REDWOODS COMMUNITY COLLEGE DISTRICT

Eureka, California

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2007

Matson and Isom

TABLE OF CONTENTS

June 30, 2007

	Page Number

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

INDEPENDENT AUDITORS' REPORT

Certified Public Accountants

matson and isom

Founded in 1962 by
Robert M. Matson
and W. Howard Isom

Chico
3013 Ceres Avenue
P.O. Box 1638
Chico, CA 95927-1638
Phone (530) 891-6474
Fax (530) 893-6689

Redding
1255 East Street, Suite 202
P.O. Box 991891
Redding, CA 96099-1891
Phone (530) 244-4980
Fax (530) 244-4983

www.matson-isom.com

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, 2007, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component units of the District as of June 30, 2007, and the respective changes in financial position 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 December 7, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 13 are not a required part of the financial statements but are supplemental 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 supplemental 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying financial information listed as other supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and the *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Matson and Isom

December 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplemental Information)

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 management's discussion and analysis includes all funds, but excludes the College of the Redwoods Foundation. Each statement will be discussed separately.

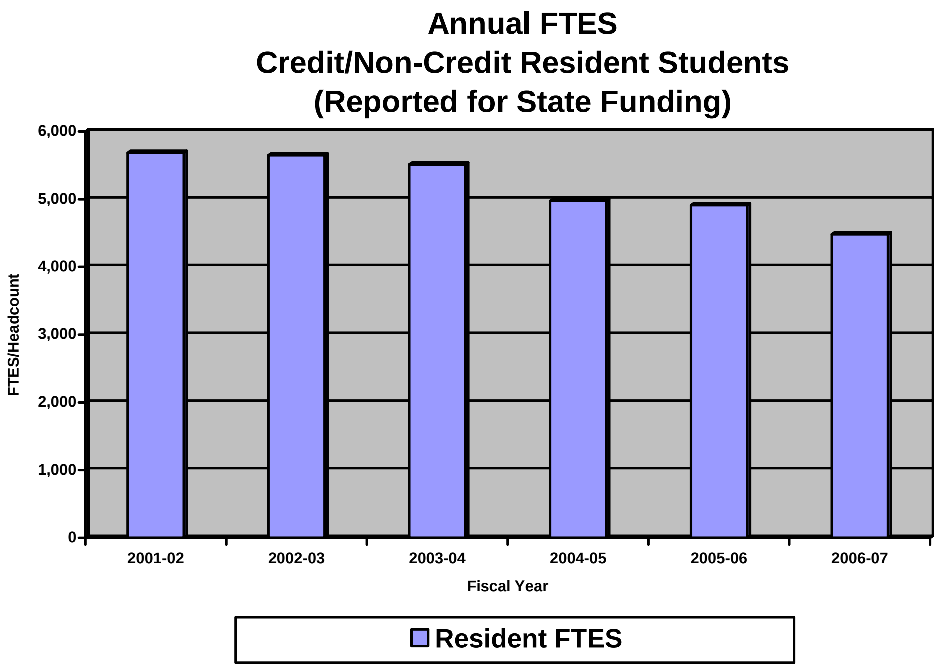
Under the business-type activities model of financial reporting, a single entity-wide statement is required to report financial activity for all funds of the District. As this is a variance from the previous fund-type presentation, the following information is provided to help with the understanding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

FINANCIAL AND ATTENDANCE HIGHLIGHTS

The District's full-time equivalent students (FTES) eligible for state funding decreased by 1.2% in 2005-06 to 4,914 and by 8.8% in 2006-07 to 4,482. Due to stability provisions in the state budget, districts lose funding for declines in FTES in the year following the loss of FTES, if not restored. Therefore, the District lost $2,107,819 in funding for 2006-07 due to the decline the prior year and is subject to a further funding loss in 2007-08 if FTES is not restored to the 2006-07 level. Current projections of 2007-08 FTES eligible for state funding shows full restoration with the potential for a small amount of growth above the prior year.

The state used its Program Based Funding model for allocation of funds for District regular unrestricted programs for the last time in 2005-06. With the passage of SB 361 in 2006, a new funding formula was developed to replace Program Based Funding. Under this new formula, the District received in 2006-07 a cost of living adjustment (COLA) of 5.92% amounting to $1,454,073.

District revenues for categorically funded programs increased substantially in 2006-07 primarily due to increased one-time state aid. The District has been awarded a five-year federal Title III grant totaling $1,641,629 beginning October 1, 2005.


Annual FTES
Credit/Non-Credit Resident Students
(Reported for State Funding)
FTES/Headcount
6,000
5,000
4,000
3,000
2,000
1,000
0
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
Fiscal Year
Resident FTES

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.

	2007	2006	Change
ASSETS			
Current assets	$ 11,059,141	$ 8,970,286	23%
Restricted cash and cash equivalents	13,913,291	15,769,241	-12%
Capital asset - net	41,192,356	38,588,627	7%
Total Assets	$ 66,164,788	$ 63,328,154	4%
LIABILITIES			
CURRENT LIABILITIES			
Current liabilities	$ 4,888,652	$ 2,989,763	64%
Long-term liabilities - noncurrent portion	25,930,110	25,879,383	0%
Total Liabilities	30,818,762	28,869,146	7%
NET ASSETS			
Invested in capital assets - net	33,066,670	33,965,911	-3%
Restricted	2,400,957	1,541,575	56%
Unrestricted:			
Reserve for non-cash assets	244,102	228,700	7%
Contractual obligations	404,609	414,150	-2%
Designated for special purpose	1,418,187	358,173	296%
Unfunded postemployment benefits	(1,451,349)	(1,755,698)	-17%
General contingency reserve	(737,150)	(293,803)	151%
Total Unrestricted	(121,601)	(1,048,478)	-88%
Total Net Assets	35,346,026	34,459,008	3%
Total Liabilities and Net Assets	$ 66,164,788	$ 63,328,154	4%

Restricted cash and cash equivalents as of June 30, 2006 and 2007, consisted mainly of unspent proceeds from the $18 million general obligation bond issue of 2005. The District sold additional general obligation bonds of $15 million in July 2007.

The increase in the June 30 balance for current assets between 2006 and 2007, was primarily due to an increase in unrestricted cash balances. The increase to current liabilities was primarily due to increase in accounts payable related to large construction billings received near year end, and to the recording of accrued interest expense on general obligation bonds.

