

**SONOMA COUNTY
JUNIOR COLLEGE DISTRICT
SANTA ROSA, CALIFORNIA
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2012**

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

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SONOMA COUNTY JUNIOR COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2012

DESCRIPTION OF DISTRICT

The Sonoma County Junior College District (the District) was established in 1918 with the founding of Santa Rosa Junior College. The District operates a campus in the City of Santa Rosa, a campus in the City of Petaluma, a criminal justice training center in the Town of Windsor, and classes at numerous other locations throughout the District. The District is comprised of an area of approximately 1,600 square miles. There were no changes in the boundaries of the District during the current year.

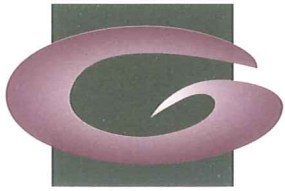
BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Terry W. Lindley	President	2012
Jeff Kunde	Vice President	2014
Don Edgar	Clerk	2012
B. Robert Burdo	Member	2014
Richard W. Call	Member	2012
Onita Pellegrini	Member	2012
Don Zumwalt	Member	2014
Michelle Dowling	Student Member	2013

ADMINISTRATION

Dr. Frank Chong Superintendent/President
Mary Kay Rudolph Vice President of Academic Affairs/Assistant Superintendent
Doug Roberts Vice President of Business Services
Ricardo D. Navarrette Vice President of Student Services/Assistant Superintendent
Jane Saldaña-Talley Vice President, Petaluma Campus

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**Members of the Board of Trustees
Sonoma County Junior College District
Santa Rosa, California**

We have audited the accompanying financial statements of the business-type activities, discretely presented component unit, and remaining fund information of the Sonoma County Junior College District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 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, discretely presented component unit and remaining fund information of the Sonoma County Junior College District, as of June 30, 2012, and the respective changes in financial position and, where applicable, 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 October 31, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the Schedule of Funding Progress for Other Postemployment Benefits, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the

**Members of the Board of Trustees
Sonoma County Junior College District
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United States of America, which consisted of inquiries of management about methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information Section, as listed in the Table of Contents, is presented for purposes of additional analysis, and is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office, and is not a required part of the financial statements. The Supplementary Information Section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

October 31, 2012

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Sonoma County Junior College District (the District) for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

The District was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during the fiscal year 2002-03. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the Business Type Activity (BTA) model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements. Under the BTA model of financial reporting, a single entity-wide statement is required to report financial activity for all funds of the District.

Sonoma County Junior College District is a public two-year community college, which serves approximately 28,260 students. The District has two campuses, located in Santa Rosa and Petaluma, California and two centers, a Public Safety Training Center located in Windsor, California and the Robert Shone Agricultural Center located in Forestville, California. Students may choose from 106 associate degree majors and 164 certificate programs, complete courses toward the first two years of a bachelor's degree program, or pursue courses for other professional or personal reasons.

Reporting Highlights

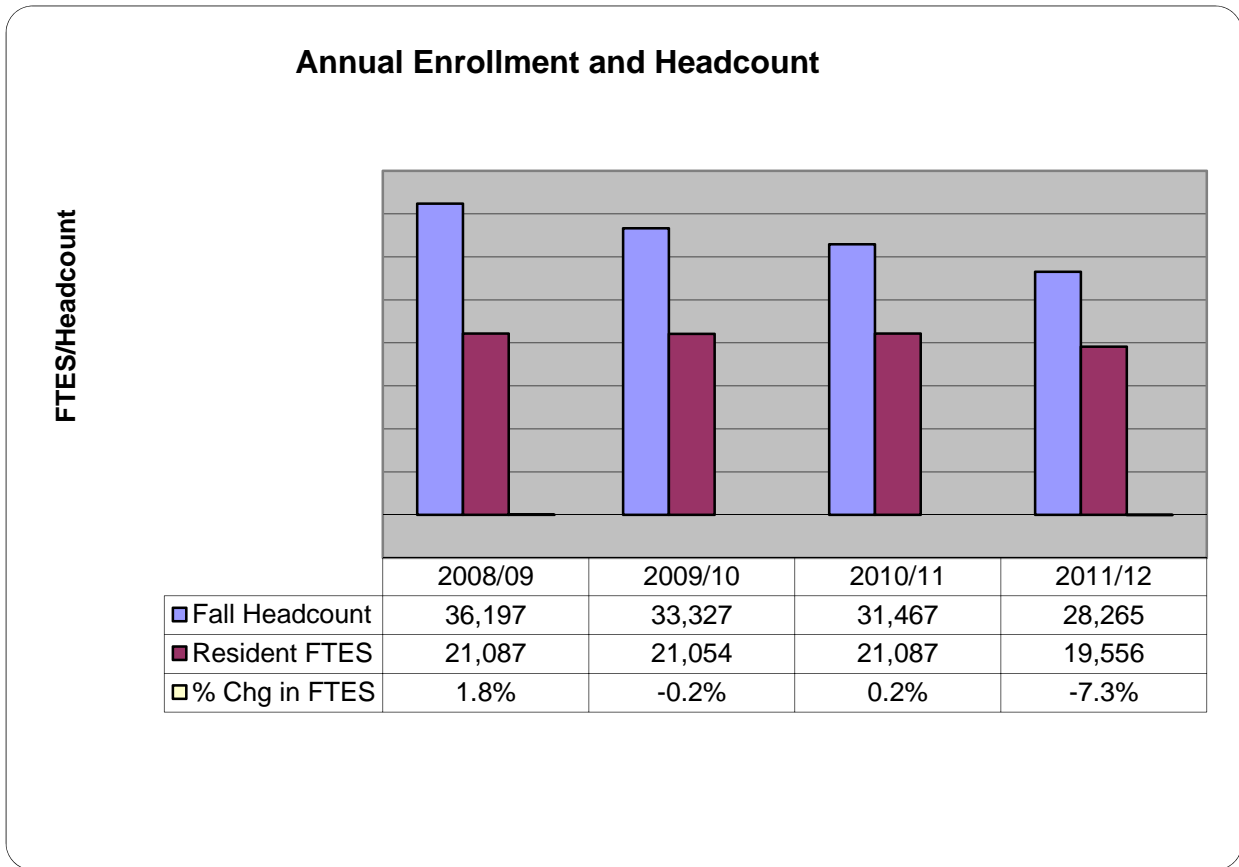
- ☐ The annual report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The information provided on the statements that follow includes all funds and the Bookstore, but excludes the fiduciary funds that are reported separately. The following information is provided to assist with the understanding of the financial statements and the financial position of the District. Each statement is presented in a consolidated format and will be discussed separately.
- ☐ Per GASB 39, the financial statements of the Sonoma County Junior College Foundation are also included under this cover as a discretely presented component unit as well as presented under separate cover in greater detail.
- ☐ The District maintains fiduciary funds to account for assets held by the District as an agent on behalf of others. The District's fiduciary funds are the Student Representation Fee and Associated Students, both reported as agency funds.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Financial and Attendance Highlights

Beginning in 2005-06 and extending through 2008-09, the District experienced a four-year, 8% increase in the number of FTES it served. However, beginning in 2009-10, and as a result of the economic crisis, the State began imposing a series of “workload reductions” on the community college system (i.e., reductions in the number of FTES that the State would fund). By 2011-12, the State has reduced the District’s funded FTES by roughly 12%. The District responded to each funded FTES reduction by reducing course offerings. However, the reduction actually achieved has been less than planned due to an increased demand for community college courses caused by unemployment, and the restrictions placed on incoming freshmen by the UC and the CSU systems. As “empty classroom seats” have become an increasing rarity, the District has been annually serving unfunded FTES. For 2011-12, that unfunded total amounted to roughly 650 FTES.



Notes:

1) FTES = full-time equated students; 1 FTES = 525 lecture hours of instruction.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

- ☐ In 2011/12, during the tenth year of implementation of its \$251.7 million General Obligation Bond program (Measure A), the District completed numerous maintenance projects and was near completion of the construction of and equipment purchases for the B. Robert Burdo Culinary Arts Center. The District issued the 2002 General Obligation Bonds, Series A, in the amount of \$60 million on February 4, 2003 and the 2002 General Obligation Bonds, Series B, in the amount of \$105 million on October 13, 2005. The 2002 General Obligation Bonds, Series C in the amount of \$69.71 million were issued on September 17, 2007 and the 2002 General Obligation Bonds, Series D in the amount of \$16.99 million were issued on April 2, 2008. The remaining major construction project at the end of 2011/12 is the B. Robert Burdo Culinary Arts Center. The Series D bond issue is being invested in tax free municipals to address longer term technology needs of the District. While many of the infrastructure and technology needs of the District have been met with this bond, there are still numerous upgrades, buildings, and other projects that are still necessary and will need to be addressed in future years.
- ☐ The District's cash is invested in the Sonoma County Pooled Investment Fund, administered by the County Treasurer. The interest rate (after fees) for the quarter ending June 30, 2012 was 0.874% compared to 0.567% for the June 30, 2011 quarter.

