BEGINNING OF YEAR	<u>35,346,026</u>	<u>34,101,209</u>	<u>1,244,817</u>	4%
NET ASSETS, END OF YEAR	<u>\$ 36,461,297</u>	<u>\$ 35,346,026</u>	<u>\$ 1,115,271</u>	3%

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2008

State imposed enrollment fees and local property taxes levied under a state-wide rate are a component part of the state's general apportionment to community colleges and act to offset funding allocated based on the state's funding formula under SB 361. The state funded portion of the District's entitlement increased as the proportion of property taxes and enrollment fees declined slightly.

Net tuition and fees include enrollment fees of \$915,818 in 2006-07 and \$877,908 in 2007-08. The enrollment fee rate of \$26 per semester unit in 2005-06 decreased in 2006-07 mid-year to \$20 and remained at that level in 2007-08.



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

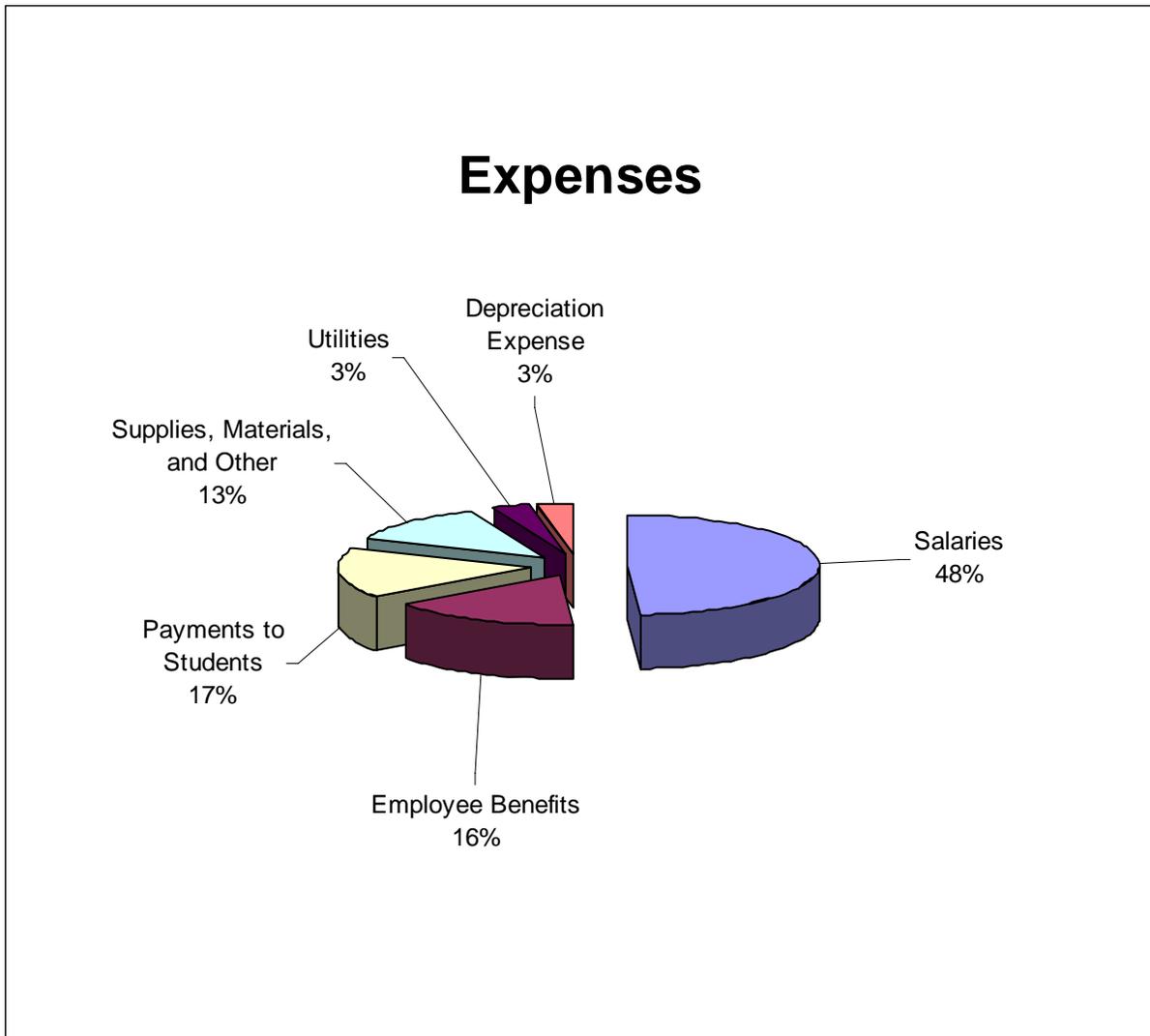
Redwoods Community College District

June 30, 2008

Operating Expenses (by Natural Classification)

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
Salaries	\$ 22,282,207	\$ 22,223,090	\$ 59,117	0%
Employee benefits	7,132,613	7,943,042	(810,429)	-10%
Payments to students	7,627,505	6,951,294	676,211	10%
Supplies, materials, and other operating expenses and services	5,728,777	5,647,254	81,523	1%
Utilities	1,373,945	1,399,056	(25,111)	-2%
Depreciation expense	<u>1,374,318</u>	<u>1,283,130</u>	<u>91,188</u>	<u>7%</u>
	<u>\$ 45,519,365</u>	<u>\$ 45,446,866</u>	<u>\$ 72,499</u>	<u>0%</u>

The District adopted a less costly employee medical plan causing the employee benefit costs to decline by 10% in 2007-08 while payments to students increased by the same percentage. However, for the same benefit levels, employee health care benefit costs continue to increase at double digit rates. Total operating expenses changed only slightly from 2006-07 to 2007-08.



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2008

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.

