

**REDWOODS COMMUNITY
COLLEGE DISTRICT**

Eureka, California

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORTS**

June 30, 2004

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INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Redwoods Community College District (the District) as of and for the year ended June 30, 2004, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component units of the District as of June 30, 2004 and the respective results of operations and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 are not a required part of the financial statements but are 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.

INDEPENDENT AUDITORS' REPORT

Continued

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

Matson and Isom

November 6, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2004

INTRODUCTION

As required by the 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 MD&A includes all funds, but excludes the College of the Redwoods Foundation and the College of the Redwoods Financing Corporation. Each statement will be discussed separately.

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

FINANCIAL AND ATTENDANCE HIGHLIGHTS

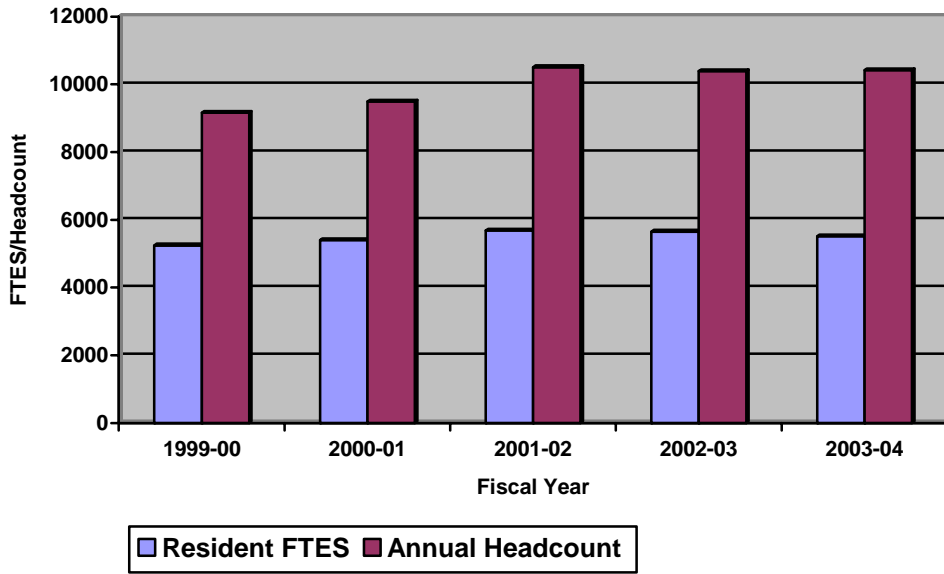
The District's full-time equivalent students (FTES) eligible for State funding decreased by 2.4% in 2003-04 to 5,515.03. Due to stability provisions in the State budget, the District will not lose funding for 2003-04.

Unduplicated headcount for 2003-04 decreased by 197 or 1.9% to 10,418 as determined for State funding purposes.

There was no State cost of living adjustment (COLA) for 2003-04. However, there was a State-wide deficit in enrollment fees and property tax collections resulting in a reduction in funding of \$216,758, of the State program based funding entitlement. The most recent communication from the State Chancellor's Office supports this estimate, although the actual amount will not be known until the first annual apportionment for 2004-05 is issued, usually in late January.

State funding for Partnership for Excellence and certain other categorical programs declined in 2003-04. The District continues to expand its participation in new categorical programs.

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



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2004

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>2004</u>	<u>2003</u>	<u>Change</u>
ASSETS			
Current assets	\$ 9,995,556	\$ 10,631,492	-6%
Restricted cash and cash equivalents	250,369	5,463,127	-95%
Capital asset - net	<u>37,121,386</u>	<u>38,110,941</u>	-3%
Total Assets	<u>\$ 47,367,311</u>	<u>\$ 54,205,560</u>	-13%
LIABILITIES			
CURRENT LIABILITIES			
Current liabilities (including TRANs)	\$ 3,032,997	\$ 9,006,688	-66%
Long-term liabilities-noncurrent portion	<u>8,104,545</u>	<u>10,842,718</u>	-25%
Total Liabilities	<u>11,137,542</u>	<u>19,849,406</u>	-44%
NET ASSETS			
Invested in capital assets - net	<u>35,322,840</u>	<u>35,156,694</u>	0%
Restricted	<u>89,914</u>	<u>84,502</u>	6%
Unrestricted:			
Reserve for non-cash assets	181,390	125,638	44%
Contractual obligations	341,379	450,961	-24%
Designated for special purpose	582,646	790,678	-26%
General contingency reserve	<u>(288,400)</u>	<u>(2,313,719)</u>	88%
Total Unrestricted	<u>817,015</u>	<u>(946,442)</u>	186%
Total Net Assets	<u>36,229,769</u>	<u>34,356,154</u>	5%
Total Liabilities and Net Assets	<u>\$ 47,367,311</u>	<u>\$ 54,205,560</u>	-13%