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 standard replacements and new acquisitions of capital assets, the District purchased classroom equipment, completed construction on the trash enclosure at the Student Union Complex, improved bench seating in the stadium, renovated the forum theater, and continued progress on modernization projects funded by general obligation bonds. During the state construction plan review process, seismic concerns have surfaced causing a shift in District planning for facilities for 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.

Fiscal policies adopted by the Chancellor's Office recommend that the District maintain a contingency reserve in the General Fund of 5% of unrestricted expenditures and other outgo. The District's General Fund reserve increased from 3.1% as of June 30, 2006, to 6.8% as of June 30, 2007. The District plans to maintain a General Fund reserve level of at least 5% in the future.

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 liabilities have been deducted (together with other liabilities) from total assets. The total unrestricted net asset value has improved because of the District's improved financial position, including a reduction in its unfunded liability. Through changes in board policy and collective bargaining contracts, newly hired employees will no longer participate in this program. The District intends to continue to set funds aside until its unfunded liability is fully funded.

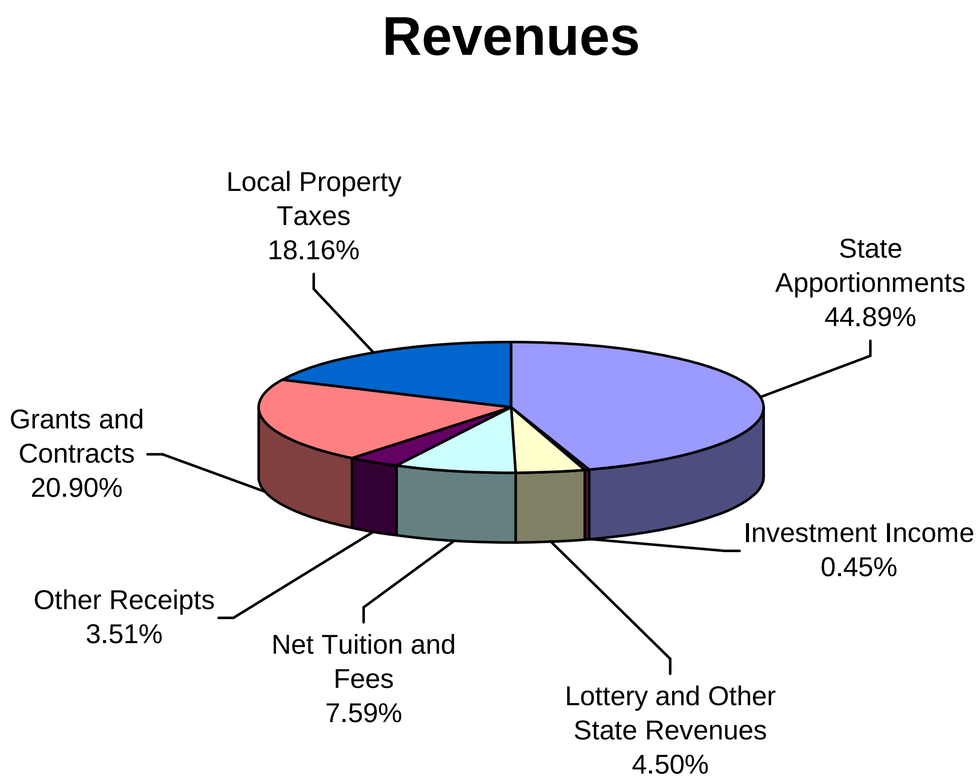
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents the operating finances of the District, as well as the nonoperating revenues and expenses. State general apportionment funds, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

	2007	2006	Change
REVENUES			
Operating revenues:			
Net tuition and fees	$ 2,975,611	$ 3,372,160	-12%
Grants, contracts, and other designated revenues - noncapital	8,196,324	6,374,299	29%
Auxiliary enterprise - net	99,276	465,652	-79%
Other operating income	1,043,440	1,152,842	-9%
Total Operating Revenue	12,314,651	11,364,953	8%
Total Operating Expenses	39,275,601	38,169,980	3%
Operating Loss	(26,960,950)	(26,805,027)	-1%
Nonoperating revenues (expenses):			
State apportionments - noncapital	17,596,897	15,619,779	13%
Local property taxes - noncapital	7,119,489	7,128,058	0%
Lottery and other revenue	1,766,361	1,581,959	12%
Investment income	203,014	133,765	52%
Other nonoperating revenues (expenses) - net	232,518	450,623	-48%
Total Nonoperating Revenues (Expenses)	26,918,279	24,914,184	8%
Loss Before Other Revenues, Expenses, Gains or Losses	(42,671)	(1,890,843)	98%
State apportionments - capital	76,258	26,184	100%
Apportionment and property taxes - capital	1,503,824	1,458,423	3%
Investment income - capital	587,332	543,034	8%
Interest expense - capital	(854,976)	(628,614)	36%
Amortization of deferred charges	(24,950)	(24,950)	0%
Gains (Losses) - disposal of capital assets	-	397,030	-100%
Increase (Decrease) in Net Assets	1,244,817	(119,736)	1140%
Net Assets - as Previously Reported	34,459,008	34,650,881	-1%
Prior-Period Adjustment	(357,799)	(72,137)	100%
Net Assets - as Restated	34,101,209	34,578,744	-1%
Net Assets - End of Year	$ 35,346,026	$ 34,459,008	3%

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 new 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 $1,135,315 in 2005-06 and $915,818 in 2006-07. The enrollment fee rate of $26 per semester unit in 2004-05 and 2005-06 decreased in 2006-07 mid-year to $20.



The one-time sale in 2005-06 of a student built house for $349,000 as part of a student enterprise project was the principal reason for the decrease in 2006-07 in auxiliary enterprise sales and charges.