	<u>2008</u>	<u>2007</u>	<u>Change</u>	
Cash provided by (used) by:				
Operating activities	\$ (26,515,130)	\$ (23,567,086)	\$ (2,948,044)	13%
Non-capital financing activities	28,829,167	26,970,359	1,858,808	7%
Capital financing activities	3,851,006	(3,565,295)	7,416,301	-208%
Investing activities	<u>1,237,111</u>	<u>776,420</u>	<u>460,691</u>	59%
Net Increase in cash and cash equivalents	7,402,154	614,398	6,787,756	1105%
Cash - beginning of year	<u>20,292,182</u>	<u>19,677,784</u>	<u>614,398</u>	3%
Cash - end of year	<u>\$ 27,694,336</u>	<u>\$ 20,292,182</u>	<u>\$ 7,402,154</u>	36%

The increase in cash in 2007-08 was primarily due to the general obligation bond transactions describe above. The District did not need to borrow funds for operations in either 2006-07 or 2007-08. Short-term cash flow requirements in the General Fund were met by unrestricted cash available in other funds.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The 2007-08 state budget act provided continuing funding for education with a cost of living adjustment (COLA) of 4.53%. However, the Legislative Analyst's Office is projecting future annual state budget shortfalls due to the structural imbalance of tax revenues and projected expenditures. It is expected that state funding under current law will not be sufficient to provide a COLA for Community Colleges for 2008-09 or 2009-10 and possibly longer. Funding reductions in 2008-09 and 2009-10 are also possible.

The District is currently working under a three-year agreement with its classified staff bargaining unit covering fiscal years 2006-07 through 2008-09. A three-year agreement with the faculty unit was recently completed covering 2007-08 through 2009-10.

The District experienced growth in enrollments in 2007-08 after several years of decline. Since 2007-08 the pace of growth has accelerated due in part to a stronger demand for job training resulting from a general economic downturn. Growth funding for resident students is provided by acts of the state legislature. State-wide growth in enrollments is expected to exceed state allocations for growth in the next two fiscal years. The District plans to cover the cost of unfunded growth for the near term from reserves in excess of 5% of unrestricted General Fund expenditures and other outgo.

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REDWOODS COMMUNITY COLLEGE DISTRICT
 STATEMENT OF NET ASSETS
 JUNE 30, 2008

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,366,047
Accounts receivable, net	4,758,364
Inventories and other assets	839,062
Due from Foundation	28,144
Total current assets	<u>10,991,617</u>

Noncurrent assets:

Restricted cash and cash equivalents	22,328,289
Nondepreciable capital assets	6,025,747
Depreciable capital assets, net	42,698,454
Deferred costs, net	733,667
Total noncurrent assets	<u>71,786,157</u>
Total assets	<u><u>\$ 82,777,774</u></u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 1,503,483
Accrued liabilities	1,604,715
Deferred revenue	1,918,922
Amounts held for others	99,833
Long-term debt, current portion	767,900
Total current liabilities	<u>5,894,853</u>

Noncurrent liabilities:

Long-term debt, noncurrent portion	32,877,971
Other long-term liabilities	7,543,653
Total noncurrent liabilities	<u>40,421,624</u>
Total liabilities	<u>46,316,477</u>

NET ASSETS

Investments in capital assets, net of related debt	36,802,818
Restricted - expendable	679,708
Unrestricted	(1,021,229)
Total net assets	<u>36,461,297</u>
Total liabilities and net assets	<u><u>\$ 82,777,774</u></u>

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS
 YEAR ENDED JUNE 30, 2008

OPERATING REVENUES

Tuition and fees	\$ 4,382,448
Less: scholarship discount and allowance	1,178,808
Net tuition and fees	3,203,640
Grants and contracts, non-capital:	
Federal	8,004,447
State	5,466,577
Local	629,576
Auxiliary enterprise sales and charges	90,958
Total operating revenues	17,395,198

OPERATING EXPENSES

Salaries	22,282,207
Employee benefits	7,132,613
Payments to students	7,627,505
Supplies, materials, and other operating expenses and services	5,728,777
Utilities	1,373,945
Depreciation expense	1,374,318
Total operating expenses	45,519,365

OPERATING LOSS

(28,124,167)

NON-OPERATING REVENUES (EXPENSES)

State apportionments, non-capital	17,241,164
Local property taxes	9,572,024
State taxes and other revenues	1,154,377
Investment income	1,364,285
Interest expense - capital asset-related debt	(1,490,481)
Amortization of bond issuance costs	(39,573)
Other non-operating revenues	1,149,434
Total non-operating revenues (expenses)	28,951,230

INCOME BEFORE OTHER REVENUES AND EXPENSES

827,063

State apportionments and grants, capital

288,208

INCREASE IN NET ASSETS

1,115,271

NET ASSETS, BEGINNING OF YEAR

35,346,026

NET ASSETS, END OF YEAR

\$ 36,461,297

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$ 3,080,417
Federal grants and contracts	8,160,470
State grants and contracts	5,595,765
Local grants and contracts	680,470
Payments to/on behalf of employees	(21,790,171)
Payments for benefits	(7,132,613)
Payments for scholarships and grants	(7,627,505)
Payments to suppliers	(6,404,441)
Payments for utilities	(1,373,945)
Auxiliary enterprise sales and charges	90,958
Other receipts	205,465
	<u>205,465</u>
Net cash used by operating activities	(26,515,130)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

State apportionments, non-capital	16,751,379
Local property taxes	9,605,585
State taxes and other revenues	1,322,769
Other non-operating revenues	1,149,434
	<u>1,149,434</u>
Net cash provided by non-capital financing activities	28,829,167

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchases of capital assets	(9,377,804)
Interest paid on capital debt	(1,250,864)
Principal paid on capital debt	(524,000)
Proceeds from debt issuance	15,329,893
Payment of bond issuance costs	(326,219)
	<u>(326,219)</u>
Net cash provided by capital and related financing activities	3,851,006

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	1,237,111
	<u>1,237,111</u>
Net cash provided by investing activities	1,237,111

NET INCREASE IN CASH AND CASH EQUIVALENTS

7,402,154

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

20,292,182

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 27,694,336

(Continued on following page)

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

REDWOODS COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

COMPONENTS OF CASH AND CASH EQUIVALENTS:

Cash and cash equivalents	\$ 5,366,047
Restricted cash and cash equivalents	22,328,289

Total cash and cash equivalents

\$ 27,694,336

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (28,124,167)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,374,318
Other payments	(28,144)
(Increase) decrease in:	
Accounts receivable, net	(68,265)
Inventories and other assets	(594,960)
Increase (decrease) in:	
Accounts payable	(111,790)
Accrued liabilities	553,185
Deferred revenue	511,364
Amounts held for others	3,392
Compensated absences - included in long-term liabilities	(30,063)

Net cash used by operating activities

\$ (26,515,130)

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

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 three 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.