Restricted cash and cash equivalents consisted mainly of amounts relating to the tax revenue anticipation notes (TRANs) payable of \$3,485,000 as of June 30, 2003, and were used to repay these notes when due on July 3, 2004. TRANs notes for 2003-04 were repaid in June 2004, resulting in a decline in restricted cash and the related current liability at year end.

Net capital assets are the historical value of land, buildings, and equipment less accumulated depreciation. The notes to the financial statements contain a breakdown of the net assets. The District completed construction of the Del Norte Nurse Training Center during the 2003-04 fiscal year for a total cost of \$262,265 and placed into service other new capital assets totaling \$221,850.

Board policy states that in accordance with fiscal policies recommended by the State Chancellor's Office, the District maintains a contingency reserve in the General Fund. Reserves are also maintained in other funds at a prudent level.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Redwoods Community College District

June 30, 2004

The District has elected to record its actuarially determined accrued liability for post employment health benefits. In arriving at the amount for unrestricted net assets, these liabilities have been deducted (together with other liabilities) from total assets. The unrestricted net asset value is a negative amount because the District is still a number of years away from fully funding its post employment health benefits. Over the past 10 years the District has improved funding its unfunded liability from 0% to 63%. The District intends to continue to set funds aside until its unfunded liability is fully funded.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2004

Redwoods Community College District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

	<u>2004</u>	<u>2003</u>	<u>Change</u>
REVENUES			
Operating revenues:			
Net tuition and fees	\$ 3,188,005	\$ 2,406,801	32%
Grants, contracts, and other designated revenues, non-capital	6,065,544	5,783,279	5%
Auxiliary enterprise - net	82,275	231,006	-64%
Other operating income	<u>1,696,224</u>	<u>1,348,467</u>	26%
Total Operating Revenue	11,032,048	9,769,553	13%
Total Operating Expenses	<u>34,450,410</u>	<u>36,682,523</u>	-6%
Operating Loss	<u>(23,418,362)</u>	<u>(26,912,970)</u>	13%
Non-operating revenues (expenses):			
State apportionments, non-capital	13,369,247	14,812,431	-10%
Local property taxes	9,341,772	8,539,030	9%
Lottery and other revenue	2,017,062	2,283,334	-12%
Investment income	272,650	451,261	-40%
Other non-operating revenues (expenses) - net	<u>289,659</u>	<u>204,967</u>	41%
Total Non-operating Revenues (Expenses)	<u>25,290,390</u>	<u>26,291,023</u>	-4%
Income before other revenues, expenses, gains or losses	1,872,028	(621,947)	401%
Apportionment and property taxes, capital	142,947	2,198,507	-93%
Interest expense, capital	<u>(141,360)</u>	<u>(185,256)</u>	-24%
Increase in Net Assets	1,873,615	1,391,304	35%
Net Assets - Beginning of Year	<u>34,356,154</u>	<u>32,964,850</u>	4%
Net Assets - End of Year	<u>\$ 36,229,769</u>	<u>\$ 34,356,154</u>	5%

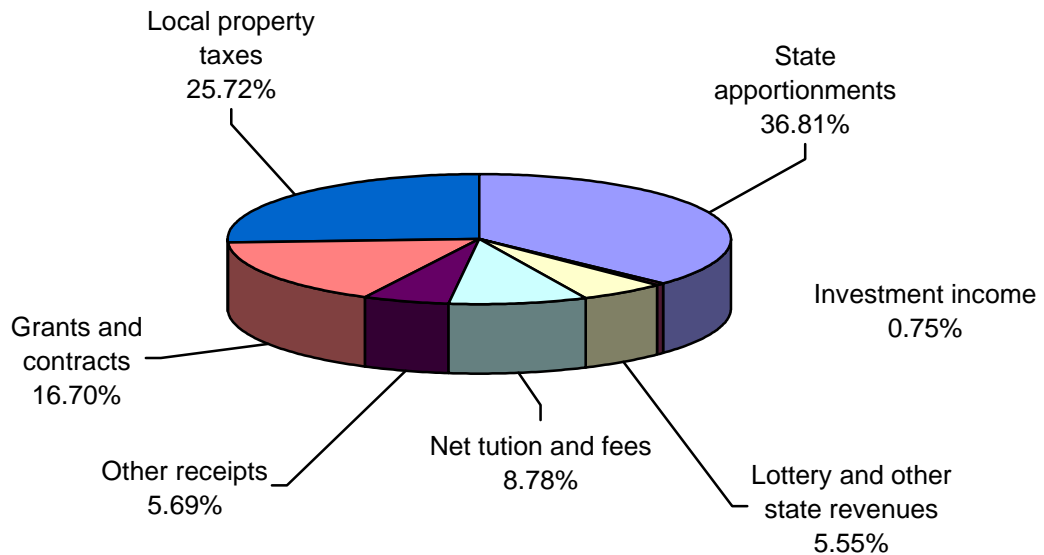
**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2004