Financial Aid

For the years ended June 30, 2012 and 2011, the following sources of student financial aid and scholarships were disbursed:

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Federal	\$ 20,510,430	\$ 20,420,175	\$ 90,255	0.44%
State	655,269	719,239	(63,970)	-8.89%
Local	<u>108,123</u>	<u>297,784</u>	<u>(189,661)</u>	<u>-63.69%</u>
TOTAL	<u>\$ 21,273,822</u>	<u>\$ 21,437,198</u>	<u>\$ (163,376)</u>	<u>-0.76%</u>

The local funds were raised from the "Bridging the Doyle" campaign that the District established beginning Fall, 2009 to provide student scholarships during the suspension of Doyle Trust distributions. The Doyle scholarship funds are derived from the Frank P. Doyle and Polly O'Meara Doyle Trust. Just over fifty percent of the annual dividends generated from the common stock in Exchange Bank are distributed to the Doyle Trust, which then distributes the funds to the District for scholarships to assist students attending Santa Rosa Junior College. Two scholarship programs are provided with Doyle funds: The Doyle Scholarship and the Doyle Occupational Education Award. Award amounts range from \$1,000 to \$1,600 per academic year. In 2008/09, there was a suspension of Exchange Bank stock dividends beginning with the third quarter of 2008 and dividends have not yet resumed, although in August 2012, Exchange Bank announced publicly that dividends would resume starting third quarter, 2012. In 2011-12, a total of 245 Bridging the Doyle scholarships in the amount of \$500 were awarded to students.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

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>2012</u>	<u>2011</u>	<u>Change</u>
ASSETS			
Current assets	\$ 59,825,904	\$ 67,305,881	\$ (7,479,977)
Non-current assets	<u>363,175,874</u>	<u>367,703,082</u>	<u>(4,527,208)</u>
TOTAL ASSETS	<u>\$ 423,001,778</u>	<u>\$ 435,008,963</u>	<u>\$ (12,007,185)</u>
LIABILITIES			
Current liabilities	\$ 24,898,063	\$ 26,240,222	\$ (1,342,159)
Non-current liabilities	<u>213,024,290</u>	<u>219,139,166</u>	<u>(6,114,876)</u>
TOTAL LIABILITIES	<u>237,922,353</u>	<u>245,379,388</u>	<u>(7,457,035)</u>
NET ASSETS			
Invested in capital assets, net of related debt	126,618,396	128,104,008	(1,485,612)
Restricted	50,667,837	49,371,020	1,296,817
Unrestricted	<u>7,793,192</u>	<u>12,154,547</u>	<u>(4,361,355)</u>
TOTAL NET ASSETS	<u>185,079,425</u>	<u>189,629,575</u>	<u>(4,550,150)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 423,001,778</u>	<u>\$ 435,008,963</u>	<u>\$ (12,007,185)</u>

Current assets at June 30, 2012 consist of:

- ☐ Current cash and cash equivalents, mainly held at the county treasury, total \$21.88 million.
- ☐ Restricted cash and cash equivalents includes cash in the Bond Fund that is held for repayment of the general obligation bonds (\$42.6 million).
- ☐ Deposits held in escrow contains cash held with trustee for major construction projects that have not been completed.
- ☐ Accounts receivable includes amounts due from State, Federal and local grants, contracts, and general apportionment earned, but not received, by year-end. Accounts receivable increased \$608 thousand over prior year, mainly due to timing in apportionment payments.
- ☐ Inventory consists primarily of Bookstore inventory of approximately \$588 thousand.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Non-current assets are:

- ☐ Restricted cash and cash equivalents consists of tax revenues collected by the county for payment of principal and interest in future years.
- ☐ Restricted investments are funds from the General Obligation Bond, Series D issue that are invested with Bond Logistix.
- ☐ Capital assets are reported at historical cost of land, buildings, and equipment less accumulated depreciation, where applicable. The footnotes to the financial statements contain detailed information for capital assets.

Current liabilities consist of:

- ☐ Accounts payable consists mainly of amounts due to vendors (\$3.4 million) and employees (\$2.1 million). Accounts payable decreased by \$473 thousand over prior year, mostly due to a change in the timing of payments to vendors.
- ☐ Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are earned when expended (up to the grant amount awarded). Also included are deferred enrollment fees for the Summer and Fall 2012 semesters (\$836 thousand).

Non-current liabilities are:

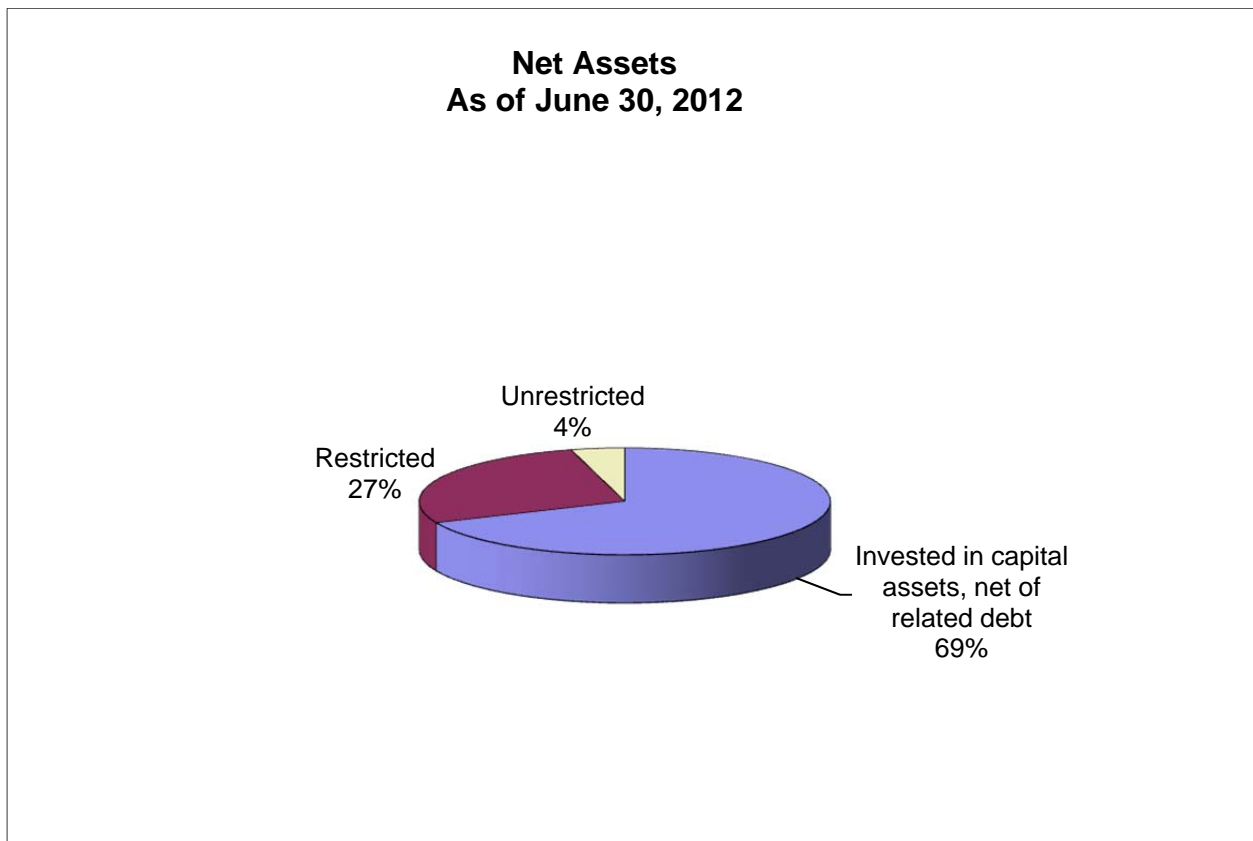
- ☐ Noncurrent liabilities represent debt to be paid in one year or later. The major component of the non-current portion is long-term debt (\$211.5 million). Detailed information regarding the District's long-term debt can be found in the footnotes to the financial statements.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Analysis of the District's Financial Position

Net assets, the difference between the District's assets and liabilities, are an indicator of the District's financial position. Net Assets are reported in three components: Invested in Capital Assets, Net of Related Debt, Restricted and Unrestricted. Invested in Capital Assets, Net of Related Debt, (\$126.6 million) consists of capital assets net of accumulated depreciation, less outstanding capital debt net of unspent proceeds. Restricted Net Assets include amounts legally restricted for payment of debt service (\$42.6 million). Unrestricted Net Assets (\$7.8 million) represents resources with no external restrictions, but which may be designated by the Board of Trustees for contingencies and other special purposes. Unrestricted Net Assets represents 4% of the Total Net Assets at June 30, 2012.



SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

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>2012</u>	<u>2011</u>	<u>Change</u>
Total operating revenues	\$ 53,985,441	\$ 53,148,116	\$ 837,325
Total operating expenses	<u>148,580,617</u>	<u>152,370,135</u>	<u>(3,789,518)</u>
Operating income (loss)	(94,595,176)	(99,222,019)	4,626,843
Total non-operating revenues	74,996,876	85,534,896	(10,538,020)
Income (loss) before other revenues, expenses, gains or losses	(19,598,300)	(13,687,123)	(5,911,177)
Capital revenues	15,048,150	15,088,409	(40,259)
Increase (decrease) in net assets	<u>(4,550,150)</u>	<u>1,401,286</u>	<u>(5,951,436)</u>
Net Assets - Beginning of year	189,629,575	188,228,289	1,401,286
Net Assets - End of year	<u>\$ 185,079,425</u>	<u>\$ 189,629,575</u>	<u>\$ (4,550,150)</u>

Changes in operating revenues:

- ☐ Net tuition and fees increased to \$13.4 million. Enrollment fees are set by the state legislature for all community colleges, which was \$36 a unit in 2011/12.
- ☐ Auxiliary enterprise sales and charges are primarily Bookstore sales (\$6.4 million) and Farm sales (\$396 thousand). Bookstore sales decreased by \$800 thousand from prior year, while Farm sales decreased by \$30 thousand.

Changes in non-operating revenues:

- ☐ State apportionment represents total state general revenue earned less property taxes and enrollment fees. State apportionments, non-capital, represent \$42.6 million of the non-operating revenues and property taxes are \$39.9 million. State apportionment decreased by \$9.4 million from prior year and property tax revenue increased by \$1.6 million.
- ☐ Investment income – non-capital is a gain of \$290 thousand after adjusting the cash and investments to fair market value as required by GASB 31.

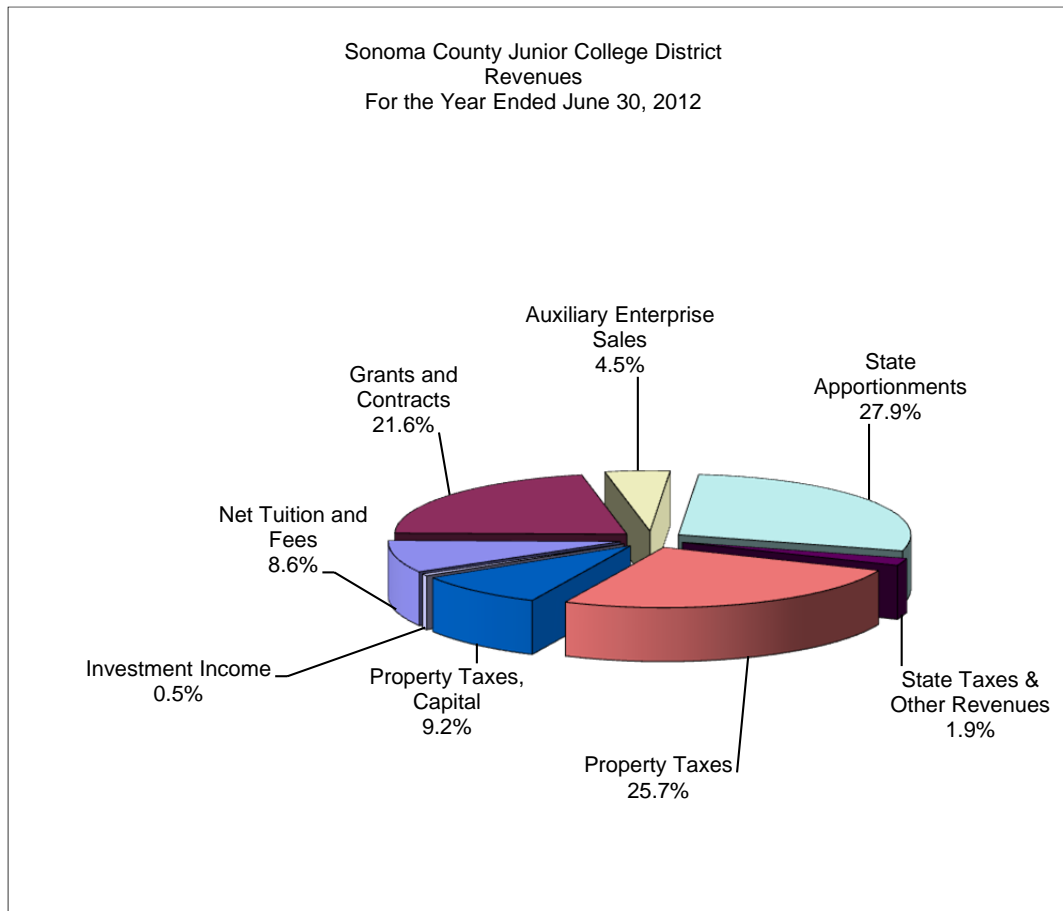
SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Revenues

For the Year Ended June 30, 2012

Net Tuition and Fees	\$	13,375,519
Grants and Contracts		33,598,190
Auxiliary Enterprise Sales		7,011,732
State Apportionments		43,419,583
State Taxes & Other Revenues		3,013,496
Property Taxes		39,931,564
Property Taxes, Capital		14,312,796
Investment Income		<u>823,014</u>
Total Revenues	\$	<u>155,485,894</u>



SONOMA COUNTY JUNIOR COLLEGE DISTRICT

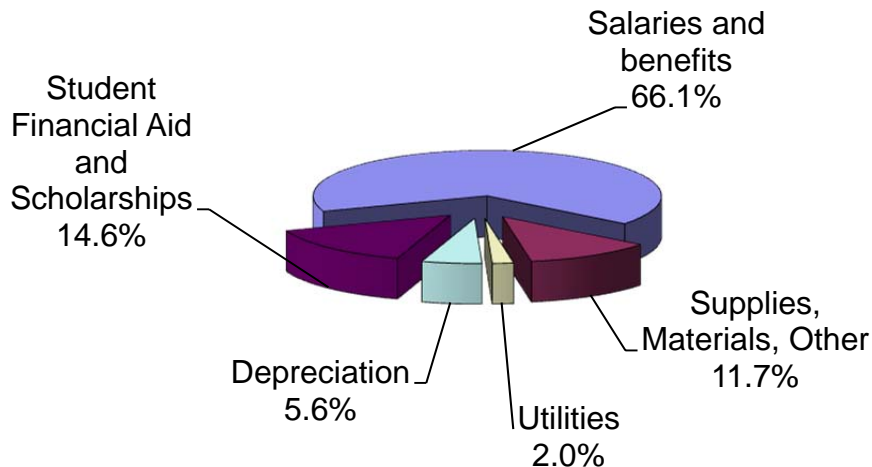
MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Operating Expenses (By natural classification)

For the Year Ended June 30, 2012

Salaries	\$	75,779,837
Employee Benefits		22,416,642
Supplies and Materials		4,144,232
Other Operating Expenses and Services		13,427,683
Utilities		2,920,115
Depreciation		8,260,261
Student Financial Aid and Scholarships		<u>21,631,847</u>
Total Operating Expenses	\$	<u>148,580,617</u>