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 College of the Redwoods Financing Corporation (the Corporation) and the College of the Redwoods Foundation (the Foundation), collectively known as the Component Units, have financial and operational relationships that meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB).

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

Accountability The Foundation operates 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 Foundation. The Foundation provides specific financial benefits or imposes specific financial burdens on the District.

Scope of Public Service The Component Units are nonprofit, public benefit corporations incorporated under the laws of the state of California. The Foundation was formed to promote and assist the educational services of the District. The 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.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Blended Presentation The funds of separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the District's governing board, or who provide services entirely to the District, are blended into the District's funds by appropriate activity type to compose the primary government presentation. For financial purposes, the Corporation's financial activities have been blended into the reporting activity of the District's report.

Discrete Presentation Funds of separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending, are discretely presented with the financial activities of the District. For financial presentation purposes, the Foundation's financial activities are required to be discretely presented, however, the Foundation's information has not been included this year. The Foundation will issue separate financial statements for the year ended June 30, 2008.

BASIS OF PRESENTATION AND ACCOUNTING

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

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

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Exceptions to the accrual basis of accounting are as follows:

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

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

CASH AND CASH EQUIVALENTS

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

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the County Treasury is recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pools.

RESTRICTED CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

INVENTORIES

Inventories consist primarily of building lots and construction in progress of residential homes as part of the District's instructional programs in the construction trades. These assets are acquired for construction of student built houses and resold upon completion of construction.

CAPITAL ASSETS

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

Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings and improvements, 10 years for site improvements, 3 - 8 years for equipment and vehicles, and 5 years for library books and film.

DEFERRED REVENUE

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

AMOUNTS HELD FOR OTHERS

Amounts held for others represents funds held by the District for the associated students fund.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

COMPENSATED ABSENCES

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

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

LONG-TERM LIABILITIES AND DEFERRED COSTS

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, or the straight-line method if it does not materially differ from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred costs and amortized over the term of the related debt. Amortization of issuance costs was \$39,573 for the year ended June 30, 2008.

NET ASSETS

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

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS (Continued)

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

CLASSIFICATION OF REVENUES

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

- Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, and (3) most federal, state and local grants and contracts and federal appropriations.
- Non-operating revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

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

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year as well as State budgets and other factors outside the District's control. In February, subsequent to the year end, the State performs a recalculation based on actual financial and statistical information for the year just completed. The District's policy is to estimate the recalculation correction to apportionment, if any, based on factors it can reasonably determine such as local property tax revenue received and changes in FTES. Any additional corrections determined by the State are recorded in the year computed by the State.

ESTIMATES

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

PROPERTY TAXES

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

BUDGET AND BUDGETARY ACCOUNTING

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

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

RECLASSIFICATIONS

Certain reclassifications have been made in the presentation of financial information between fiscal years 2007 and 2008.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 2 CASH AND INVESTMENTS

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

Cash and cash equivalents	\$ 5,366,047
Restricted cash and cash equivalents – non-current	<u>22,328,289</u>
Total cash and cash equivalents	<u>\$ 27,694,336</u>

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

Cash in County Treasury	\$ 27,151,784
Cash on hand and in banks	222,140
Cash with fiscal agent	<u>320,412</u>
Total deposits	<u>\$ 27,694,336</u>

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Humboldt County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 2.45 years at June 30, 2008.

Copies of the County's audited financial statements can be obtained from the Humboldt County Auditor's Office, 825 5th Street, Eureka, California 95501.

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

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

At June 30, 2008, \$733,720 of the District bank balances are uninsured. However, all cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CASH AND INVESTMENTS
(Continued)

Investments – The District's investment policy allows investments in accordance with California Government Code Section 53600, et seq., which allows the District to invest in the following:

- Securities of the U.S. Government, or its agencies
- Negotiable certificates of deposit
- Commercial paper
- Corporate bonds
- Local Agency Investment Fund (LAIF)
- Passbook savings account demand deposits

The District has no investments at June 30, 2008.

Risk Information – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. California Government Code Section 53601 limits the District's investments to maturities of five years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized organizations. The District's investment policy addresses credit risk by limiting its investment types as noted above to investments authorized by California Government Code. The District's investment in the county investment pool is unrated.

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. At June 30, 2008, the District did not have an investment policy that sets forth limitations as to the concentration of investments in a single issuer. However, the District complies with California Government Codes related to the concentration of investments and there are no investments with any one issuer greater than 5 percent of total investments.

Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., financial institution, broker-dealer) to a transaction, a government will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party. For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 CASH AND INVESTMENTS
(Continued)

also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits. For investments, the District does not have a policy to address this risk.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008, consist of the following:

Tuition and fees	\$ 1,246,320
Less allowance for doubtful accounts	<u>610,949</u>
Tuition and fees, net	635,371
Federal grants and contracts	681,110
State grants and contracts	522,863
Local grants and contract	112,459
State apportionment, noncapital	1,562,289
State taxes and other revenues	597,012
Local property taxes	186,345
Interest receivable	332,753
Other	<u>128,162</u>
Total	\$ <u>4,758,364</u>