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 program based funding formula.

Net tuition and fees include enrollment fees of \$682,623 in 2002-03 and \$966,607 in 2003-04. The regular enrollment fee rate of \$11 per-semester unit in 2002-03 was increased by the State to \$18 in 2003-04.

Revenues



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2004

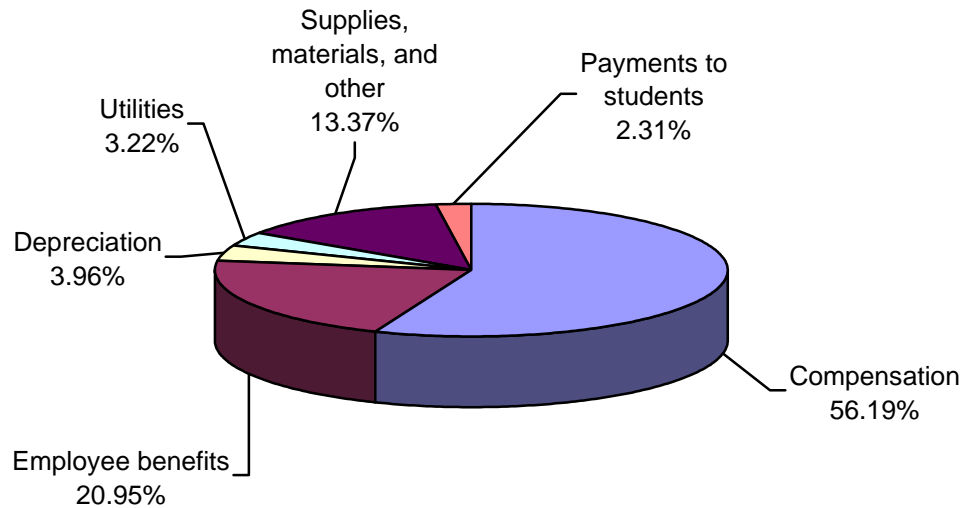
Redwoods Community College District

Operating Expenses (by Natural Classification)

	<u>2004</u>	<u>2003</u>	<u>Change</u>
Compensation	\$ 20,512,707	\$ 20,747,491	-1%
Employee benefits	5,592,495	6,687,133	-16%
Supplies, materials, other operating expenses, and services	4,881,864	6,128,146	-20%
Utilities	1,173,694	1,241,991	-5%
Depreciation	1,446,599	1,087,586	33%
Payments to students	843,051	790,176	7%
Total Operating Expenses	\$ 34,450,410	\$ 36,682,523	-6%

Employee benefits decreased primarily due to the actuarial adjustments to the unfunded post employment health care benefits. Supplies, materials, other expenses, and services decreased primarily due to reduced maintenance and repair activity for the existing capital assets.

Expenses



**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

June 30, 2004

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>2004</u>	<u>2003</u>
Cash provided (used) by:		
Operating activities	\$ (24,741,827)	\$ (27,258,322)
Non-capital financing activities	18,510,847	28,029,853
Capital and related financing activities	(1,110,158)	5,644,709
Investment activities	284,173	480,794
Net Increase (Decrease) in Cash	<u>(7,056,965)</u>	<u>6,897,034</u>
Cash - Beginning of the Fiscal Year	<u>12,985,723</u>	<u>6,088,612</u>
Cash - End of the Fiscal Year	<u>\$ 5,928,758</u>	<u>\$ 12,985,646</u>

Cash receipts from operating activities consist primarily of State grants and contracts of \$4,036,759. Cash outlays included payments to or on behalf of employees of \$28,017,431.