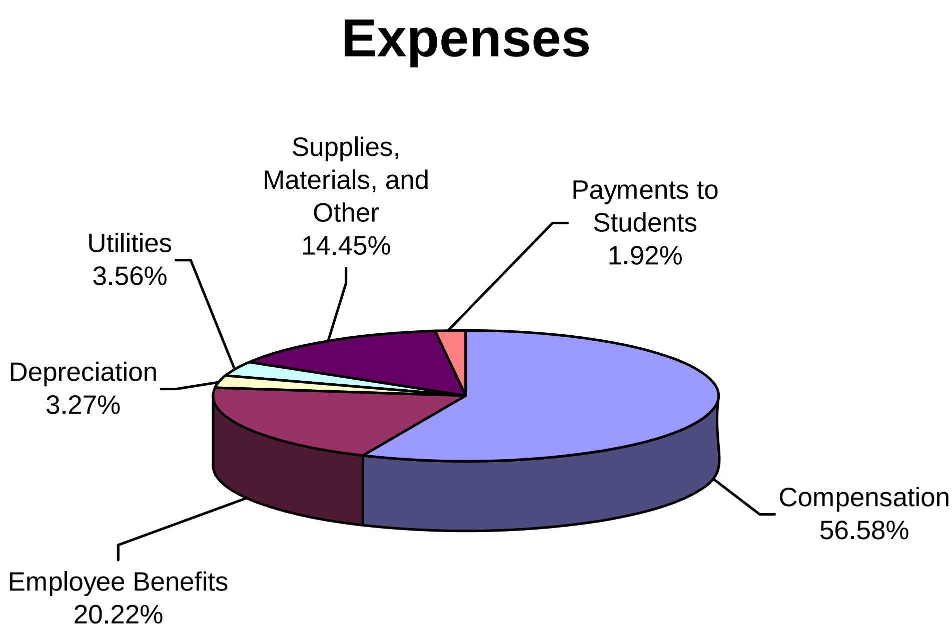
Gain on sale of capital assets in 2005-06 is made up of the sale of land and building that was no longer needed by the District. The proceeds from the sale exceeded the historical cost of the property by $397,030.

The prior-period adjustment for 2006-07 of $357,799 represents accrued interest on general obligation bonds outstanding as of June 30, 2006, and not recorded as of that date.

OPERATING EXPENSES (BY NATURAL CLASSIFICATION)

	2007	2006	Change
Compensation	$ 22,223,090	$ 21,384,457	4%
Employee benefits	7,943,042	7,589,208	5%
Supplies, materials, other operating expenses, and services	5,674,292	5,758,826	-1%
Utilities	1,399,056	1,419,955	-1%
Depreciation	1,283,130	1,249,209	3%
Payments to students	752,991	768,325	-2%
Total Operating Expenses	$ 39,275,601	$ 38,169,980	3%

As a percent of total operating expenses, individual expense components had only slight changes from 2005-06 to 2006-07.



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.

	2007	2006
Cash provided (used) by:		
Operating activities	$ (23,567,086)	$ (25,469,693)
Noncapital financing activities	26,970,359	24,782,641
Capital and related financing activities	(3,565,295)	(1,619,937)
Investment activities	776,420	588,761
Net Increase (Decrease) in Cash	614,398	(1,718,228)
Cash - Beginning of the Fiscal Year	19,677,784	21,396,012
Cash - End of the Fiscal Year	$ 20,292,182	$ 19,677,784

Cash receipts from operating activities consist primarily of grants, contracts and other designated revenues of $8,196,324, and tuition and fees of $2,975,611. Cash outlays included payments to or on behalf of employees of $29,579,802.

State apportionments of $17,596,897 and property taxes of $7,119,489 were primary sources of noncapital financing.

The purchase of capital assets was the main use of cash for capital and related financing activities.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The 2006-07 state budget benefited from stronger than expected personal income tax revenues in 2005-06. The state was able to provide increased funding for education, fully fund most other programs, prepay debt, and provide a substantial reserve. The 2007-08 state budget act provided continued funding for education and added to the reserve. 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 full growth and COLA allowances for community colleges for 2008-09.

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 2008. The District has applied for state funding for the construction of new facilities to replace buildings on the Eureka campus currently used for instruction, student support, and administrative functions.

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 2010-11.

The District has experienced declining enrollments from 2001-02 through 2006-07 with corresponding declines in state funding. Reserves declined during that period until 2006-07 when substantial reductions in expenditures produced an increase in reserves above the state recommended minimum. Enrollments and revenues are expected to be stable for 2007-08, maintaining or slightly increasing reserves.

FINANCIAL SECTION

Year Ended June 30, 2007	Primary Institution	Foundation
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,378,891	$ 2,250,282
Accounts receivable - net	3,989,127	294,420
Stores inventory	155,633	559,684
Prepaid expenses	88,469	10,955
Total Current Assets	10,612,120	3,115,341
NONCURRENT ASSETS		
Restricted cash and cash equivalents	13,913,291	-
Long-term investments	-	684,632
Deferred charges	447,021	-
Capital assets - net	41,192,356	10,406
Total Noncurrent Assets	55,552,668	695,038
Total Assets	$ 66,164,788	$ 3,810,379
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,086,914	$ 61,357
Accrued salaries and related benefits	317,522	-
Amounts held in trust for others	96,441	-
Deferred revenue	1,409,800	1,764
Other accrued liabilities	453,975	-
Current portion of long-term liabilities	524,000	-
Total Current Liabilities	4,888,652	63,121
NONCURRENT LIABILITIES		
Long-term liabilities	25,930,110	-
Total Liabilities	30,818,762	63,121
NET ASSETS		
Invested in capital assets - net of related debt	33,066,670	10,406
Restricted for:		
Nonexpendable	-	2,253,407
Expendable	2,400,957	779,790
Unrestricted	(121,601)	703,655
Total Net Assets	35,346,026	3,747,258
Total Liabilities and Net Assets	$ 66,164,788	$ 3,810,379