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	\$ 1,807,500	\$ -	\$ -	\$ -	\$ 1,807,500
Construction in progress	<u>4,456,439</u>	<u>2,762,343</u>	<u>-</u>	<u>(3,000,535)</u>	<u>4,218,247</u>
Total nondepreciable capital assets	<u>\$ 6,263,939</u>	<u>\$ 2,762,343</u>	<u>\$ -</u>	<u>\$ (3,000,535)</u>	<u>\$ 6,025,747</u>
Depreciable capital assets:					
Site improvements	\$ 5,207,356	\$ -	\$ -	\$ -	\$ 5,207,356
Buildings and improvements	48,117,285	5,909,509	-	3,000,535	57,027,329
Equipment	3,332,837	165,184	-	-	3,498,021
Vehicles	997,817	31,295	-	-	1,029,112
Library books and film	<u>314,140</u>	<u>37,832</u>	<u>-</u>	<u>-</u>	<u>351,972</u>
Total depreciable capital assets	<u>57,969,435</u>	<u>6,143,820</u>	<u>-</u>	<u>3,000,535</u>	<u>67,113,790</u>
Less accumulated depreciation:	<u>(23,041,018)</u>	<u>(1,374,318)</u>	<u>-</u>	<u>-</u>	<u>(24,415,336)</u>
Total depreciable capital assets, net	<u>\$ 34,928,417</u>	<u>\$ 4,769,502</u>	<u>\$ -</u>	<u>\$ 3,000,535</u>	<u>\$ 42,698,454</u>

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consist of the following:

Amounts payable to vendors	\$ 900,527
Amounts payable to contractors	<u>602,956</u>
Total	<u>\$ 1,503,483</u>

NOTE 6 ACCRUED LIABILITIES

Accrued liabilities at June 30, 2008, consist of the following:

Accrued payroll and related liabilities	\$ 840,276
Accrued interest	627,999
Other	<u>136,440</u>
Total	<u>\$ 1,604,715</u>

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 7 LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008:

	<u>Beginning Balance</u>	<u>Accretion/ Additions</u>	<u>Amortization/ Reductions</u>	<u>Ending Balance</u>
Long-term debt:				
General obligation bonds	\$ 18,127,694	\$ 15,329,893	\$ 505,416	\$ 32,952,171
Refunding lease obligation	<u>752,700</u>	<u>-</u>	<u>59,000</u>	<u>693,700</u>
Total	<u>\$ 18,880,394</u>	<u>\$ 15,329,893</u>	<u>\$ 564,416</u>	<u>\$ 33,645,871</u>
Other long-term liabilities:				
Compensated absences	\$ 688,353	\$ -	\$ 30,063	\$ 658,290
Postemployment benefits	<u>6,885,363</u>	<u>-</u>	<u>-</u>	<u>6,885,363</u>
Total	<u>\$ 7,573,716</u>	<u>\$ -</u>	<u>\$ 30,063</u>	<u>\$ 7,543,653</u>

Long-term debt consists of the following individual debt issues at June 30, 2008.

General Obligation Bonds

2004 General Obligation Bonds Series 2005,
 issued in the original amount of \$18,000,000.
 Final maturity August 1, 2029. Interest
 rates 3.375% to 8.00%.

\$ 17,240,000

2004 General Obligation Bonds Series 2007,
 issued in the original amount of \$15,000,000.
 Final maturity August 1, 2031. Interest
 rates 4.00% to 6.00%.

15,000,000

Total general obligation bonds, net of
 bond premium

32,240,000

Unamortized issuance premium on 2004
 general obligation bonds – Series 2005

399,102

Unamortized issuance premium on 2004
 general obligation bonds – Series 2007

313,069

Total general obligation bonds

\$ 32,952,171

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 7 LONG-TERM LIABILITIES
 (Continued)

Refunding Lease Obligation

1998 Refunding Lease issued in the original amount of \$1,592,100. Final maturity November, 2016. Interest rate 5.3%.

	<u>693,700</u>
Total long-term debt	33,645,871
Less current portion	<u>767,900</u>
Total long-term debt, noncurrent portion	<u>\$ 32,877,971</u>

The annual debt service requirements to maturity on the general obligation bond issues are as follows:

Year Ended June 30,	Bonds			Bond Premium	Total
	Principal	Interest	Total		
2009	\$ 700,000	\$ 1,481,349	\$ 2,181,349	\$ 38,668	\$ 2,220,017
2010	645,000	1,431,049	2,076,049	36,100	2,112,149
2011	670,000	1,382,599	2,052,599	36,095	2,088,694
2012	705,000	1,333,399	2,038,399	36,374	2,074,773
2013	740,000	1,293,399	2,033,399	36,735	2,070,134
2014 – 2018	5,705,000	5,906,462	11,611,462	193,566	11,805,028
2019 – 2023	7,370,000	4,562,854	11,932,854	213,530	12,146,384
2024 – 2028	9,190,000	2,692,620	11,882,620	107,137	11,989,757
2029 – 2033	<u>6,515,000</u>	<u>539,548</u>	<u>7,054,548</u>	<u>13,966</u>	<u>7,068,514</u>
Total	<u>\$ 32,240,000</u>	<u>\$ 20,623,279</u>	52,863,279	712,171	53,575,450
Less interest			<u>20,623,279</u>	-	<u>20,623,279</u>
Net principal			<u>\$ 32,240,000</u>	<u>\$ 712,171</u>	<u>\$ 32,952,171</u>

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 7 LONG-TERM LIABILITIES
 (Continued)

The annual debt service requirements to maturity on the refunding lease obligation are as follows:

Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 67,900	\$ 34,967	\$ 102,867
2010	66,400	31,408	97,808
2011	75,000	27,661	102,661
2012	78,200	23,601	101,801
2013	81,100	19,379	100,479
2014 – 2018	<u>325,100</u>	<u>32,316</u>	<u>357,416</u>
Total	<u>\$ 693,700</u>	<u>\$ 169,332</u>	<u>\$ 863,032</u>

NOTE 8 PENSION PLANS

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

A. Plan Descriptions and Provisions

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

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

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

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

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

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

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

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 PENSION PLANS
(Continued)

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

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

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal year ended June 30, 2008, was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statutes.