General apportionment of \$14,301,200 and property taxes of \$9,139,688 are the primary sources of non-capital financing.

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

Economic Factors That May Affect the Future

Projections of State revenues for 2004-05 and future years show continual improvement. However, due to significant structural problems in State expenditures, there continues to be uncertainty over the State's ability to fund community colleges at current or guaranteed levels as required under Proposition 98.

The voters of the District approved a \$40,320,000 bond measure on the November 2004 ballot under the provisions of Proposition 39. Over the next several years, the District will expend these funds and certain additional State and local matching funds on equipment and facilities needs of the District.

The District completed three-year agreements with its faculty and classified staff bargaining units covering fiscal years 2003-04 through 2005-06 and 2004-05 through 2006-07, respectively.

The District is in the process of changing its enrollment management practices. A shift is occurring in the degree of interaction the college achieves in all aspects of a student's educational experience. This new enrollment management model is intensive and aggressive. Initially, these changes are expected to have the effect of slowing growth in attendance and headcount. However, the District expects the long-range effect to produce dramatic improvement in enrollments and student outcomes.

FINANCIAL SECTION

STATEMENT OF NET ASSETS

Redwoods Community College District

June 30, 2004	Primary Institution	Component Units
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,678,389	\$ 1,058,058
Accounts receivable, net	4,135,777	236,520
Stores inventory	92,705	636,808
Prepaid expenses	88,685	24,070
Total Current Assets	9,995,556	1,955,456
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	250,369	-
Long-term investments	-	1,712,554
Capital assets - net	37,121,386	17,344
Total Non-Current Assets	37,371,755	1,729,898
Total Assets	\$ 47,367,311	\$ 3,685,354
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
LIABILITIES		
Accounts payable	\$ 1,035,527	\$ 250,523
Accrued salaries and related benefits	385,967	-
Deferred revenue	879,796	760
Other accrued liabilities	74,669	-
Current portion of long-term liabilities	657,038	-
Total Current Liabilities	3,032,997	251,283
NON-CURRENT LIABILITIES		
Long-term liabilities	8,104,545	-
Total Non-Current Liabilities	8,104,545	-
Total Liabilities	11,137,542	251,283
NET ASSETS		
Invested in capital assets - net of related debt	35,322,840	-
Restricted for:		
Nonexpendable	89,914	1,538,544
Expendable	-	851,640
Unrestricted	817,015	1,043,887
Total Net Assets	36,229,769	3,434,071
Total Liabilities and Net Assets	\$ 47,367,311	\$ 3,685,354

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

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

Redwoods Community College District

Year Ended June 30, 2004	Primary Institution	Component Units
OPERATING REVENUES		
Tuition and fees (gross)	\$ 3,202,444	\$ -
Scholarship discounts and allowances	(14,439)	-
Net Tuition and Fees	3,188,005	-
Grants and contracts, non-capital:		
Federal	1,684,687	-
State	4,111,499	-
Local	269,358	-
Other operating payments	1,696,224	-
Auxiliary enterprise sales and charges	82,275	2,154,677
Total Operating Revenues	11,032,048	2,154,677
OPERATING EXPENSES		
Salaries	20,512,707	-
Employee benefits	5,592,495	-
Supplies, materials, and other operating expenses and services	4,881,864	2,937,663
Utilities	1,173,694	-
Depreciation	1,446,599	1,156
Payments to students	843,051	387,480
Total Operating Expenses	34,450,410	3,326,299
Operating Loss	(23,418,362)	(1,171,622)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	13,369,247	-
Local property taxes	9,341,772	-
State taxes and other revenues	2,017,062	-
Investment income - non-capital	272,650	347,465
Financial aid revenues - federal	7,566,767	-
Financial aid expenses	(8,059,685)	-
Other non-operating revenues-grants/gifts, non-capital	782,577	1,076,779
Total Non-Operating Revenues (Expenses)	25,290,390	1,424,244
Income Before Other Revenues, Expenses Gains, or Losses	1,872,028	252,622
State apportionments, capital	142,947	-
Interest expense, capital	(141,360)	(102,830)
Increase in Net Assets	1,873,615	149,792
Net Assets - Beginning of Year	34,356,154	3,284,279
Net Assets - End of Year	\$ 36,229,769	\$ 3,434,071