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2007	Primary Institution	Foundation
OPERATING REVENUES		
Tuition and fees (gross)	$ 4,236,048	$ -
Scholarship discounts and allowances	(1,260,437)	-
Net Tuition and Fees	2,975,611	-
Grants and contracts - noncapital:		
Federal	1,995,958	-
State	5,604,139	-
Local	596,227	-
Other operating payments	1,043,440	-
Auxiliary enterprise sales and charges	99,276	2,662,654
Total Operating Revenues	12,314,651	2,662,654
OPERATING EXPENSES		
Salaries	22,223,090	-
Employee benefits	7,943,042	-
Supplies, materials, and other operating expenses and services	5,674,292	3,251,717
Utilities	1,399,056	-
Depreciation	1,283,130	2,313
Payments to students	752,991	352,812
Total Operating Expenses	39,275,601	3,606,842
Operating Loss	(26,960,950)	(944,188)
NONOPERATING REVENUES (EXPENSES)		
State apportionments - noncapital	17,596,897	-
Local property taxes - noncapital	7,119,489	-
State taxes and other revenues	1,766,361	-
Investment income - noncapital	203,014	351,759
Financial aid revenues - federal	8,148,598	-
Financial aid revenues - state	546,346	-
Financial aid expenses	(8,851,320)	-
Other nonoperating revenues - grants/gifts - noncapital	388,894	865,314
Total Nonoperating Revenues (Expenses)	26,918,279	1,217,073
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(42,671)	272,885
State apportionments - capital	76,258	-
Local property taxes and revenues - capital	1,503,824	-
Investment income - capital	587,332	-
Interest expense - capital	(854,976)	-
Amortization of deferred charges	(24,950)	-
Increase in Net Assets	1,244,817	272,885
Net Assets - as Previously Reported	34,459,008	3,474,373
Prior-Period Adjustment	(357,799)	-
Net Assets - as Restated	34,101,209	3,474,373
Net Assets - End of Year	$ 35,346,026	$ 3,747,258

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

Year Ended June 30, 2007	Primary Institution	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 3,284,321	$ -
Federal grants and contracts	2,091,110	-
State grants and contracts	5,580,238	-
Local grants and contracts	620,015	-
Payments to suppliers	(6,009,838)	(3,279,244)
Payments to/on behalf of employees	(29,530,834)	-
Payments to/on behalf of students	(745,479)	(352,812)
Auxiliary enterprise sales and charges	-	2,684,412
Other receipts (payments)	1,143,381	-
Net Cash Used by Operating Activities	(23,567,086)	(947,644)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionment and receipts	19,570,554	-
Property taxes	7,167,287	-
Financial aid, scholarship, and loan trust receipts - federal	546,346	-
Financial aid, scholarship, and loan trust receipts - state	8,148,598	-
Financial aid, scholarship, and loan trust disbursements	(8,851,320)	-
Other receipts (payments)	388,894	1,993,598
Net Cash Provided by Noncapital Financing Activities	26,970,359	1,993,598
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State apportionments for capital purposes	76,258	-
Purchases of capital assets	(3,886,859)	-
Principal paid on capital debt	(355,000)	-
Interest paid on capital debt	(903,518)	-
Local property taxes and other revenues for capital	1,503,824	-
Net Cash Used by Capital and Related Financing Activities	(3,565,295)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	189,088	-
Proceeds from sales and maturities of investments	587,332	351,759
Net Cash Provided by Investing Activities	776,420	351,759
Net Increase in Cash and Cash Equivalents	614,398	1,397,713
Cash and Cash Equivalents Balance - Beginning of Period	19,677,784	852,569
Cash and Cash Equivalents Balance - End of Period	$ 20,292,182	$ 2,250,282

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

Year Ended June 30, 2007	Primary Institution	Foundation
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (26,960,950)	$ (944,188)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,283,130	2,313
Changes in assets and liabilities:		
Accounts receivables - net	130,777	21,758
Stores inventory	11,062	(21,860)
Prepaid expenses	(26,464)	(9,566)
Accounts payable	1,082,035	3,899
Deferred charges	24,950	-
Accrued salaries and benefits	36,979	-
Deferred revenue	273,637	-
Amounts held in trust for others	7,512	-
Compensated absences and postemployement benefits	598,319	-
Other liabilities	(28,073)	-
Net Cash Used by Operating Activities	$ (23,567,086)	$ (947,644)

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

1. ORGANIZATION AND NATURE OF ACTIVITIES

Definition of the Reporting Entity Redwoods Community College District (the District) is a political subdivision of the state of California and provides higher education in portions of four counties. The District consists of one community college with two educational centers and 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 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), for inclusion of the corporations as component units of the District. Accordingly, the financial activities of the component units have been included in the financial statements of the District.

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

Accountability The 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.

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 presentation 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 have been discretely presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Exceptions to the accrual basis of accounting are as follows:

> Summer session tuition and fees received before year end are recorded as deferred revenue as of June 30 with the revenue being recorded in the fiscal year in which the program is predominately conducted.
>
> The District 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's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments purchased with an original maturity of three months or less.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with *California 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 *California 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. Investments in the county pool are valued using the amortized cost method (which approximates fair value) and includes accrued interest. The value of the District's position in the pool is the fair value of the pool shares. The pool has deposits and investments with a weighted-average maturity of less than two years. As of June 30, 2007, the fair value of the county pool is 99.73% of the carrying value and is deemed not to represent a material difference. Information regarding the amount of dollars invested in derivatives with the county was not available. The county investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by *California Government Code*, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

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 $587,348 at June 30, 2007.

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 noncurrent assets, is classified as a noncurrent asset in the statement of net assets.

Deferred Charges Deferred charges are bond issuance costs and are deferred and amortized over the term of bonds using the straight-line method since the results are not significantly different from the effective interest method.

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. Land and construction in progress are considered nondepreciable capital assets; therefore, no depreciation is computed.

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.

Amounts Held in Trust for Others The District administers funds for certain college-related organizations. The liability represents the amount of funds held for these organizations.

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.

Bond Premium Bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

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, nonexpendable,* 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 nonoperating 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.

Nonoperating revenues include activities that have the characteristics of nonexchange 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

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 Governors Grants (BOGG) to qualified students, and these tuition waivers are reported as scholarship discounts and allowances.

Risk Management The District's property and liability coverage is self-insured through the Northern California Community Colleges Self Insurance Authority (NCCCSIA). The District retains the risk up to $1,000 per occurrence. The NCCCSIA retains the risk up to $50,000 on property and $100,000 on liability. Insurance above these levels are ceded to another joint power authority, Statewide Association of Community Colleges (SWACC), to a level of $250 million on property and $5 million on liability.

The District is also a member of the NCCCSIA for its workers' compensation coverage. Within NCCCSIA, the workers' compensation insurance program is self-insured with first dollar coverage through a joint power authority, Protected Insurance Program for Schools (PIPS).

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.