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over \$133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2008, was 9.306% of annual payroll. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

NOTE 8 PENSION PLANS
 (Continued)

B. Funding Policy (Continued)

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

	<u>Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
STRS	\$ 921,506	\$ 962,078	\$ 946,659
PERS	<u>681,868</u>	<u>669,881</u>	<u>666,249</u>
Total	<u>\$ 1,603,374</u>	<u>\$ 1,631,959</u>	<u>\$ 1,612,908</u>

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

NOTE 9 STATE AND FEDERAL ALLOWANCES, AWARDS, AND GRANTS

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

NOTE 10 RISK MANAGEMENT

The District participates in property, liability, and workers' compensation insurance programs organized through the Northern California Community Colleges Self Insurance Authority (NCCCSIA), the Statewide Association of Community Colleges (SWACC), and the Protected Insurance Program for Schools (PIPS). These JPA's are created to provide self-insurance programs to 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 JPA, created to provide self-insurance programs for school districts.

The District is a participant in the Schools Excess Liability Fund (SELF). SELF is a JPA 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.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 RISK MANAGEMENT
(Continued)

The JPA's are independently accountable for their fiscal matters, and as such, are not component units of the District for financial reporting purposes.

Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. For the last three years, settled claims have not exceeded insurance coverage, nor has there been any reduction in insurance coverage.

NOTE 11 POST-RETIREMENT HEALTH CARE

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for 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 \$681,213 in 2008, and recording the present value of the actuarial liability in the long-term liabilities.

The District estimated the present value of the actuarial liability of the postemployment health care benefits at September 1, 2006 to be \$6,885,363. Actuarial assumptions used to value the liability included an annual health care inflation factor of 4.00%, payroll increase of 3.00%, inflation of 3.00% and a discounted rate of 5.00%.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The District 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.

The District periodically enters into construction commitments which are funded through State grants and/or Measure Q Bond funding. At June 30, 2008, the District had unfinished contracts in the amount of \$632,973.

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12 COMMITMENTS AND CONTINGENCIES
(Continued)

The California Division of the State Architect has informed the District that since some of the District's buildings are located near active earthquake faults the best mitigation is avoidance. The District plans to construct comparable new building space on the same site and find other non-student uses of the existing affected buildings, if possible. At June 30, 2008, the District's affected assets have a net book value of \$2,634,334 and have been reported without adjustment.

The College is accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges (Commission). The Commission changed the College's status from probation to warning at the end of fiscal year 2008 with one recommendation remaining of the original four recommendations to bring the College into full compliance with the Commission's standards. At its meeting in January, 2009, the Commission removed the College from warning status and reaffirmed its accreditation.

NOTE 13 NEW PRONOUNCEMENTS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postretirement benefits expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local governmental employers. The provisions of this Statement are effective for the District for periods beginning after June 15, 2008.

The District is in the process of determining the effect this Statement will have on its financial statements. Currently, management anticipates that the District's unfunded liability for postemployment benefits to be approximately \$6.8 million with an initial annual required contribution (ARC) of \$765,000. As discussed in note 11, the District is currently paying approximately \$680,000 towards this benefit.

(Continued on following page)

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REDWOODS COMMUNITY COLLEGE DISTRICT
ORGANIZATION
JUNE 30, 2008

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
George Truett	President	2009
Bruce Emad	Vice President	2011
Colleen Mullery	Clerk	2011
Tom Ross	Member	2009
Tracy Coppini	Member	2009
Richard Dorn	Member	2011
Rick Bennett	Member	2010
Sally Biggin	Member	2011
Will Smith	Member	2009
Susan Wendt	Student Member (Non-voting)	2008

ADMINISTRATION

<u>NAME</u>	<u>Office</u>
Tom Harris	Superintendent/President
Ron Cox	Acting Vice President, Administrative Services
Keith Snow-Flamer	Vice President of Student Learning & Support Services
Fusako Yokotobi	Interim Vice President, Human Resources

REDWOODS COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
<u>Department of Agriculture:</u>		
Passed through Butte County Office of Education		
Child Nutrition Program	10.558	\$ 33,817
Forest Reserve	10.665	211,954
Total Department of Agriculture		<u>245,771</u>
<u>Department of Interior:</u>		
Passed through various tribes		
Bureau of Indian Affairs	15.124	49,932
Redwood National Park	15.226	439
Total Department of Interior		<u>50,371</u>
<u>Department of Labor</u>		
Passed through County of Mendocino		
Workforce Investment Act - Adult Program	17.258	40,274
Passed through Chancellor's Office		
Workforce Investment Act - Adult Program	17.258	10,000
Total Department of Labor		<u>50,274</u>
<u>Department of Veterans Affairs</u>		
Veterans Education	64.117	1,467
Total Department of Veterans Affairs		<u>1,467</u>

(Continued on following page)

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
<u>Department of Education:</u>		
Financial Aid Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	170,113
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	208,550
Federal Pell Grant Program	84.063	5,658,372
Academic Competitiveness Grants	84.375A	750
Higher Education Institutional Aid	84.031	340,939
Adult Education - State Grant Program	84.002	79
TRIO - Student Support Services	84.042	266,424
TRIO - Upward Bound	84.047	447,323
Passed through California Community Colleges Chancellor's Office		
Vocational Education - Tech Prep Education	84.243	83,690
Passed through State Department of Education -		
Vocational Education - Basic Grants to States	84.048	195,762
Total Department of Education		<u>7,372,002</u>
<u>Department of Health and Human Services:</u>		
Passed through California Community Colleges Chancellor's Office		
Temporary Assistance for Needy Families	93.558	25,185
Passed through California Dept of Education		
Child Care and Development Block Grant	93.575	17,766
Passed through Foundation for California Community Colleges		
TANF - Child Development Careers	93.558	15,742
Passed through North Coast Children Center		
Head Start	93.600	34,300
Total Department of Health and Human Services		<u>92,993</u>
<u>Corporation for National and Community Service:</u>		
Americorps	94.006	181,670
Passed through California Community Colleges Chancellor's Office		
AmeriCorps	94.006	9,899
Total Corporation for National and Community Service		<u>191,569</u>
Total Federal Expenditures		<u>\$ 8,004,447</u>

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF STATE FINANCIAL AWARDS
 YEAR ENDED JUNE 30, 2008