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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004	Primary Institution	Component Units
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 3,050,918	\$ -
Federal grants and contracts	1,624,612	-
State grants and contracts	4,036,759	-
Local grants and contracts	32,509	-
Payments to suppliers	(6,459,287)	(3,095,573)
Payments to/on behalf of employees	(28,017,431)	-
Payments to/on behalf of students	(843,051)	(387,480)
Auxiliary enterprise sales and charges	-	2,154,677
Other receipts (payments)	1,833,144	-
Net Cash Used by Operating Activities	(24,741,827)	(1,328,376)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionment and receipts	14,301,200	-
Property taxes	9,139,688	-
Financial aid, scholarship, loan trust receipts - federal	7,566,767	-
Proceeds from tax revenue anticipation notes	3,485,000	-
Financial aid, scholarship, loan trust disbursements	(8,059,685)	-
Principal paid on tax revenue anticipation notes	(8,485,000)	-
Interest paid on non-capital debt	(219,700)	(2,075)
Other receipts (payments)	782,577	882,212
Net Cash from Non-Capital Financing Activities	18,510,847	880,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments for capital purposes	574,247	-
Purchases of capital assets	(457,044)	(18,500)
Principal paid on capital debt	(1,155,701)	-
Interest paid on capital debt	(71,660)	(102,830)
Net Cash from Capital and Related Financing Activities	(1,110,158)	(121,330)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	284,173	347,465
Net Purchase of Investments	284,173	347,465
Net Decrease in Cash and Cash Equivalents	(7,056,965)	(222,104)
Cash and Cash Equivalents Balance - Beginning of Period	12,985,723	1,280,162
Cash and Cash Equivalents Balance - End of Period	\$ 5,928,758	\$ 1,058,058

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

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004	Primary Institution	Component Units
Operating loss	\$ (23,418,362)	\$ (1,171,622)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,446,599	1,156
Changes in assets and liabilities:		
Receivables - net	(345,624)	-
Inventories	12,847	(228,752)
Prepaid expenses	(31,047)	(6,892)
Accounts payable	(394,869)	77,734
Accrued salaries and benefits	108,080	-
Deferred revenue	(108,482)	-
Other liabilities	(2,010,969)	-
Net Cash Used by Operating Activities	\$ (24,741,827)	\$ (1,328,376)

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

June 30, 2004

1. ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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

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

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

Accountability

1. The Corporations operate under a master agreement with the District in accordance with the California Education Code requirements.
2. The District is able to impose its will upon the Corporations.
3. The Corporations provide specific financial benefits or impose specific financial burdens on the District.

Scope of Public Service

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

Discrete Presentation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Exceptions to the accrual basis of accounting are as follows:

1. Summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30, with the revenue being recorded in the fiscal year in which the program is predominately conducted.
2. The District has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The District has elected not to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the *Budget and Accounting Manual* issued by the Chancellor's Office of the California Community College.

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

June 30, 2004

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

Accounts Receivable Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District utilizes the allowance method with respect to its accounts receivable. The allowance was \$471,885 at June 30, 2004.

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

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

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

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

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

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

June 30, 2004

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

Compensated Absences Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District has a load-banking program for eligible faculty employees whereby the employee may accrue overload service toward a paid leave.

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

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

Restricted net assets, non-expendable, consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expended or added to principal depending on donor stipulations.

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

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

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

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

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

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

June 30, 2004

Risk Management The District retains risk for liability and property damage on the first \$1,000 of each claim. The District retains no risk for workers' compensation claims, and coverage is provided by pooled insurance as a member of a joint powers authority of California community colleges.

Certain liability coverage in excess of \$1,000 and up to \$15,000,000 is provided by pooled insurance as a member of a joint powers authority of California community colleges and school districts. Property damage in excess of \$1,000 and up to \$144,750,000 is provided by pooled insurance as a member of a joint powers authority.

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

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

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

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

Property Tax 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. The Counties of Humboldt, Mendocino, and Trinity bill and collect the taxes for the District. Tax revenues are recognized by the District when received.