Sonoma County Junior College District Expenses For the Year Ended June 30, 2012



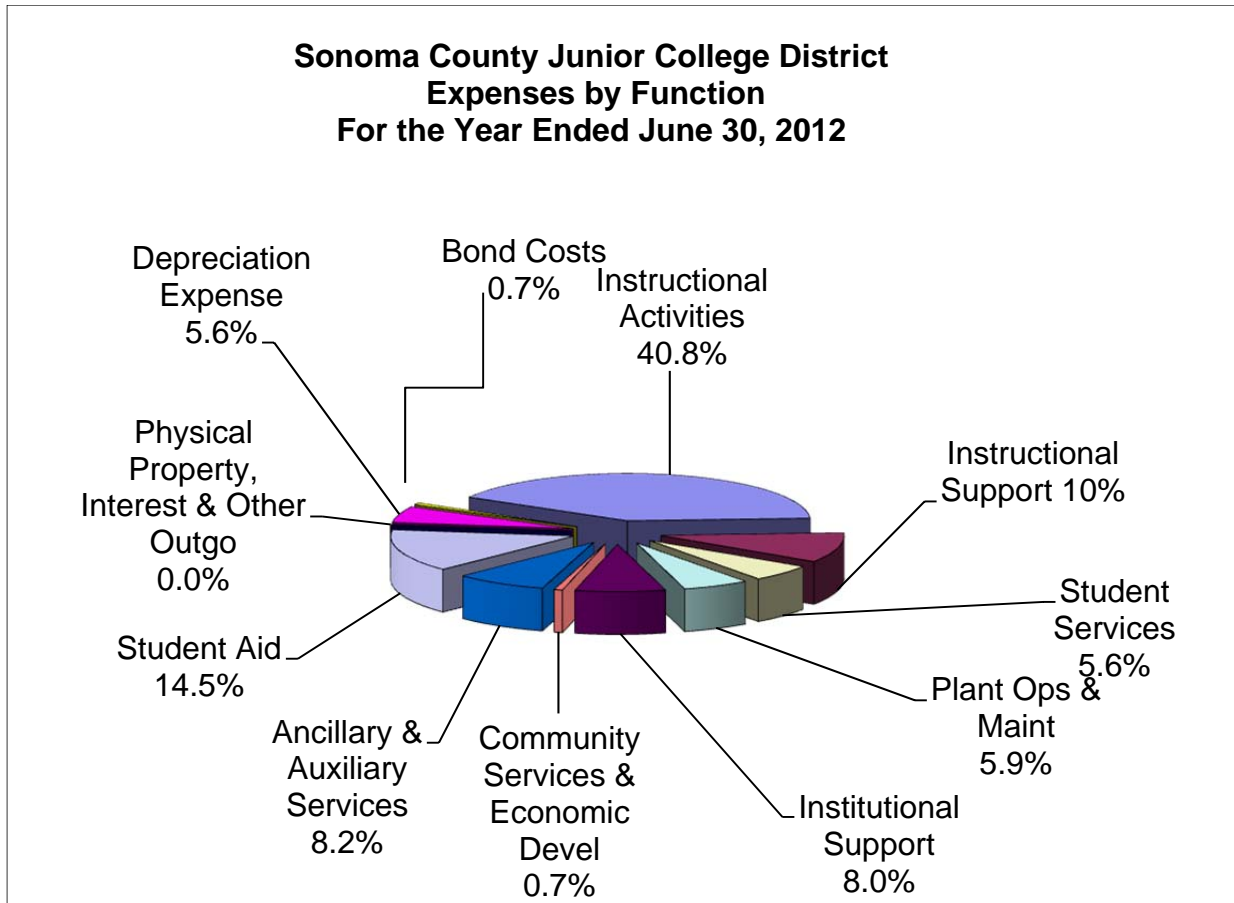
SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Operating Expenses (by function)

For the Year Ended June 30, 2012

Instructional Activities	\$60,599,800
Instructional Support	15,108,015
Student Services	8,373,733
Plant Operations & Maintenance	8,693,473
Institutional Support	11,843,663
Community Services & Economic Development	1,104,973
Ancillary & Auxiliary Services	12,113,472
Student Aid	21,471,116
Physical Property, Interest & Other Outgo	17,350
Depreciation Expense	8,251,523
Bond Costs	1,003,499
Total Operating Expenses	\$148,580,617



SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

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 interested parties 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.

	For the Years Ended June 30		
	2012	2011	Change
Net Cash Provided (Used) By:			
Operating activities	\$ (86,270,050)	\$ (90,087,162)	\$ 3,817,112
Non-capital financing activities	84,859,603	91,375,957	(6,516,354)
Capital and related financing activities	(9,738,957)	(14,271,710)	4,532,753
Investing activities	290,616	59,195	231,421
Net increase (decrease) in cash	(10,858,788)	(12,923,720)	2,064,932
Cash - Beginning of the fiscal year	75,790,603	88,714,323	(12,923,720)
Cash - End of the fiscal year	\$ 64,931,815	\$ 75,790,603	\$ (10,858,788)

- ☐ Net cash used for operating activities decreased by \$3.8 million from the prior year. This change was largely due to a decrease in payments to suppliers and employees.
- ☐ Net cash provided by noncapital financing activities are from state apportionments and property taxes. Cash received from state apportionments and receipts decreased by \$6.5 million over prior year due mainly to the decrease of apportionment payments from the state.
- ☐ Capital and related financing activities include cash provided from local property taxes collected for debt service, state apportionment for capital purposes and interest on capital investments. Cash outflows relate to purchases of capital assets and principal and interest payments on capital debt. Cash inflows were comprised of changes in state apportionments for capital purchases (\$735 thousand), property taxes (\$14.3 million), and interest in capital investments (\$532 thousand). Cash outflows were comprised of changes in principal (\$4.5 million) and interest (\$13.4 million) paid on long term debt, and construction or acquisition of capital assets (\$7.6 million).

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Capital Assets

The District had additions of \$7.6 million in capital assets for the year, of which \$6.7 million were for buildings and construction costs. The major project remaining is the completion of construction of the new B. Robert Burdo Culinary Arts Center. Capital assets are primarily acquired with General Obligation Bond proceeds while using matching state funds when available. As of June 30, 2012, the District had contracts and commitments for construction and property acquisitions totaling \$533 thousand.

The District has budgeted approximately \$6 million for capital projects in 2012/13. Construction plans include the finalization the B. Robert Burdo Culinary Arts Center. Other plans include the completion of Steve Olson Lane at Shone Farm, renovation and modernization of classrooms and campus-wide technological upgrades.

Long-Term Debt

The District's long-term debt balance of \$211.5 million is comprised of: bonds payable, \$205.8 million; post-employment health benefits, \$2.6 million; interest payable, \$2.0 million; and compensated absences, \$1.1 million. Additional information regarding the District's long-term debt can be found in the footnotes to the financial statements.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2012

Economic Factors That May Affect the Future

- ☐ Since 2008-09, the State has reduced funding to the District by 12%. Should Proposition 30 fail, in November 2012, “triggered cuts” in the State’s 2012-13 budget will reduce the District’s funding by an additional \$6.3 million.
- ☐ The District has responded to these State cuts by working with its employee groups to create multi-million dollar cost-reductions to salary and benefits. The majority of these reductions have been in the form of annually negotiated, one-year concessions.
- ☐ In 2009-10, the District initiated its “re-engineering” project which created on-going salary and benefit reductions through better realignment of current employees and the work that needs to be done. To date, over 50 existing employees have been re-engineered, which has allowed the District to freeze the positions of several recent retirees, and eliminated the need for over 100 short-term hourly employees.
- ☐ However, compounding the problem of reduced State funding have been the annual increases in the District’s operations costs. These include increases in the costs of utilities, insurance, health benefits and other contractual obligations, over which the District has some control. But, there are other cost increases over which the District has no control, such as the rate-increases made by the Public Employee Retirement System (PERS) which have added over \$1 million in additional annual costs by 2012-13. Within the next couple of years, similar rate-increases are expected to be assessed by the State Teachers Retirement System (STRS) as well.
- ☐ Despite the District’s cost-cutting measures, the sheer monetary size of the State’s cuts, combined with the aforementioned annual cost increases, the District began its 2012-13 budgetary planning with a “structural deficit” of roughly \$6 million. And, accepting the likelihood that Proposition 30 might fail, the District developed a budget that would address a combined \$12.3 million imbalance.
- ☐ The District’s 2012-13 adopted budget has addressed the worse-case-scenario through salary and benefit concessions, reduced course offerings, and a \$7.7 million reduction to the general fund’s ending reserve. Even under the worst of circumstances, the District is projected to end the fiscal year with a \$5.2 million general fund ending fund balance.
- ☐ Of course, should Proposition 30 pass, the District would have a 2012-13 projected ending fund balance of \$11.5 million.
- ☐ For 2012-13, the District has planned for the worst, and, no matter what, the District will have a positive fund balance at the end of the fiscal year. Going forward, the District has started work to address its current \$6 million structural imbalance, and is addressing contingency planning should Proposition 30 fail.
- ☐ The District and its employees are committed to its mission “to promote student learning throughout our diverse communities by increasing the knowledge, improving the skills and enhancing the lives of those who participate in our programs and enroll in our courses.” And, we will take the steps necessary to maintain the long-term fiscal health of the District and continue its mission.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Primary Institution	Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 21,879,284	\$ 1,694,085
Restricted Cash and Cash Equivalents	17,669,370	
Deposits Held in Escrow	840,592	
Accounts Receivable	18,661,660	26,750
Pledges Receivable		83,383
Inventory	645,377	
Prepaid Expenses	176,230	99,238
Total Current Assets	59,872,513	1,903,456
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	25,383,161	
Restricted Investments	16,958,530	32,360,603
Endowment Fund		884,307
Pledges Receivable		106,540
Charitable Remainder Trust Investments		1,799,304
Deferred Charges	1,980,831	
Capital Assets, Net	318,806,743	
Total Noncurrent Assets	363,129,265	35,150,754
TOTAL ASSETS	\$ 423,001,778	\$ 37,054,210
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,960,414	\$ 85,102
Deferred Revenue	2,890,592	172,906
Interest Payable	8,368,606	
Liabilities Under Charitable Remainder Trusts		56,044
Amounts Held on Behalf of Others	1,171,380	897,694
Long-Term Liabilities Due Within One Year:		
Compensated Absences Payable	1,744,385	
Bonds Payable	3,762,686	
Total Current Liabilities	24,898,063	1,211,746
Noncurrent Liabilities:		
Compensated Absences Payable	1,100,000	
Postemployment Benefits	4,136,791	
Interest Payable - Noncurrent Portion	2,005,395	
Liabilities Under Charitable Remainder Trusts - Noncurrent Portion		280,903
Bonds Payable	205,782,104	
Total Noncurrent Liabilities	213,024,290	280,903
TOTAL LIABILITIES	237,922,353	1,492,649
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	126,618,396	
Restricted for:		
Expendable:		
Capital Projects	7,398,092	
Debt Service	42,654,618	
Other Special Purposes	615,127	
Restricted by Donors		29,787,642
Unrestricted	7,793,192	5,773,919
TOTAL NET ASSETS	185,079,425	35,561,561
TOTAL LIABILITIES AND NET ASSETS	\$ 423,001,778	\$ 37,054,210