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, CASH EQUIVALENTS, AND INVESTMENTS

The following is a summary of cash, cash equivalents, and investments at June 30, 2007:

	Fair Value	
	District	**Foundation**
PETTY CASH/CASH AWAITING DEPOSIT	$ 3,270	$ 23,095
DEPOSITS (1)	1,283,059	341,922
INVESTMENTS THAT ARE NOT SECURITIES (2)		
County treasurer's investment pool	19,005,853	1,960,315
EQUITY SECURITIES	-	609,582
Total Cash, Cash Equivalents, and Investments	$ 20,292,182	$ 2,934,914

(1) ***Deposits*** The carrying amount of deposits includes checking accounts, savings accounts, nonnegotiable certificates of deposits, and money market accounts at financial institutions, if any.

(2) ***Investments That are Not Securities*** A "security" is a transferable financial instrument that evidences ownership or creditorship, whether in physical or book entry form. Investments that are not securities do not have custodial credit risk because they do not involve a transferable financial instrument. Thus, they are not categorized into custodial credit risk categories.

Custodial Credit Risk - Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District and Foundation do not have a deposit policy for custodial credit risk. As of June 30, 2007, the District's and the Foundation's bank balances were exposed to custodial credit risk as follows:

	District	**Foundation**
Uninsured and uncollateralized	$ 1,468,008	$ 92,551

Credit Risk – Investments

California Government Code, Section 53601 limits investments in commercial paper to "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by nationally recognized statistical rating organizations (NRSRO) and limits investments in medium-term notes to a rating of A or better. Individual securities must be backed by the federal government or rated AAA, AA, or A by Standard & Poor's or Aaa, Aa, or A Moody's indices. The District's and Foundation's investment policy established safety of principal as the primary investment objective. The District's and Foundation's investment in the county investment pool is unrated.

Interest Rate Risk - Investment

California Government Code, Section 53601 limits the District's investments to maturities of five years. The District's and Foundation's investment policies are to realize a reasonable interest yield, and investment decisions are executed with the intent that they will be held to maturity. The District's and Foundation's' investment in the county treasurer's investment pool has a maturity of less than two years.

4. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, consisted of the following at June 30, 2007:

	Primary Institution	Foundation
Federal grants and contracts	$ 847,279	$ -
State grants and contracts	417,357	-
Local grants and contracts	304,950	-
State apportionment noncapital	1,744,481	-
Local property taxes	166,330	-
Auxiliaries	-	294,420
Interest receivable	223,202	-
Tuition and fees	285,528	-
Total	$ 3,989,127	$ 294,420

5. CAPITAL ASSETS

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

	June 30, 2006	Additions	Deductions	Balance June 30, 2007
NONDEPRECIATED CAPITAL ASSETS				
Land	$ 1,807,500	$ -	$ -	$ 1,807,500
Construction in progress	1,259,796	3,231,698	35,055	4,456,439
DEPRECIATED CAPITAL ASSETS				
Site improvements	5,096,724	110,632	-	5,207,356
Buildings and improvements	47,803,745	313,540	-	48,117,285
Equipment	3,122,397	210,440	-	3,332,837
Vehicles	982,038	15,778	-	997,817
Library books and film	274,315	39,825	-	314,140
Total Capital Assets	60,346,515	3,921,920	35,055	64,233,374
LESS: ACCUMULATED DEPRECIATION	21,757,888	1,283,130	-	23,041,018
Total Capital Assets - Net	$ 38,588,627	$ 2,638,790	$ 35,055	$ 41,192,356

Foundation capital assets consist of $10,406 of bookstore equipment, net of accumulated depreciation.

6. LONG-TERM LIABILITIES

The long-term liability activity for the year ended June 30, 2007, is as follows:

	Balance July 1, 2006	Additions	Payments and Reductions	Balance July 30, 2007	Current Portion
General obligation bond	$ 18,000,000	$ -	$ 295,000	$ 17,705,000	$ 465,000
Unamortized bond premium	446,286	-	23,592	422,694	-
Capital leases	812,700	-	60,000	752,700	59,000
Compensated absences	676,364	11,989	-	688,353	-
Postemployment benefits	6,299,033	586,330	-	6,885,363	-
Total	$ 26,234,383	$ 598,319	$ 378,592	$ 26,454,110	$ 524,000

7. GENERAL OBLIGATION BOND

The general obligation bonded debt is as follows:

2005 Series A general obligation bond, due in annual installments of $295,000 to $2,290,000 beginning August 1, 2006, through August 1, 2029, at interest from 3.375% to 8.00%.	$ 17,705,000

The amount of interest cost incurred during the year ended June 30, 2007, was $837,084, all of which was charged to expenses.

The annual requirements to amortize the general obligation bond payable is as follows:

Year Ending June 30	**Principal**	**Interest**	**Total**
2008	$ 465,000	$ 816,518	$ 1,281,518
2009	485,000	778,518	1,263,518
2010	510,000	738,718	1,248,718
2011	530,000	697,118	1,227,118
2012	555,000	653,718	1,208,718
2013-2017	3,190,000	2,875,815	6,065,815
2018-2022	3,870,000	2,207,463	6,077,463
2023-2027	4,735,000	1,296,748	6,031,748
2028-2030	3,365,000	231,413	3,596,413
Totals	$ 17,705,000	$ 10,296,029	$ 28,001,029

On July 10, 2007, the District issued $15,000,000 of Proposition 39, Measure Q general obligation bonds. Interest on the bonds is payable annually at rates ranging from 5.00% to 6.00%. Principal maturities for the Series 2007 bonds aggregating $9,840,000 and ranging from $135,000 to $890,000 are due annually on August 1 through 2026. Series 2007 term bonds of $5,160,000 are due August 1, 2031.

8. CAPITAL LEASES

The District leases equipment valued at $1,592,100 under an agreement which provides for title to pass upon expiration of the lease period. The amount of interest cost incurred during the year ended June 30, 2007, was $41,483, all of which was charged to expenses. Future minimum lease payments are as follows:

	Lease Payments
2008	$ 97,433
2009	102,960
2010	97,891
2011	102,733
2012	101,861
2013-2017	458,011
Total	960,889
Less: Amount representing interest	208,189
Net Minimum Lease Payments	$ 752,700

9. EMPLOYEE RETIREMENT SYSTEMS

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing, multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS office, 7919 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 CalSTRS Board. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2007, 2006, and 2005, were $962,078, $921,506, and $944,032, respectively, and equal 100% of the required contributions for each year.