3. CASH AND INVESTMENTS

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

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

Primary Institution

Description	Categories			Bank Balance	Carrying Amount
	1	2	3		
INSURED (FDIC)	\$ 242,074	\$ -	\$ -	\$ 242,074	\$ 242,542
UNINSURED	-	-	73,361	73,361	2,950
Total	\$ 242,074	\$ -	\$ 73,361	\$ 315,434	245,492
County Treasurer's Pooled Funds					5,683,266
Total Deposits					\$ 5,928,758

Component Units

Description	Categories			Bank Balance	Carrying Amount
	1	2	3		
INSURED (FDIC)	\$ 201,484	\$ -	\$ -	\$ 201,484	\$ 191,148
UNINSURED	-	-	70,201	70,201	45,183
Total	\$ 201,484	\$ -	\$ 70,201	\$ 271,686	236,331
County Treasurer's Pooled Funds					821,727
Total Deposits					\$ 1,058,058

June 30, 2004

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

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

Description	Categories			Fair Value
	1	2	3	
Certificates of deposit	\$ 75,050	\$ -	\$ -	\$ 75,050
Equity securities	1,000,000	-	637,504	1,637,504
Total Investments	\$ 1,075,050	\$ -	\$ 637,504	\$ 1,712,554

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004:

	Primary Institution	Component Units
Federal grants and contracts	\$ 856,673	\$ -
State grants and contracts	440,799	-
Local grants and contracts	420,194	-
State apportionment non-capital	1,967,756	-
Local property taxes	202,084	-
Auxiliaries	-	230,688
Interest receivable	64,837	-
Tuition and fees	157,268	-
Other	26,166	5,832
Total	\$ 4,135,777	\$ 236,520

June 30, 2004

5. CAPITAL ASSETS

Changes in capital assets consist of the following:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2004</u>
NONDEPRECIATED CAPITAL ASSETS				
Land	\$ 1,960,294	\$ -	\$ -	\$ 1,960,294
Construction in progress	160,437	23,382	160,437	23,382
DEPRECIATED CAPITAL ASSETS				
Site improvements	5,084,193	12,531	-	5,096,724
Buildings and improvements	45,042,532	458,150	-	45,500,682
Equipment	3,618,495	100,583	23,217	3,695,861
Library books and film	153,166	32,562	24,062	161,666
Total Capital Assets	<u>56,019,117</u>	<u>627,208</u>	<u>207,716</u>	<u>56,438,609</u>
LESS ACCUMULATED DEPRECIATION	<u>17,870,624</u>	<u>1,446,599</u>	<u>-</u>	<u>19,317,223</u>
Total Capital Assets - Net	<u>\$ 38,148,493</u>	<u>\$ (819,391)</u>	<u>\$ 207,716</u>	<u>\$ 37,121,386</u>

Foundation capital assets consist of \$17,344 of bookstore equipment, net of accumulated depreciation.

6. TAX REVENUE ANTICIPATION NOTES

On July 3, 2003, the District issued \$3,485,000 of tax revenue anticipation notes (TRANs) at an interest rate of 2.00%. The balance was paid off prior to June 30, 2004, and the maturity date of July 6, 2004. These TRANs were issued under the authority of the California Government Code. Proceeds from the issuance of TRANs were used to meet fiscal 2003-2004 expenditures, including operating expenditures, capital expenditures, and the discharge of other obligations or indebtedness of the District.

On July 6, 2004, the District issued \$465,000 of TRANs at an interest rate of 3.0% due July 6, 2005.

7. LONG-TERM DEBT

The long-term liability activity for the year ended June 30, 2004, is shown below:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Payments and</u> <u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Capital lease obligations	\$ 2,954,247	\$ -	\$ 1,155,701	\$ 1,798,546	\$ 657,038
Accrued compensated absences	628,234	35,770	-	664,004	-
Post-employment health care benefits	8,355,112	-	2,056,079	6,299,033	-
Total	<u>\$ 11,937,593</u>	<u>\$ 35,770</u>	<u>\$ 3,211,780</u>	<u>\$ 8,761,583</u>	<u>\$ 657,038</u>

Capital Leases Obligations

The District leases equipment valued at \$6,655,255 under agreements which provide for title to pass upon expiration of the lease period. The amount of interest cost incurred during the year ended June 30, 2004, was \$141,360, all of which was charged to expenditures. Future minimum lease payments are as follows:

Year Ending June 30	Lease Payments
2005	\$ 777,309
2006	345,465
2007	101,595
2008	97,433
2009	102,960
2010-2014	501,956
2015-2018	258,541
Total	2,185,259
Less amount representing interest	386,713
Present Value of Net Minimum Lease Payments	\$ 1,798,546

8. EMPLOYEE RETIREMENT SYSTEMS

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Board. The required employer contribution rate for fiscal year 2003-04 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$881,117, \$877,105, and \$783,400, respectively, and equal 100% of the required contributions for each year.

June 30, 2004

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to STRS for early retirement incentives granted to retired employees at June 30, 2004.