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Revenue		
Basic Skills	\$ 196,399	\$ -	\$ (173,769)	\$ 22,630	\$ 22,630
CalWORKs	317,346	10,920	6,861	335,127	335,127
EOPS	1,067,230	-	13,509	1,080,739	1,080,739
CARE	158,067	-	7,222	165,289	165,289
DSPS	1,070,545	-	-	1,070,545	1,070,545
Matriculation	328,580	-	-	328,580	328,580
TTIP	45,183	-	(1,249)	43,934	43,934
BFAP	265,348	-	(3,522)	261,826	261,826
Block	275,000	-	(106,252)	168,748	168,748
Staff Diversity	10,610	-	(2,084)	8,526	8,526
Foster Care	122,268	97,797	-	220,065	220,065
CalSOAP	331,733	55,723	(267)	387,189	387,189
State Preschool	136,518	(1,890)	-	134,628	134,628
Infant Toddler	180,043	423	-	180,466	180,466
College Financing Corporation	109,350	-	(16,638)	92,712	92,712
Transfer and Articulation	5,000	-	-	5,000	5,000
Live Captioning	5,363	-	(3,225)	2,138	2,138
Economic Development	454,858	24,778	(74,384)	405,252	405,252
California Conservation Corp	4,000	-	-	4,000	4,000
Cal Grant	486,384	57,266	(388)	543,262	543,262
Other categorical aid programs	1,069	4,852	-	5,921	5,921
State grants, non-capital	5,570,894	249,869	(354,186)	5,466,577	5,466,577
State grants, capital	-	285,966	2,242	288,208	288,208
Total State programs	<u>\$ 5,570,894</u>	<u>\$ 535,835</u>	<u>\$ (351,944)</u>	<u>\$ 5,754,785</u>	<u>\$ 5,754,785</u>

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF WORKLOAD MEASURES FOR
 STATE GENERAL APPORTIONMENT
 ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2008

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2007 Only)			
1. Noncredit	-		-
2. Credit	29.15		29.15
B. Summer Intersession (Summer 2008 Prior to July 1, 2008)			
1. Noncredit	-		-
2. Credit	216.19		216.19
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	3,767.22		3,767.22
(b) Daily Census Contact Hours	102.73		102.73
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	-		-
(b) Credit	399.02		399.02
3. Independent Study/Work Experience Education Courses			
(a) Weekly Census Procedure Courses	221.76		221.76
(b) Daily Census Procedure Courses	7.56		7.56
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	<u>4,743.63</u>		<u>4,743.63</u>
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	-		-
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	-		-
2. Credit	316.83		316.83
<u>CCFS-320 Addendum</u>			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	-		-
2. Credit	-		-

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

REDWOODS COMMUNITY COLLEGE DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL
 AND BUDGET REPORT (CCFS-311)
 WITH DISTRICT ACCOUNTING RECORDS
 YEAR ENDED JUNE 30, 2008

	General Funds	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
June 30, 2008 Annual Financial and Budget Report (CCFS-311) Fund Balance	\$ 1,527,613	\$ 1,605,093	\$ -	\$ (7,559)
Adjustment and reclassifications increasing (decreasing) the fund balance:				
District identified adjustments	-	-	-	-
Rounding	6	(1)	-	-
Net adjustments and reclassifications	6	(1)	-	-
June 30, 2008 District Accounting Records Fund Balance	\$ 1,527,619	\$ 1,605,092	\$ -	\$ (7,559)

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

<u>Farm Operations Fund</u>	<u>Other Special Revenue Fund</u>	<u>Capital Outlay Projects Fund</u>	<u>Employee Benefit Trust Fund</u>	<u>Associated Students Trust Fund</u>	<u>Student Financial Aid Trust Fund</u>	<u>Total</u>
<u>\$ 16,124</u>	<u>\$ 351,118</u>	<u>\$ 20,430,080</u>	<u>\$ 4,898,809</u>	<u>\$ 99,833</u>	<u>\$ (331)</u>	<u>\$ 28,920,780</u>
-	-	-	-	(99,833)	-	(99,833)
-	-	-	1	-	(1)	5
-	-	-	1	(99,833)	(1)	(99,828)
<u>\$ 16,124</u>	<u>\$ 351,118</u>	<u>\$ 20,430,080</u>	<u>\$ 4,898,810</u>	<u>\$ -</u>	<u>\$ (332)</u>	<u>\$ 28,820,952</u>

REDWOODS COMMUNITY COLLEGE DISTRICT
 COMBINING BALANCE SHEET - DISTRICT FUNDS
 INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2008

	General Funds	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ (405,890)	\$ -	\$ -	\$ (5,940)
Accounts receivable, net	3,961,512	10,012	-	8,273
Inventories and other assets	351,308	-	-	-
Due from Foundation	28,144	-	-	-
Total current assets	<u>3,935,074</u>	<u>10,012</u>	<u>-</u>	<u>2,333</u>
Noncurrent assets:				
Restricted cash and cash equivalents	1,196,635	1,595,080	-	8,642
Total noncurrent assets	<u>1,196,635</u>	<u>1,595,080</u>	<u>-</u>	<u>8,642</u>
Total assets	<u>\$ 5,131,709</u>	<u>\$ 1,605,092</u>	<u>\$ -</u>	<u>\$ 10,975</u>
LIABILITIES				
Accounts payable	\$ 861,522	\$ -	\$ -	\$ 8,436
Accrued liabilities	942,991	-	-	10,098
Deferred revenue	1,799,577	-	-	-
Amounts held for others	-	-	-	-
Total liabilities	<u>3,604,090</u>	<u>-</u>	<u>-</u>	<u>18,534</u>
FUND EQUITY:				
Retained earnings (deficit)	-	-	-	-
Fund balances:				
Reserved for debt service	-	1,605,092	-	-
Reserved for capital projects	-	-	-	-
Reserved for special purposes	687,599	-	-	(7,559)
Unreserved:				
Undesignated	840,020	-	-	-
Total fund equity	<u>1,527,619</u>	<u>1,605,092</u>	<u>-</u>	<u>(7,559)</u>
Total liabilities and fund equity	<u>\$ 5,131,709</u>	<u>\$ 1,605,092</u>	<u>\$ -</u>	<u>\$ 10,975</u>