Other Information

Under CalSTRS 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 CalSTRS for early retirement incentives granted to terminated employees at June 30, 2007.

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 2006-07 was 9.124% 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, 2007, 2006, and 2005, were $669,881, $681,868, and $685,552, respectively, and equal 100% of the required contributions for each year.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described above, 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, 2007, 107 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 $548,305 in 2006-07.

The District has estimated the present value of the postemployment health care benefits liability as of June 30, 2007, to be $6,885,363. This estimate was computed as part of an actuarial valuation performed November 2006. Actuarial assumptions used to value the liability included an annual health care inflation factor of 3.0% and a discount rate of 5.0%.

11. COMMITMENTS AND CONTINGENCIES

Federal and State Allowances, Awards, and Grants

The District 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.

Operating Leases

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.

Construction Commitments

The District entered into one new contract after June 30, 2007. As of June 30, 2007, the District had construction encumbrances for two projects totaling $4,140,543. Since June 30, 2007, construction commitments have decreased to $1,071,342.

Other Contingencies

The California Division of the State Architect has informed the District that some of the District's buildings are located near active earthquake faults. The District has not yet determined its response to this information, and may choose to continue the use of the buildings or abandon them. Therefore, at June 30, 2007, no adjustment has been made to the value of capital assets. At June 30, 2007, the District's affected assets have a net book value of $2,759,416.

The District is involved in claims and other litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without any material adverse financial effects on the District.

The College is accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges (Commission). The Commission has placed the college on probationary status with four recommendations to bring the College into full compliance with the Commission's revised standards. With the improvement in the financial status of the District completed, the remaining issues deal primarily with program reviews and planning. The District believes that its efforts this fiscal year have produced significant progress in addressing the Commission's remaining concerns. When the Commission meets in January 2008, it can reaffirm the College's accreditation, request that the College continue to make progress with appropriate oversight, or ask the College to show cause for not withdrawing accreditation. Management expects that the Commission will require that the College continue to show progress with appropriate oversight.

12. 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 (JPA) 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). The NCSMIG was created to provide self-insurance programs.

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.

The JPAs are independently accountable for their fiscal matters, and thus, are not component units of the District for financial reporting purposes. The JPAs' financial information for the year ended June 30, 2007, was not available for this report. Condensed audited financial information for SELF, NCCCSIA, and NCSMIG for the year ended June 30, 2006, are as follows:

	SELF	NCCCSIA	NCSMIG
Total assets	$ 219,228,961	$ 10,744,510	$ 11,312,533
Total liabilities	191,182,670	4,449,199	2,506,418
Net Assets	$ 28,046,291	$ 6,295,311	$ 8,806,115
Total revenues	$ 63,688,772	$ 7,662,603	$ 24,855,227
Total expenditures	38,865,579	7,176,360	24,869,650
Change in Net Assets	$ 24,823,193	$ 486,243	$ (14,423)

13. PRIOR-PERIOD ADJUSTMENT

Net assets, at June 30, 2006, has been decreased by $357,799 to account for accrued interest on the Measure Q bond that was inadvertently omitted from the statement of net assets. This adjustment has no effect on revenue or expenses during the 2006-07 fiscal year.

SUPPLEMENTAL INFORMATION SECTION

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.

The District provides higher education instruction for the first and second years of college education and vocational training at Arcata Instructional Site, Del Norte Campus, Eureka Campus, Eureka Downtown Instructional Site, Klamath-Trinity Instructional Site, and Mendocino Coast Campus.

GOVERNING BOARD

Name	Office	Term Expires
Milton Dobkin	President	2007
Dr. John E. Burke	Vice President	2007
George Truett	Clerk	2009
Yvonne Gower	Member	2007
Thomas Ross	Member	2009
Will Smith	Member	2009
Bruce Emad	Member	2007
Tracy Coppini	Member	2009
Rick Bennett	Member	2010

DISTRICT ADMINISTRATION

Jeffrey Bobbitt
Acting President/Superintendent

Sydney Fisher-Larson
Acting Senior Vice President

Abe Ali
Vice President, Chief Human Resources/Equal Employment Officer

Keith Snow-Flamer
Vice President, Chief Student Services Officer

Scott Thomason
Vice President, Chief Business Officer

COLLEGE ADMINISTRATION

Raymond R. Geary
Acting Campus Vice President, Del Norte

Judit L. Kvinsland
Campus Vice President, Mendocino

The full-time equivalent resident students eligible for 2006-07 state apportionment reported to the State of California as of June 30, 2007, are summarized below:

	Annual Report
Summer intersession	180.78
Census weekly procedure classes	3,633.13
Census daily procedure classes	113.40
Independent study and work experience classes	118.96
Actual hours of positive attendance classes	435.30
Total	4,481.57

SUPPLEMENTAL INFORMATION (Subset of above information)	
BASIC SKILLS COURSES AND IMMIGRANT EDUCATION	
Noncredit	2.89
Credit	343.37

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION		
Pell grant	84.063	$ 4,934,333
College work study	84.033	199,166
Supplemental education opportunity grants	84.007	205,978
Upward bound program	84.047	488,382
Student support services	84.042	296,353
Total U.S. Department of Education		6,124,212
FEDERAL AWARDS PASSED THROUGH OTHER AGENCIES		
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed Through Chancellor's Office		
Americorps	94.006	202,937
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Humboldt County Office of Education		
Forest reserve	10.665	106,400
U.S. DEPARTMENT OF EDUCATION		
Passed Through California Department of Education		
Vocational and Applied Technology Education Act -Title IC - basic grants	84.051	24,796
Vocational and Applied Technology Education Act -Title II - tech prep education	84.243	265,752
Higher Education Institutional Aid	84.031	300,807
Total U.S. Department of Education		591,355
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed Through Chancellor's Office		
Temporary assistance to needy families	93.558	58,355
U.S. DEPARTMENT OF THE INTERIOR		
Passed Through Various Tribes		
Bureau of Indian Affairs	15.124	38,997
U.S. DEPARTMENT OF LABOR		
Passed Through County of Humboldt		
Work Force Investment Act	17.259	34,969
Total Federal Programs		$ 7,157,225