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

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2003-04 was 10.42% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$709,243, \$194,270, and \$-0-, respectively, and equal 100% of the required contributions for each year.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. On June 30, 2004, 65 retirees met these eligibility requirements. 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 \$544,858 in 2003-04.

The District has estimated the present value of the post-employment health care benefits at June 30, 2004, to be \$6,299,033. This estimate was computed as part of an actuarial valuation performed November 2004. Actuarial assumptions used to value the liability included annual health care inflation factor of 4.00% and a discount rate of 5.00%.

June 30, 2004

10. COMMITMENTS AND CONTINGENCIES

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

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

11. JOINT POWERS AGREEMENTS

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

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

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

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

Condensed financial information for June 30, 2004, as well as the District's share of assets, liabilities, and fund balance for the JPAs, were not available for disclosure as of the date of this report.

12. SUBSEQUENT EVENT

On November 2, 2004, the voters passed a \$40,000,000 general obligation bond measure to fund local job and vocational training programs and increase academic classes for students with two-year and four-year college goals. Proceeds will be used to add classrooms and technology labs, renovate campus buildings and repair, construct, and equip college facilities.

SUPPLEMENTARY INFORMATION

ORGANIZATION

June 30, 2004

Redwoods Community College District

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

GOVERNING BOARD

Name	Office	Term Expires
Will Smith	President	2005
Tracy Coppini	Vice President	2005
George Truett	Clerk	2005
Dr. John E. Burke	Member	2007
Rick Bennett	Member	2006
Yvonne Gower	Member	2007
Milton Dobkin	Member	2007
Bruce Emad	Member	2007
Thomas Ross	Member	2005

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

Redwoods Community College District

June 30, 2004

The full-time equivalent resident students eligible for 2003-04 State apportionment reported to the State of California as of June 30, 2004, are summarized below:

	Annual Report
Summer intersession	379.44
Census weekly procedure classes	4,474.34
Census daily procedure classes	88.33
Independent study and work experience classes	73.00
Actual hours of positive attendance classes	499.92
Total	5,515.03

The gross square footage eligible for 2003-04 State apportionment reported to the State of California as of June 30, 2004, is summarized below:

	Annual Report
Existing facilities	482,024
New facilities	-
Total	482,024

The full-time equivalent students in leased space eligible for 2003-04 State apportionments reported to the State of California as of June 30, 2004, is summarized below:

	Annual Report
FTES in leased space	275.20
Total	275.20

**SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

Redwoods Community College District

Year Ended June 30, 2004	Federal Catalog Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION		
Pell grant	84.063	\$ 5,194,543
College work study	84.033	216,011
Supplemental education opportunity grants	84.007	186,840
Upward bound program	84.047A	341,666
Student support services	84.042A	302,220
Total U.S. Department of Education		6,241,280
FEDERAL AWARDS PASSED THROUGH OTHER AGENCIES		
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed through Chancellor's Office:		
Americorps	94.006	252,484
U.S. DEPARTMENT OF AGRICULTURE		
Passed through Humboldt County office of Education:		
Forest Reserve	10.665	60,661
Passed through California Department of Education:		
Child and Adult Care Food	10.558	23,219
Total U.S. Department of Agriculture		83,880
U.S. DEPARTMENT OF EDUCATION		
Passed through California Department of Education:		
Vocational and Applied Technology Education Act -Title IC - Basic Grants	84.048	243,450
Vocational and Applied Technology Education Act -Title II - Tech Prep Education	84.049	82,041
Total U.S. Department of Education		325,491
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through Chancellor's Office:		
Temporary Assistance to Needy Families	93.558	109,738
U.S. DEPARTMENT OF THE INTERIOR		
Passed through various tribes:		
Bureau of Indian Affairs	15.124	42,593
U.S. DEPARTMENT OF LABOR		
Passed through County of Humboldt:		
Work Force Investment Act	17.250	148,126
Total Federal Programs		\$ 7,203,592

See the accompanying notes to the supplemental information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Redwoods Community College District