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012

	Primary Institution	Foundation
OPERATING REVENUES:		
Tuition and Fees (gross)	\$ 19,708,539	
Less: Scholarship Discounts and Allowances	(6,333,020)	
Net Tuition and Fees	13,375,519	
Grants, Contracts, and Donations, Noncapital:		
Federal	22,643,620	
State	8,012,253	
Local	2,942,317	
Contributions		\$ 6,629,695
Other		743,805
Auxiliary Enterprise Sales and Charges	7,011,732	
TOTAL OPERATING REVENUES	53,985,441	7,373,500
OPERATING EXPENSES:		
Academic Salaries	47,294,639	
Classified Salaries	28,485,198	
Employee Benefits	22,416,642	
Supplies and Materials	4,144,232	
Other Operating Expenses and Services	13,427,683	686,612
Utilities	2,920,115	
Depreciation	8,260,261	
Student Financial Aid and Scholarships	21,631,847	1,030,511
TOTAL OPERATING EXPENSES	148,580,617	1,717,123
OPERATING GAIN (LOSS)	(94,595,176)	5,656,377
NON-OPERATING REVENUES (EXPENSES):		
State Apportionments, Noncapital	42,684,229	
Local Property Taxes	39,931,564	
State Taxes and Other Revenues	3,013,496	
Investment Income (Loss) - Noncapital	290,616	(632,379)
Investment Income - Capital	532,398	
Interest Expense on Capital Asset-Related Debt	(11,405,071)	
Other Non-Operating Expenses	(50,356)	
Other Non-Operating Transfers		(444,927)
TOTAL NON-OPERATING REVENUES (EXPENSES)	74,996,876	(1,077,306)
GAIN (LOSS) BEFORE CAPITAL REVENUES:	(19,598,300)	4,579,071
State Apportionments, Capital	735,354	
Local Property Taxes and Revenues, Capital	14,312,796	
INCREASE (DECREASE) IN NET ASSETS	(4,550,150)	4,579,071
NET ASSETS -- BEGINNING OF YEAR	189,629,575	30,982,490
NET ASSETS -- END OF YEAR	\$ 185,079,425	\$ 35,561,561

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2012

	Primary Institution	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and Fees	\$ 13,227,761	
Federal Grants and Contracts	22,524,705	
State Grants and Contracts	7,485,319	
Local Grants and Contracts	2,940,140	
Contributions		\$ 6,560,229
Payments to Suppliers	(20,285,151)	(623,995)
Payments to/on behalf of Employees	(97,599,978)	
Payments to/on behalf of Students	(21,623,286)	(1,030,511)
Auxiliary Enterprise Sales and Charges	7,035,194	
Other Receipts and Payments	<u>25,246</u>	<u>875,422</u>
Net Cash Provided (Used) by Operating Activities	<u>(86,270,050)</u>	<u>5,781,145</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State Apportionments and Receipts	44,639,582	
Property Taxes	39,931,564	
Student Organization Agency Receipts	288,457	
Interest on Noncapital Investments		749,694
Other Transfers		(444,927)
Net Cash Provided by Noncapital Financing Activities	<u>84,859,603</u>	<u>304,767</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State Apportionments for Capital Purposes	735,354	
Purchases of Capital Assets	(7,627,656)	
Proceeds from Sales of Capital Assets	31	
Deposits Held in Escrow	(416,373)	
Principal Paid on Capital Debt	(4,504,899)	
Interest Paid on Capital Debt	(13,394,601)	
Purchases of Capital Investments	(12,861,007)	
Proceeds from Sale of Capital Investments	13,485,000	
Interest on Capital Investments	532,398	
Local Property Taxes and Other Revenues for Capital Purposes	<u>14,312,796</u>	
Net Cash Used by Capital and Related Financing Activities	<u>(9,738,957)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments		(14,749,202)
Sales and Maturities of Investments		8,320,706
Interest on Cash and Cash Equivalents	<u>290,616</u>	
Net Cash Provided (Used) by Investing Activities	<u>290,616</u>	<u>(6,428,496)</u>
NET DECREASE IN CASH AND EQUIVALENTS	(10,858,788)	(342,584)
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	<u>75,790,603</u>	<u>2,036,669</u>
CASH AND EQUIVALENTS -- END OF YEAR	<u>\$ 64,931,815</u>	<u>\$ 1,694,085</u>

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF CASH FLOWS (Continued) YEAR ENDED JUNE 30, 2012

Reconciliation to Statement of Net Assets:		
Cash and Equivalents	\$ 21,879,284	\$ 1,694,085
Restricted Cash and Cash Equivalents - Current	17,669,370	
Restricted Cash and Cash Equivalents - Noncurrent	<u>25,383,161</u>	<u> </u>
Total Cash and Cash Equivalents	<u>\$ 64,931,815</u>	<u>\$ 1,694,085</u>

**RECONCILIATION OF NET OPERATING GAIN (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Gain (Loss)	\$(94,595,176)	\$ 5,656,377
Donated investments		(19,092)
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Used by Operating Activities:		
Depreciation Expense	8,260,261	
Changes in Assets and Liabilities:		
Accounts Receivable	305,562	(8,715)
Pledges Receivable		(56,347)
Inventories, Prepaids, and other assets	648,761	(149,368)
Other Assets		
Accounts Payable	(329,072)	37,008
Deferred Revenue	(1,041,551)	17,188
Postemployment Benefits	635,280	
Compensated Absences	(154,115)	
Liabilities Under Charitable Remainder Trusts		(42,228)
Amounts Held on Behalf of Others	<u> </u>	<u>309,940</u>
Net Cash Provided (Used) by Operating Activities	<u>\$(86,270,050)</u>	<u>\$ 5,744,763</u>

**NON-CASH INVESTING, CAPITAL, AND FINANCING
ACTIVITIES:**

Amortization of Deferred Amount on Refunding	\$ (153,432)	
Amortization of Premium on Long-Term Debt	2,325,075	
Amortization of Cost of Issuance of Long-Term Debt	<u>(217,527)</u>	<u> </u>
Net Non-Cash Investing, Capital, and Financing Activities	<u>\$ 1,954,116</u>	<u>\$</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS JUNE 30, 2012

	<u>Agency Funds</u>
	<u>Associated Students and Student Representation Fees</u>
ASSETS:	
Cash and Cash Equivalents	\$ 452,552
Accounts Receivable	<u>241</u>
TOTAL ASSETS	<u>\$ 452,793</u>
LIABILITIES:	
Accounts Payable	\$ 213
Due to District	5,438
Amounts Held in Trust for Others	<u>447,142</u>
TOTAL LIABILITIES	<u>\$ 452,793</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

1. ORGANIZATION AND REPORTING ENTITY

The Sonoma County Junior College District (the District) was established in 1918 with the founding of Santa Rosa Junior College. The District operates a campus in the City of Santa Rosa, a campus in the City of Petaluma, a criminal justice training center in the Town of Windsor, and classes at numerous other locations throughout the District.