See the accompanying notes to the supplemental information.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

June 30, 2007

Redwoods Community College District

	Program Entitlements			Program Revenues				
	Current Year	Prior-Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue	Total	Program Expenditures
CATEGORICAL APPORTIONMENTS								
Board financial assistance	$ 292,492	$ 53,017	$ 345,509	$ 345,509	$ -	$ -	$ 345,509	$ 345,509
Calworks	256,847	-	256,847	284,847	-	42,861	241,986	241,986
Cooperative agency resource education	152,723	19,411	172,134	172,134	-	39,904	132,230	132,230
Disabled students programs and services	1,093,475	-	1,093,475	1,093,475	-	-	1,093,475	1,093,475
Economic development	154,165	-	154,165	129,697	24,666	-	154,363	154,363
Extended opportunity programs and services	959,563	22,914	982,477	982,477	-	36,148	946,329	946,329
Faculty and staff diversity	10,801	12,366	23,167	23,167	-	7,907	15,260	15,260
Instructional equipment	100,000	-	100,000	100,000	-	100,000	-	-
Matriculation	329,396	-	329,396	329,396	-	-	329,396	329,396
Staff development	22,290	-	22,290	22,290	-	-	22,290	22,290
Telecommunications and technology	46,958	31,115	78,073	78,073	-	30,119	47,954	47,954
Subtotal	3,418,710	138,823	3,557,533	3,561,065	24,666	256,939	3,328,792	3,328,792
CATEGORICAL PROGRAM ALLOWANCES								
Cal grant	546,346	(93)	546,253	541,489	4,857	93	546,253	546,253
Cal-SOAP	500,526	18,504	519,030	420,188	126,465	-	546,653	543,042
CA conservation corp	2,000	-	2,000	2,000	-	-	2,000	2,000
CCC live caption	-	1,140	1,140	1,140	-	1,140	-	-
Child care	306,778	-	306,778	303,907	5,861	-	309,768	309,768
Economic development - associate degree	190,262	-	190,262	190,262	-	124,917	65,345	65,345
Economic development - north/far north regional consortium	13,000	-	13,000	9,343	588	-	9,931	9,931
Education financing foundation	79,200	59,200	138,400	134,200	-	93,820	40,380	40,380
Foster parent training	197,402	-	197,402	120,292	67,777	-	188,069	188,069
State block grant	-	198	198	198	-	-	198	198
Block- Scheduled Maintenance	100,000	-	100,000	100,000	-	100,000	-	-
Block- Basic Skill	109,573	-	109,573	109,573	-	40,218	69,355	69,355
Block- Career Tech. Equipment	177,375	-	177,375	177,375	-	1,598	175,777	175,777
Economic Development-REBRAC	-	2,341	2,341	2,341	-	-	2,341	2,341
State Block- Scheduled Maintenance	209,393	-	209,393	209,393	-	-	209,393	209,393
Instructional materials	209,393	-	209,393	209,393	-	9,284	200,109	200,109
Maintenance allowance	-	1,006	1,006	1,007	-	-	1,007	1,006
Transfer and articulation	5,000	-	5,000	5,000	-	-	5,000	5,000
Subtotal	2,646,248	82,296	2,728,544	2,537,101	205,548	371,070	2,371,579	2,367,967
Total State Programs	$ 6,064,958	$ 221,119	$ 6,286,077	$ 6,098,166	$ 230,214	$ 628,009	$ 5,700,371	$ 5,696,759

See the accompanying notes to the supplemental information.

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

June 30, 2007

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 Statement Nos. 34 and 35.

1. PURPOSE OF SCHEDULES

Schedule of Workload Measures for State General Apportionments

Full-time equivalent students (FTES) 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 SECTION

Certified Public Accountants

matson and isom

Founded in 1962 by
Robert M. Matson
and W. Howard Isom

Chico
3013 Ceres Avenue
P.O. Box 1638
Chico, CA 95927-1638
Phone (530) 891-6474
Fax (530) 893-6689

Redding
1255 East Street, Suite 202
P.O. Box 991891
Redding, CA 96099-1891
Phone (530) 244-4980
Fax (530) 244-4983

www.matson-isom.com

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*

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

We have audited the financial statements of Redwoods Community College District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, 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 controls.

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 controls.

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

INDEPENDENT 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*
Continued

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, 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

December 7, 2007

Certified Public Accountants

matson and isom

Founded in 1962 by
Robert M. Matson
and W. Howard Isom

Chico
3013 Ceres Avenue
P.O. Box 1638
Chico, CA 95927-1638
Phone (530) 891-6474
Fax (530) 893-6689

Redding
1255 East Street, Suite 202
P.O. Box 991891
Redding, CA 96099-1891
Phone (530) 244-4980
Fax (530) 244-4983

www.matson-isom.com

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

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

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, 2007. 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 occurred with the types of compliance requirements referred to above, which could have a direct and material effect on a major federal program. 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, 2007.

Internal Control Over Compliance

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

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
Continued

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 District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the 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 controls 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.

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

December 7, 2007

Certified Public Accountants

matson and isom

Founded in 1962 by
Robert M. Matson
and W. Howard Isom

Chico
3013 Ceres Avenue
P.O. Box 1638
Chico, CA 95927-1638
Phone (530) 891-6474
Fax (530) 893-6689

Redding
1255 East Street, Suite 202
P.O. Box 991891
Redding, CA 96099-1891
Phone (530) 244-4980
Fax (530) 244-4983

www.matson-isom.com

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the financial statements of the Redwoods Community College District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2007. 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: 50% LAW
APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS
STATE GENERAL APPORTIONMENT FUNDING SYSTEM
RESIDENCY DETERMINATION FOR CREDIT COURSES
STUDENTS ACTIVELY ENROLLED
CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES
USES OF MATRICULATION FUNDS
GANN LIMIT CALCULATION
ENROLLMENT FEE
CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS)
SCHEDULED MAINTENANCE PROGRAM
OPEN ENROLLMENT
MINIMUM CONDITIONS - "STANDARDS OF SCHOLARSHIP"
STUDENT FEES - INSTRUCTIONAL MATERIALS FEES AND HEALTH FEES

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.