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

Farm Operations Fund	Other Special Revenue Fund	Capital Outlay Projects Fund	Employee Benefit Trust Fund	Associated Students Trust Fund	Student Financial Aid Trust Fund	Total
\$ 38,087	\$ 779	\$ 966,750	\$ 4,857,315	\$ -	\$ (85,054)	\$ 5,366,047
753	6,302	641,983	41,495	1,084	86,950	4,758,364
-	487,754	-	-	-	-	839,062
-	-	-	-	-	-	28,144
<u>38,840</u>	<u>494,835</u>	<u>1,608,733</u>	<u>4,898,810</u>	<u>1,084</u>	<u>1,896</u>	<u>10,991,617</u>
-	-	19,424,303	-	98,749	4,880	22,328,289
-	-	19,424,303	-	98,749	4,880	22,328,289
<u>\$ 38,840</u>	<u>\$ 494,835</u>	<u>\$ 21,033,036</u>	<u>\$ 4,898,810</u>	<u>\$ 99,833</u>	<u>\$ 6,776</u>	<u>\$ 33,319,906</u>
\$ 1,634	\$ 26,529	\$ 602,956	\$ -	\$ -	\$ 2,406	\$ 1,503,483
4,582	19,045	-	-	-	-	976,716
16,500	98,143	-	-	-	4,702	1,918,922
-	-	-	-	99,833	-	99,833
<u>22,716</u>	<u>143,717</u>	<u>602,956</u>	<u>-</u>	<u>99,833</u>	<u>7,108</u>	<u>4,498,954</u>
16,124	-	-	4,898,810	-	-	4,914,934
-	-	-	-	-	-	1,605,092
-	-	19,385,729	-	-	-	19,385,729
-	-	-	-	-	(332)	679,708
-	351,118	1,044,351	-	-	-	2,235,489
<u>16,124</u>	<u>351,118</u>	<u>20,430,080</u>	<u>4,898,810</u>	<u>-</u>	<u>(332)</u>	<u>28,820,952</u>
<u>\$ 38,840</u>	<u>\$ 494,835</u>	<u>\$ 21,033,036</u>	<u>\$ 4,898,810</u>	<u>\$ 99,833</u>	<u>\$ 6,776</u>	<u>\$ 33,319,906</u>

REDWOODS COMMUNITY COLLEGE DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
 INCLUDED IN THE REPORTING ENTITY
 YEAR ENDED JUNE 30, 2008

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	\$ 3,341,338	\$ -	\$ -	\$ 71,248
Less: scholarship discount and allowance	1,178,808	-	-	-
Net tuition and fees	2,162,530	-	-	71,248
Grants and contracts, non-capital:				
Federal	1,869,522	-	-	85,883
State	4,571,087	-	-	348,228
Local	624,976	-	-	-
Auxiliary enterprise sales and charges	62,742	-	-	-
Total operating revenues	9,290,857	-	-	505,359
OPERATING EXPENDITURES/EXPENSES				
Salaries	21,633,655	-	-	395,096
Employee benefits	6,143,528	-	-	198,728
Payments to students	1,047,927	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	4,148,124	550	-	34,793
Capital outlay	700,489	-	-	9,428
Utilities	1,174,647	-	-	-
Total operating expenditures/expenses	34,848,370	550	-	638,045
OPERATING INCOME (LOSS)	(25,557,513)	(550)	-	(132,686)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	17,241,164	-	-	-
Local property taxes	7,534,679	2,012,761	-	-
State taxes and other revenues	1,154,377	-	-	-
Investment income	72,020	44,005	-	-
Debt service - principal retirement	-	(465,000)	(59,000)	-
Debt service - interest and fiscal charges	-	(1,212,534)	(38,330)	-
Debt service - bond issuance costs	-	-	-	-
Other non-operating revenues	565,946	-	-	-
Total non-operating revenues (expenditures)	26,568,186	379,232	(97,330)	-

(Continued on following page)

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

Farm Operations Fund	Other Special Revenue Fund	Capital Outlay Projects Fund	Employee Benefit Trust Fund	Associated Students Trust Fund	Student Financial Aid Trust Fund	Total
\$ -	\$ 969,862	\$ -	\$ -	\$ -	\$ -	\$ 4,382,448
-	-	-	-	-	-	1,178,808
-	969,862	-	-	-	-	3,203,640
-	-	-	-	-	6,049,042	8,004,447
-	-	-	-	-	547,262	5,466,577
-	-	4,600	-	-	-	629,576
28,216	-	-	-	-	-	90,958
28,216	969,862	4,600	-	-	6,596,304	17,395,198
66,610	197,121	19,788	-	-	-	22,312,270
22,804	84,343	1,997	681,213	-	-	7,132,613
-	-	-	-	-	6,579,578	7,627,505
32,219	549,260	20,764	-	-	17,063	4,802,773
1,830	50,028	9,070,392	-	-	-	9,832,167
6,200	193,098	-	-	-	-	1,373,945
129,663	1,073,850	9,112,941	681,213	-	6,596,641	53,081,273
(101,447)	(103,988)	(9,108,341)	(681,213)	-	(337)	(35,686,075)
-	-	-	-	-	-	17,241,164
-	-	24,584	-	-	-	9,572,024
-	-	-	-	-	-	1,154,377
-	-	1,033,856	214,404	-	-	1,364,285
-	-	-	-	-	-	(524,000)
-	-	-	-	-	-	(1,250,864)
-	-	(326,219)	-	-	-	(326,219)
15,680	152,798	-	415,010	-	-	1,149,434
15,680	152,798	732,221	629,414	-	-	28,380,201

REDWOODS COMMUNITY COLLEGE DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
 INCLUDED IN THE REPORTING ENTITY
 YEAR ENDED JUNE 30, 2008