The District has reviewed criteria to determine whether other entities with activities that benefit the District should be included within its financial reporting entity. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. The District, based on its evaluation of these criteria, identified the Santa Rosa Junior College Foundation (the Foundation) as a component unit.

Discretely presented component unit – The Foundation was established as a legally separate non-profit entity to support the District and its students through fundraising activities. In addition, the Foundation develops and maintains student scholarships and trust accounts for the District students. Furthermore, the funds contributed by the Foundation to the District and its students are significant to the District's financial statements. Therefore, the District has classified the Foundation as a component unit that will be discretely presented in the District's annual financial statements. The Foundation also issues complete audited financial statements that may be obtained from the District or the Foundation.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA) and, where applicable, Financial Accounting Standards Board (FASB) Statements issued through 1989.

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

The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office of the California Community Colleges' Budget and Accounting Manual, which is consistent with generally accepted accounting principles in the United States of America.

In addition to the District's business-type activities, the District maintains fiduciary funds. These funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are accounted for using the economic resources measurement focus. The District reports the following fiduciary funds:

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Agency Funds – These funds include the Associated Students and the Student Representation Fee Fund. The amounts reported for student body funds represent the combined totals of all accounts for the various student body clubs and activities within the District. Individual totals, by club, are maintained within the Associated Student's accounting system. The Student Representation Fee Fund accounts for the student representation fee assessment, which is used by students for legislative advocacy.

Budgets and budgetary accounting – By state law, the District's governing board must approve a tentative budget no later than July 1st and adopt a final budget no later than September 15th of each year. A hearing must be conducted for public comments prior to adoption.

The budget is revised during the year to incorporate categorical funds which are awarded during the year and miscellaneous changes to the spending plans. Revisions to the budget are approved by the District's governing board.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Funds invested in the county treasurer's investment pool are considered cash equivalents.

Restricted cash, cash equivalents and investments – Cash, cash equivalents, and investments that are externally restricted per contractual obligations are classified as current or non-current assets in the statement of net assets based on anticipated use.

Deposits held in escrow – Cash deposited in an escrow account as retention on major construction projects that has been earned but will not be released until the project is satisfactorily completed, a notice of completion is filed, and the Board of Trustees have approved the release of retention funds, is classified as deposits held in escrow in the statement of net assets.

Investments – Investments are reported at fair value on the balance sheet based on open market quotes for debt and equity securities. Unrealized gains and losses are recorded on the statement of revenues, expenses and changes in net assets.

Accounts receivable – Accounts receivable consist of amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenses based on a contract or agreement between the District and the funding source. Additionally, accounts receivable consist of tuition and fee charges to students.

Pledges receivable – The Foundation accounts for its pledges in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB 33). GASB 33 establishes reporting standards for non-exchange transactions which, in the case of the Foundation, are restricted pledges to be contributed in the future. Endowed pledges are not recognized according to GASB 33.

Inventory – Inventories consist principally of textbooks and are stated at the cost method (first-in, first-out method) or market.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Capital assets – Capital assets are those assets purchased or acquired with an original cost of \$20,000 for Buildings and Improvement of Sites, and \$5,000 for all other capital assets. These assets are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Asset Class	Years
Improvement of Sites	20
Buildings	50
Vehicles	8
Restricted Programs - Machinery	5-15
Machinery and Equipment	5-15

Deferred revenues – Deferred revenues include amounts received for tuition and fees and certain categorical program revenues received prior to the end of the fiscal year, but related to the subsequent accounting period. Deferred revenues also include amounts received from grants and contracts that have not yet been earned. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Compensated absences – Employee vacation pay is accrued at year-end for financial statement purposes based on vacation time accrued and current pay rate. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets and as a component of employee benefits. It is the District's policy to record sick leave in the period taken, since the employee's right to sick leave payment does not vest upon termination.

Non-current liabilities – Non-current liabilities include estimated amounts for accrued compensated absences, post-employment benefits, and bond repayments and related interest that will not be paid within the next fiscal year.

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

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

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

- **Operating revenues:** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises; (3) most Federal, State and local grants and contracts and Federal appropriations.
- **Non-operating revenues:** Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting” and GASB No. 34, such as State Appropriations and investment income.

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 (BOG) to qualified students and these tuition waivers are reported as scholarship discounts and allowances. Grants, such as Federal, State or non-governmental programs, are recorded as operating or non-operating revenues in the District’s financial statements.

Property taxes – Secured property taxes attach as an enforceable lien on property as of January 1, and are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of Sonoma bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

Future GASB Statement Implementation – In December of 2010, the GASB issued GASB Statement 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, with required implementation for the District during the June 30, 2013 fiscal year-end. The primary objective of GASB 62 is to incorporate applicable guidance from FASB pronouncements into the GASB statements. GASB 62 addresses a number of accounting and financial reporting areas, but the most significant areas that may affect the District relate to (a) capitalization of interest costs, (b) imputation of interest costs, and (c) statement of net assets classification. The guidance for the capitalization of interest costs reflects a change from previously issued guidance for governments using the business-type model. Since GASB 62 requires retroactive application, interest paid in prior years will need to be calculated and added to the cost of capital assets.

The GASB issued GASB Statement 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*, in June of 2011 and March of 2012, respectively. The District is required to implement GASB 63 and GASB 65 during the June 30, 2013 fiscal year-end. GASB 63 renames net assets as net position and provides guidance on the definition and presentation of deferred outflows of resources (a consumption of net assets applicable to a future reporting period) and deferred inflows of resources (an acquisition of net assets applicable to a future reporting period). GASB 65 will impact certain items previously reported as assets and liabilities by (a) reclassifying them as deferred outflows or inflows of resources, or (b) recognizing them as outflows or inflows of resources. Both GASB 63 and 65 are required to be implemented retroactively and will require a restatement of beginning net position.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

The District is reviewing GASBs 62, 63, and 65, and will determine the effect on the financial statements as of and for the year ending June 30, 2013.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District's cash, cash equivalents, and investments as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and cash equivalents	\$ 21,879,284
Restricted cash and cash equivalents – current	17,669,370
Restricted cash and cash equivalents - noncurrent	25,383,161
Restricted investments	16,958,530
Statement of fiduciary net assets:	
Cash and cash equivalents	<u>452,552</u>
Total cash, cash equivalents and investments	<u>\$ 82,342,897</u>

The District's cash, cash equivalents, and investments as of June 30, 2012 consist of the following:

Cash and cash equivalents in Sonoma County Treasury	\$ 59,883,655
Deposits with financial institutions	4,640,715
Cash on hand	69,013
Cash equivalents and investments with fiscal agent:	
Money Market	393,202
Cash held by trustee	397,782
U.S. Municipal Securities	<u>16,958,530</u>
Total cash, cash equivalents and investments	<u>\$ 82,342,897</u>

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Sonoma County Treasury (the Treasury). The Treasury pools these funds with those of other districts in the county and invests the cash. The share of each fund in the pooled cash account is separately accounted for and interest earned is apportioned quarterly to funds that are legally required to receive interest based on the relationship of a fund's daily balance to the total of pooled cash and investments.

Participants' equity in the investment pool is determined by the dollar amount of the participant deposits, adjusted for withdrawals and distributed income. This method differs from the fair value method used to value investments in these financial statements in that unrealized gains or losses are not distributed to pool participants.

The Treasury is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. and is restricted by Government Code Section 53635, pursuant to Section 53601. The funds maintained by the Treasury are either secured by federal depository insurance or are collateralized.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Investments Authorized by the District's Investment Policy

The table below identifies the investment types authorized for the entity by the California Government Code Section 53601. This table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds or Notes	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
CD Placement Services	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-through Securities	5 years	20%	None
Bank/Time Deposits	5 years	None	None
Joint Power Agreements	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

The District's cash, cash equivalents, and investments with fiscal agent in the amount of \$17,351,732 represents unspent proceeds of the General Obligation Bond, Series D at June 30, 2012, which are restricted for specific purposes under terms of the bonds offering.

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2012, the weighted average maturity of the investments contained in the District's Treasury's investment pool is approximately 1,176 days. As of June 30, 2012, the District had the following investments held by trustees:

<u>Investment Type</u>	<u>Total Market Value</u>	<u>Remaining Maturity (in Years)</u>		
		<u>Less than 1 Year</u>	<u>1 to 5 Years</u>	<u>5 to 10 Years</u>
U.S. Municipal Securities	\$ 16,958,530	\$ 13,316,916	\$ 3,641,614	\$ 0

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County Treasury investment pool does not have a rating provided by a nationally recognized statistical rating organization.