Year Ended June 30, 2004	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue	Total	
CATEGORICAL APPORTIONMENTS								
Extended opportunity programs and services	\$ 786,760	\$ 102,779	\$ 889,539	\$ 889,539	\$ -	\$ 13,650	\$ 875,889	\$ 875,889
CARE supplement	129,569	60,427	189,996	189,996	-	5,543	184,453	184,453
Disabled students programs and services	1,021,081	13,761	1,034,842	1,034,842	-	-	1,034,842	1,034,842
Subtotal	1,937,410	176,967	2,114,377	2,114,377	-	19,193	2,095,184	2,095,184
CATEGORICAL PROGRAM ALLOWANCES								
BFAP allowance	311,855	-	311,855	311,855	-	26,287	285,568	285,568
Cal Grant	608,489	2,327	610,816	605,366	5,450	-	610,816	610,816
Cal-SOAP	-	-	-	406,395	147,288	-	553,683	553,683
California Conservation Corp.	6,000	-	6,000	6,000	-	-	6,000	6,000
CalWorks	224,993	-	224,993	223,251	-	-	223,251	223,251
CDE instructional material	819	-	819	819	-	-	819	819
Child care	214,174	-	214,174	224,830	816	-	225,646	225,646
Economic development - north/far north regional consortium	7,913	-	7,913	5,322	2,591	-	7,913	9,044
Economic development - associate degree	59,701	59,701	119,402	100,508	-	44,668	55,840	55,840
Foster parent training	172,266	13,570	185,836	99,954	78,487	-	178,441	178,441
Instructional equipment	125,023	40,472	165,495	165,495	-	86,235	79,260	79,260
Maintenance allowance	1,352	-	1,352	1,352	-	-	1,352	1,352
Matriculation	220,985	-	220,985	220,985	-	-	220,985	220,985
NFNRC	6,150	-	6,150	1,000	5,150	-	6,150	6,150
Prop 20 State lottery	99,704	-	99,704	99,704	-	-	99,704	99,704
State mandated cost	34,078	-	34,078	-	34,078	-	34,078	34,078
Staff development	-	1,439	1,439	-	-	1,439	(1,439)	-
Staff diversity	11,605	3,328	14,933	14,933	-	8,224	6,709	6,709
Student financial aid administration	-	6,402	6,402	-	-	-	-	-
Teacher and reading development partner	42,000	62,587	104,587	94,087	10,500	-	104,587	104,587
Technology model applications pilot project	-	41,040	41,040	41,040	-	-	41,040	41,040
Telecommunications and technology	64,234	58,475	122,709	132,709	-	71,605	61,104	61,104
Subtotal	2,211,341	289,341	2,500,682	2,755,605	284,360	238,458	2,801,507	2,804,077
Total State Programs	\$ 4,148,751	\$ 466,308	\$ 4,615,059	\$ 4,869,982	\$ 284,360	\$ 257,651	\$ 4,896,691	\$ 4,899,261

See the accompanying notes to the supplemental information.

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

Redwoods Community College District

June 30, 2004

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

June 30, 2004

1. PURPOSE OF SCHEDULES

Schedule of Workload Measures for State General Apportionments

A full-time equivalent student is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts.

Schedule of Expenditures of Federal and State Awards

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

OTHER REPORTS



matson and isom

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

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

We have audited the financial statements of Redwoods Community College District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Matson and Isom

November 6, 2004



matson and isom

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

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

COMPLIANCE

We have audited the compliance of Redwoods Community College District (the District) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

INTERNAL CONTROL OVER COMPLIANCE

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

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

Continued

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

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

Matson and Isom

November 6, 2004



matson and isom

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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the Redwoods Community College District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and *California Community Colleges Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

-
-
- SALARIES OF CLASSROOM INSTRUCTORS
 - APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS
 - REQUIRED DATA ELEMENTS
 - RESIDENCY DETERMINATION FOR CREDIT COURSES
 - CONCURRENT ENROLLMENT OF K-12 STUDENTS
 - USES OF MATRICULATION FUNDS
 - ALLOCATION OF COSTS (DSPS AND EOPS)
 - EOPS ADMINISTRATOR/DIRECTOR REQUIREMENTS
 - GANN LIMIT CALCULATION
 - ENROLLMENT FEE
 - SCHEDULED MAINTENANCE PROGRAM
 - OPEN ENROLLMENT
-
-

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Continued

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

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

Matson and Isom

November 6, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2004

Redwoods Community College District

**SECTION I
SUMMARY OF AUDIT RESULTS**

FINANCIAL STATEMENTS

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

FEDERAL COMPLIANCE

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

STATE COMPLIANCE

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

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

June 30, 2004

Redwoods Community College District

**SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

None.

None.

**SUMMARY SCHEDULE OF
PRIOR AUDIT FINDINGS**

June 30, 2004

Redwoods Community College District

**SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT**

None.

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None.

**SECTION IV FINDINGS
STATE AWARDS AUDIT**

None.