	General	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	<u>1,010,673</u>	<u>378,682</u>	<u>(97,330)</u>	<u>(132,686)</u>
OTHER REVENUES AND EXPENDITURES				
State apportionments and grants, capital	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures	<u>1,010,673</u>	<u>378,682</u>	<u>(97,330)</u>	<u>(132,686)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	363,721	3,873	97,330	57,233
Operating transfers out	(1,799,272)	-	-	-
General obligation bonds issued	-	-	-	-
Premium on general obligation bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,435,551)</u>	<u>3,873</u>	<u>97,330</u>	<u>57,233</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(424,878)	382,555	-	(75,453)
FUND EQUITY, BEGINNING OF YEAR	<u>1,952,497</u>	<u>1,222,537</u>	<u>-</u>	<u>67,894</u>
FUND EQUITY, END OF YEAR	<u>\$ 1,527,619</u>	<u>\$ 1,605,092</u>	<u>\$ -</u>	<u>\$ (7,559)</u>

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

Farm Operations Fund	Other Special Revenue Fund	Capital Outlay Projects Fund	Employee Benefit Trust Fund	Associated Students Trust Fund	Student Financial Aid Trust Fund	Total
<u>(85,767)</u>	<u>48,810</u>	<u>(8,376,120)</u>	<u>(51,799)</u>	<u>-</u>	<u>(337)</u>	<u>(7,305,874)</u>
<u>-</u>	<u>-</u>	<u>288,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>288,208</u>
<u>(85,767)</u>	<u>48,810</u>	<u>(8,087,912)</u>	<u>(51,799)</u>	<u>-</u>	<u>(337)</u>	<u>(7,017,666)</u>
99,407	68,262	1,357,899	119,141	-	-	2,166,866
-	-	(3,873)	(363,721)	-	-	(2,166,866)
-	-	15,000,000	-	-	-	15,000,000
-	-	329,893	-	-	-	329,893
<u>99,407</u>	<u>68,262</u>	<u>16,683,919</u>	<u>(244,580)</u>	<u>-</u>	<u>-</u>	<u>15,329,893</u>
13,640	117,072	8,596,007	(296,379)	-	(337)	8,312,227
<u>2,484</u>	<u>234,046</u>	<u>11,834,073</u>	<u>5,195,189</u>	<u>-</u>	<u>5</u>	<u>20,508,725</u>
<u>\$ 16,124</u>	<u>\$ 351,118</u>	<u>\$ 20,430,080</u>	<u>\$ 4,898,810</u>	<u>\$ -</u>	<u>\$ (332)</u>	<u>\$ 28,820,952</u>

REDWOODS COMMUNITY COLLEGE DISTRICT
 RECONCILIATION OF FUND EQUITY TO NET ASSETS
 JUNE 30, 2008

Total Fund Equity - District Funds Included in the Reporting Entity		\$ 28,820,952
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Deferred costs, net		733,667
Non-depreciable capital assets		6,025,747
Depreciable capital assets	\$ 67,113,790	
Accumulated depreciation	<u>(24,415,336)</u>	42,698,454
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accrued liabilities		(627,999)
Long-term debt:		
Current	(767,900)	
Non-current	<u>(40,421,624)</u>	<u>(41,189,524)</u>
Net assets reported within the GASB 35 Statement of Net Assets		<u><u>\$ 36,461,297</u></u>

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

REDWOODS COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS
YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	\$ 8,312,227
Depreciation expense reported within the GASB 35 Statements	(1,374,318)
Capital outlay expense not reported within the GASB 35 Statements	8,906,163
Decrease in compensated absences reported within the GASB 35 Statements	30,063
Amortization of Deferred Costs reported within the GASB 35 Statements	(39,573)
Principal payments on debt not reported within the GASB 35 Statements	524,000
Interest expense from change in accrued interest payable and amortization of bond premiums reported within the GASB 35 Statements	(239,617)
Proceeds from issuance of debt not reported within the GASB 35 Statements	(15,329,893)
Cost of issuance capitalized and amortized within the GASB 35 Statements	<u>326,219</u>
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	<u>\$ 1,115,271</u>

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

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

NOTE 1 PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the Redwoods Community College District for the year ended June 30, 2008 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 the Schedule of Expenditures of Federal Awards was prepared for the Redwoods Community College District.

The schedule has been prepared on the accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2008, represents the basis of apportionment of the Redwoods Community College District's annual source of funding.

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

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

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted \$2,885,627 in loans under the Federal Family Education Loan Program for the year ended June 30, 2008.

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

(Continued on following page)

REDWOODS COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

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

Basis of Accounting (Continued)

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

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

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

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

Board of Trustees
Redwoods Community
College District
Eureka, California

We have audited the financial statements of the business-type activities of the Redwoods Community College District (District) as of and for the year ended June 30, 2008 which collectively comprise the financial statements of the District's primary government and blended component unit and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

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

Nystrom & Company LLP

February 10, 2009

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

Board of Trustees
Redwoods Community
College District
Eureka, California

Compliance

We have audited the compliance of Redwoods Community College District (District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Nystrom & Company LLP

February 10, 2009

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Redwoods Community
College District
Eureka, California

We have audited the accompanying financial statements of the business-type activities of the Redwoods Community College District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 10, 2009.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the California State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

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

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts
6. Apportionments – Enrollment Fee
7. Apportionments – Students Actively Enrolled
8. Open Enrollment
9. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds
2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

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

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

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2008.

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

Nystrom & Company LLP

February 10, 2009

REDWOODS COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an adverse opinion on the "reporting entity" opinion unit's financial statements and an unqualified opinion on the primary government and blended component unit financial statements of the Redwoods Community College District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Redwoods Community College District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal award programs for the Redwoods Community College District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the Redwoods Community College District.
7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work-Study Program (CFDA 84.033); Federal Pell Grant Program (CFDA 84.063) and Academic Competitiveness Grant (CFDA 84.375A). These programs together comprise the student financial aid "cluster" program as defined in the Compliance Supplement.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Redwoods Community College District qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

REDWOODS COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

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

Questioned
Costs

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

NONE

REDWOODS COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008

NONE