<u>Investment Type</u>	<u>Total Market Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End (Standard and Poor's)</u>			
			<u>AAA</u>	<u>AA+</u>	<u>AA</u>	<u>AA-</u>
U.S. Municipal Securities	\$ 16,958,530		\$ 9,762,626	\$ 5,498,305	\$ 1,290,969	\$ 406,630
Money Market	393,202	\$ 393,202				
	<u>\$ 17,351,732</u>	<u>\$ 393,202</u>	<u>\$ 9,762,626</u>	<u>\$ 5,498,305</u>	<u>\$ 1,290,969</u>	<u>\$ 406,630</u>

Concentration of Credit Risk

The investment policy contains no limitations on the amount that can be invested in any one issuer. The following investments represent 5% or more of the total investments balance as of June 30, 2012:

<u>Investment</u>	<u>Total Market Value</u>
Municipal variable rate demand obligations	
City of Santa Clara, California, 0.200% due 7/1/27	\$ 4,610,000
Metropolitan Water District of Southern California VRDO, 0.150% due 7/1/35	3,900,000
Massachusetts Department of Transportation VRDO, 0.150% due 1/1/37	3,990,000

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2012, the carrying amount of the District's bank balance was \$4,344,110. Of the bank balance, \$250,000 was insured by the Federal Depository Insurance Corporation (FDIC), and \$1,930,651 was insured under the FDIC's Dodd-Frank Deposit Insurance Provision. Cash on hand of \$69,013 is not insured. District deposits held with financial institutions in excess of FDIC limits were \$2,163,459. Of the total bank balance, \$4,049,692 is held by the primary institution and \$294,418 is held by fiduciary funds.

Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are \$60,011,061 at June 30, 2012. Included in this restricted balance is \$17,356,443 for the 2005 Series B General Obligation Bond, 2007 Series C General Obligation Bond, and 2008 Series D General Obligation Bond unspent proceeds and \$42,654,618 for the assessments collected by the County Treasurer's Office on behalf of the District for the repayment of the General Obligation Bonds.

Derivative Investments

The District did not directly enter into any derivative investments. Information regarding the amount invested in derivatives by the County Treasury was not available.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012:

Federal Grants and Contracts	\$ 896,381
State Grants and Contracts	1,953,015
Local Grants and Contracts	284,737
State Apportionment-Non-Capital	13,800,900
Auxiliaries	48,695
Tuition and Fees	1,247,441
Other	<u>430,491</u>
Totals	<u>\$ 18,661,660</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

5. FUNCTIONAL EXPENSES

For the year ended June 30, 2012, operating expenses are charged by function as follows:

<u>Function</u>	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Supplies, Materials & Other Operating Expenses & Services</u>	<u>Other Outgo</u>	<u>Depreciation</u>	<u>Foundation</u>	<u>Totals</u>
Instructional Activities	\$ 43,946,586	\$ 12,570,860	\$ 4,038,634	\$ 43,720			\$ 60,599,800
Instructional Support	10,737,906	3,523,164	846,945				15,108,015
Student Services	5,682,524	1,901,575	645,983	143,651			8,373,733
Plant Operations & Maintenance	3,542,195	1,700,873	3,450,405				8,693,473
Institutional Support	6,483,175	975,482	4,385,006			\$ 1,717,123	13,560,786
Community Services & Economic Development	651,916	126,565	326,492				1,104,973
Ancillary & Auxiliary Services	4,730,134	1,616,379	5,758,221		\$ 8,738		12,113,472
Student Aid			26,640	21,444,476			21,471,116
Physical Property, Interest, & Other Outgo			17,350				17,350
Depreciation Expense					8,251,523		8,251,523
Bond Cost	5,401	1,744	996,354				1,003,499
Totals	<u>\$ 75,779,837</u>	<u>\$ 22,416,642</u>	<u>\$ 20,492,030</u>	<u>\$ 21,631,847</u>	<u>\$ 8,260,261</u>	<u>\$ 1,717,123</u>	<u>\$ 150,297,740</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Transfers	Disposals	Balance June 30, 2012
Capital Assets, Not Depreciated:					
Land	\$ 11,966,606				\$ 11,966,606
Construction in Progress	14,936,378	\$ 6,098,723	\$ (1,150,168)		19,884,933
Total Capital Assets, Not Depreciated	<u>26,902,984</u>	<u>6,098,723</u>	<u>(1,150,168)</u>		<u>31,851,539</u>
Capital assets, Depreciated:					
Buildings	332,491,368	743,278	1,023,890		334,258,536
Improvement of Sites	10,075,522	189,793	126,278		10,391,593
Vehicles	3,015,437	359,607		\$ (299,639)	3,075,405
Machinery and Equipment	12,030,682	236,255		(378,905)	11,888,032
Total Capital Assets, Depreciated	<u>357,613,009</u>	<u>1,528,933</u>	<u>1,150,168</u>	<u>(678,544)</u>	<u>359,613,566</u>
Less Accumulated Depreciation for:					
Buildings	(45,926,547)	(7,381,251)			53,307,798
Improvement of Sites	(8,315,452)	(163,469)			8,478,921
Vehicles	(2,315,290)	(202,795)		264,956	2,253,129
Machinery and Equipment	(8,468,969)	(512,746)		363,201	8,618,514
Total Accumulated Depreciation	<u>(65,026,258)</u>	<u>(8,260,261)</u>		<u>628,157</u>	<u>72,658,362</u>
Total Capital Assets, Depreciated, Net	<u>292,586,751</u>	<u>(6,731,328)</u>	<u>1,150,168</u>	<u>(50,387)</u>	<u>286,955,204</u>
Capital Assets, Net	<u>\$ 319,489,735</u>	<u>\$ (632,605)</u>	<u>\$</u>	<u>\$ (50,387)</u>	<u>\$ 318,806,743</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

7. LONG-TERM LIABILITIES

General Obligation Bonds

In September 2005, the District issued General Obligation Bonds, Series B, in the amount of \$105,000,000, with an interest rate of 5.00%.

The General Obligation Bonds, Series B mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013		\$ 5,197,000	\$ 5,197,000
2014		5,197,000	5,197,000
2015		5,197,000	5,197,000
2016		5,197,000	5,197,000
2017		5,197,000	5,197,000
2018-2022		25,985,000	25,985,000
2023-2027	\$ 48,170,000	22,450,500	70,620,500
2028-2030	<u>55,770,000</u>	<u>4,273,500</u>	<u>60,043,500</u>
Subtotal	103,940,000	78,694,000	182,634,000
Plus: Unamortized Premium	<u>4,234,196</u>		<u>4,234,196</u>
Totals	<u>\$ 108,174,196</u>	<u>\$ 78,694,000</u>	<u>\$ 186,868,196</u>

In September 2005, the District issued General Obligation Bonds, Refunding Bonds, in the amount of \$36,526,697. The General Obligation Bond issue included \$4,000,000 of current interest bonds, with an interest rate of 3.00%, and \$32,526,697 of capital appreciation bonds with an interest rate of 12.00%. The debt was issued to provide resources to purchase U.S. Government State and Local Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$60,556,353 of General Obligation Bonds, Series A. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

The General Obligation Refunding Bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,637,686	\$ 4,397,314	\$ 8,035,000
2014	<u>3,352,728</u>	<u>4,964,720</u>	<u>8,317,448</u>
Subtotal	6,990,414	9,362,034	16,352,448
Plus: Unamortized Premium	2,143,494		2,143,494
Less: Unamortized Deferred Amount on Refunding	<u>(191,791)</u>		<u>(191,791)</u>
Totals	<u>\$ 8,942,117</u>	<u>\$ 9,362,034</u>	<u>\$ 18,304,151</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

In September 2007, the District issued General Obligation Bonds, Series C, in the amount of \$69,710,000, with interest rates of 4.00% and 5.00%.

The General Obligation Bonds, Series C mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013		\$ 3,449,350	\$ 3,449,350
2014		3,449,350	3,449,350
2015		3,449,350	3,449,350
2016		3,449,350	3,449,350
2017		3,449,350	3,449,350
2018-2022	\$ 41,945,000	13,088,800	55,033,800
2023-2024	<u>27,765,000</u>	<u>1,428,375</u>	<u>29,193,375</u>
Subtotal	69,710,000	31,763,925	101,473,925
Plus: Unamortized Premium	<u>2,875,331</u>		<u>2,875,331</u>
Totals	<u>\$ 72,585,331</u>	<u>\$ 31,763,925</u>	<u>\$ 104,349,256</u>

In April 2008, the District issued General Obligation Bonds, Series D, in the amount of \$16,990,000, with interest rates of 4.00% and 5.00%.