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

December 7, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS SECTION

SECTION I
SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be 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
CFDA No. 84.031	Higher Education Institutional Aid
Threshold for distinguishing types A and B programs	$300,000
Determined to be a low-risk auditee?	Yes

STATE AWARDS

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

SECTION II FINDINGS
FINANCIAL STATEMENT AUDIT

None.

SECTION III FINDINGS
FEDERAL AWARDS AUDIT

None.

SECTION IV FINDINGS
STATE AWARDS AUDIT

None.

Not applicable. There are no current year findings related to federal awards.

STATE COMPLIANCE (Standards of Scholarship)
06-01

Significant Deficiency

Condition

The District did not include in its catalog information pertaining to: (1) repetition of courses for students to meet a legally mandated training requirement as a condition of continued paid or volunteer employment; (2) challenge of a grade that a student believes was given due to mistake, fraud, bad faith, or incompetence; and (3) limitations on repetition of remedial coursework.

Criteria

As a minimum standard to receive state aid, each district must adopt regulations consistent with Minimum Conditions – Standards of Scholarship, contained in *California Code of Regulations (CCR)*, Title 5, and publish statements of those regulations under appropriate headings in their catalogs. (*California Education Code* Section 70901 (b)(6) and 76232; *CCR*, Title 5, Sections 51000, 51002, 55750-55765, and 58161; Legal Advisory 04-01).

Effect

The District is not in compliance with state requirements to publish its statements of regulations in its catalog.

Recommendation

We recommend that the District add statements of its policies to its catalog.

Response

The District will include in its 2007-2008 catalog, under Academic Regulations, the following:

<u>Course Repetition in Special Circumstances</u>

Repetition shall be permitted, without petition, in instances when such repetition is necessary for a student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment. (*California Administrative Code* title 5, § 55763).

<u>Grade Challenges</u>

The grade recorded for a student in any course is determined by the faculty member; and in the absence of error, fraud, bad faith, or incompetence, is considered final. A student who believes that a grade has been assigned on the basis of error, fraud, bad faith, or incompetence may appeal that grade to the faculty member who assigned it and then, if necessary, to the appropriate academic dean or campus vice president. The decision of the dean or campus vice president may be appealed by the student or the faculty member to the Board of Trustees. (In accordance with *California Administrative Code* title 5, § 55760).

Remedial Course Work Limitation

A student's need for remedial coursework shall be determined using appropriate assessment instruments, methods, or procedures administered pursuant to subchapter 6 (commencing with section 55500) of chapter 6. However, except as provided in subdivision (c) of this section, no student shall receive more than 30 semester units (or 45 quarter units) of credit for remedial coursework. Students having exhausted the unit limitation shall be referred to appropriate adult noncredit education services provided by a college, adult school, community-based organization, or other appropriate local provider with which the District has an established referral agreement.

The following students are exempted from the limitation on remedial coursework described in subdivision (b) of this section: (1) Students enrolled in one or more courses of English as a Second Language (ESL), and (2) Students identified by the District as having a learning disability as defined in section 56036. (In accordance with *California Administrative Code* title 5, § 55756.5).

Resolution

In reviewing this matter for compliance in the 2006-07 audit, the District has included all of the above in its 2007-2008 catalog.

STATE COMPLIANCE (Noncredit Courses)

06-02

Significant Deficiency

Condition

The District did not complete the required self-assessment forms for the 2003-04 noncredit courses in accordance with the prescribed time frames.

Criteria

Self-assessment forms for noncredit courses are required to be completed (*California Education Code*, Section 70901; *CCR* Title 5, Sections 55002(b); and *Legal Advisory* 05-03). These forms for the 2003-04 year were required to be completed by April 2005.

Effect

Without completing the self-assessment forms in a timely manner, noncredit course apportionment may not be accurate.

Recommendation

We recommend that the District establish procedures to ensure that the self-assessment forms are completed within the required time frames.

Response

The District believes that it has completed the required self-assessment forms but is temporarily unable to locate copies kept on file at the District. If copies cannot be located within a relatively short time period, the District will recreate the forms and ensure that they are maintained on file and are available to ensure compliance with this requirement.

Resolution

There has been a change in academic affairs personnel, therefore, the current status of this issue is not known. The new personnel will make every effort to resolve this issue. As the District only claims 2.93 FTES for non-credit courses, a current year finding is not deemed necessary.

STATE COMPLIANCE (Required Data Elements)

06-03

Significant Deficiency

Condition

The District was unable to provide census rosters for 2 of the 25 classes selected for testing due to the failure of instructors to turn in rosters within the required time frames to the Admissions and Records Office.

Criteria

The District is required to have available timely, accurate, and complete information that verifies each district's workload measures as defined (*CCR*, Title 5, Sections 58020-58024).

Effect

The District is at risk of potentially misstating state apportionment funds claimed on students actively enrolled and of causing instances of noncompliance with federal regulations for student financial aid assistance programs. In addition, the failure of instructors to return census rosters creates significant reporting difficulties.

Recommendation

The District should improve its procedures to assure that census rosters are collected from each instructor on a timely basis.

Response

The District has reviewed its procedures for tracking and verifying that census rosters are collected from each instructor and are properly filed in the Admissions and Records Office. The District believes that recent improvements in this process will ensure that no rosters are missing in the future. The District is also in the process of determining which rosters were unable to be located in the recent review and ensuring that they are found and properly filed.

Resolution

All census rosters requested during the 2006-07 audit were provided. The District resolved this issue through improved communication between the Admissions and Records Office and faculty.

STATE COMPLIANCE (Salaries of Classroom Instructors)

06-04

Significant Deficiency

Condition

The results of the District's calculations under *California Education Code* Section 84362, commonly known as the 50 percent law, indicated a failure to meet the minimum requirements of expending 50% of the current expense of education on Salaries of Classroom Instructors.

Criteria

California Education Code Section 84362 requires that each District's current expense of education be expended during each fiscal year for Salaries of Classroom Instructors, as prescribed in the *California Code of Regulations*.

Effect

The District is at risk of losing funding if it to falls below the requirements established by *California Education Code* Section 84362.

Recommendation

The District should apply for a waiver of the 50% requirement from the California Community College Board of Governors or make up the deficiency within the next two years.

Response

The District met the 50% requirement in the current fiscal year.