The General Obligation Bonds, Series D mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013		\$ 811,700	\$ 811,700
2014		811,700	811,700
2015	\$ 3,780,000	736,100	4,516,100
2016	4,655,000	544,125	5,199,125
2017	5,585,000	288,125	5,873,125
2018	<u>2,970,000</u>	<u>74,250</u>	<u>3,044,250</u>
Subtotal	16,990,000	3,266,000	20,256,000
Plus: Unamortized Premium	<u>878,146</u>		<u>878,146</u>
Totals	<u>\$ 17,868,146</u>	<u>\$ 3,266,000</u>	<u>\$ 21,134,146</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Revenue Bonds

The District's revenue bond indebtedness at June 30, 2012, consisted of the following:

	Amount of Original Issue	Outstanding July 1, 2011	Current Year Payments	Current Year Additions	Outstanding June 30, 2012
Revenue Bonds, 1972 Series B- Accumulated in a sinking fund in annual installments ranging from \$10,000 to \$30,000, plus interest at a rate of 7%, final maturity in 2012.	\$ 500,000	\$ 435,000	\$ 435,000		
Lease Revenue Bonds, 1998 Series A – Payable in annual installments ranging from \$75,000 to \$210,000, plus interest at rates ranging from 3.6% to 4.625%, final maturity in 2023.	3,215,000	2,095,000	120,000		\$ 1,975,000
Totals	\$ 3,715,000	\$ 2,530,000	\$ 555,000	\$	\$ 1,975,000

Future payments relating to revenue bonds payable were as follows at June 30, 2012:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 125,000	\$ 88,438	\$ 213,438
2014	135,000	82,441	217,441
2015	140,000	76,081	216,081
2016	145,000	69,491	214,491
2017	150,000	62,669	212,669
2018-2022	870,000	198,875	1,068,875
2023-2024	410,000	19,194	429,194
Totals	\$ 1,975,000	\$ 597,189	\$ 2,572,189

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 213,691,332		\$ 6,121,542	\$ 207,569,790	\$ 3,637,686
Revenue Bonds	2,530,000		555,000	1,975,000	125,000
Other Postemployment Benefits (Note 10)	3,501,511	\$ 1,959,622	1,324,342	4,136,791	
Compensated Absences	<u>2,998,500</u>		<u>154,115</u>	<u>2,844,385</u>	<u>1,744,385</u>
Total	<u>\$ 222,721,343</u>	<u>\$ 1,959,622</u>	<u>\$ 8,154,999</u>	<u>\$ 216,525,966</u>	<u>\$ 5,507,071</u>

8. SELF INSURANCE AND JOINT VENTURES (Joint Powers Agreements)

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and students; natural disasters; and providing dental benefits to employees. The District is partially self-insured for its general liability and property coverage, and is 100% self-insured for dental benefit coverage. The District has chosen to establish a risk financing internal service fund where assets are set aside for claim settlements associated with the above risks of loss up to certain limits.

The District participates in three joint ventures under joint powers agreements (JPAs), the Statewide Association of Community Colleges (SWACC), Schools Association for Excess Risk (SAFER) and the Protected Insurance Program for Schools (PIPS). The relationship between the District and each JPA is such that no JPA is a component unit of the District for financial reporting purposes.

Each JPA is governed by a board consisting of a representative from each member organization. The boards control the operations of the JPAs, including selection of management and approval of operating budgets independent of any influence by the members beyond their representation on the governing boards. SWACC provides property and liability insurance for its members. PIPS arranges for and provides workers' compensation insurance for its members. SAFER provides services for the establishment, operation, and maintenance of a self-funded excess property and liability fund for California schools and community college districts. The members of each JPA pay premiums commensurate with the level of coverage requested, and they share surpluses and deficits proportionate to their participation in the JPAs.

The JPAs are independently accountable for their fiscal matters. The insurance groups maintain their own accounting records. Budgets are not subject to any approval other than that of the JPAs' governing boards. Complete separate financial statements for the JPA may be obtained from:

<u>JPA</u>	<u>Address</u>
SWACC	180 Grand Avenue, Suite 1380, Oakland, CA 94612
PIPS	2355 Crenshaw Blvd., Suite 200; Torrance, CA 90501
SAFER	2355 Crenshaw Blvd., Suite 200; Torrance, CA 90501

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Self-insurance and other limits are as follows:

<u>Type of Coverage</u>	<u>Self-Insurance</u>	<u>SWACC</u>	<u>SAFER</u>	<u>PIPS</u>
General Liability	Up to \$50,000	\$50,000 - \$1,000,000	\$1,000,000 - \$25,000,000	N/A
Property	Up to \$10,000	\$10,000 - \$250,000	\$250,000 - \$250,000,000	N/A
Workers' Compensation	N/A	N/A	N/A	To Statutory Limits
Dental Benefits	100% Self-Insured	N/A	N/A	N/A

All property is insured at full replacement value. For the past eight years, there have been no significant reductions in any of the District's insurance coverage types and no settlement amounts have exceeded commercial or authority insurance coverage.

Annual premiums are charged by each JPA using various allocation methods that include actual costs, trends in claims experience, and number of participants.

Condensed financial information reported by each JPA for the years indicated are as follows (not covered by independent auditor's report):

	<u>SWACC Property / Liability June 30, 2011</u>	<u>SAFER Property / Liability June 30, 2011</u>	<u>PIPS Workers' compensation June 30, 2011</u>
Total Assets	\$ 45,222,215	\$ 1,160,583	\$ 93,970,269
Total Liabilities	\$ 21,819,352	\$ 972,244	\$ 71,211,379
Net Assets	<u>23,402,863</u>	<u>188,339</u>	<u>22,758,890</u>
Total Liabilities and Net Assets	<u>\$ 45,222,215</u>	<u>\$ 1,160,583</u>	<u>\$ 93,970,269</u>
Total Revenues	\$ 10,467,082	\$ 41,303,388	\$ 6,895,722
Total Expenses	<u>11,665,586</u>	<u>41,256,419</u>	<u>14,184,665</u>
Net Increase (Decrease) in Net Assets	<u>\$ (1,198,504)</u>	<u>\$ 46,969</u>	<u>\$ (7,288,943)</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

9. COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Litigation

The District is a defendant in various lawsuits. However, based on consultation with legal counsel, management believes that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Construction Commitments

The District has construction contracts and property acquisition commitments of approximately \$533,191 at June 30, 2012. General Obligation Bonds have been approved for such construction commitments.

Sick Leave

Employees do not gain a vested right to accumulated sick leave; however, they are entitled to service credit for the calculation of their retirement benefits. The District tracks the sick leave balance for each employee and reports it to PERS or STRS at retirement to determine the service credit.

10. EMPLOYEE RETIREMENT SYSTEMS

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

CalPERS Plan Description

The District contributes to the School Employer Pool under 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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

CalPERS Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 10.923% 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 ending June 30, 2012, 2011, and 2010 were \$2,842,497, \$2,853,426, and \$2,577,959, respectively, and equal 100% of the required contributions for each year.

CalSTRS Plan Description

The District contributes to 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 CalSTRS, 100 Waterfront Place, West Sacramento, California 95605.

CalSTRS Funding Policy

Active plan members are required to contribute 8% 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 Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-12 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 ending June 30, 2012, 2011, and 2010, were \$2,894,586, \$3,002,239, and \$3,162,996, 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.

Two alternative retirement plans are offered to part-time employees. First, in addition to the CalSTRS plan previously described, effective January 1, 1998, the District offered its part-time employees participation in a Cash Balance Retirement Plan (the Plan) for employees of California's public schools, sponsored by CalSTRS. Eligibility is determined by CalSTRS and retirement benefits are based on an amount equal to the balance of the participant's account, including interest earned on contributions. Participants in the Plan have an immediate vested right to their benefits and no annual maintenance fees are allocated to the Plan.

The Plan requires contributions from the eligible members and from the District. Currently, the faculty members' and the District's required contributions are each 4% of gross salary. During the fiscal year ended June 30, 2012, employees and the District each contributed \$277,705 to the Plan.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

The second plan is a 403(b) plan administered by Fidelity Investments. The IRS recognizes a 403(b) investment plan as a qualified pension plan that employers may offer in lieu of Social Security to employees not covered by CalSTRS or CalPERS. This alternative retirement system has been in effect since January 1, 1992, and is an employee-directed defined contribution plan. Currently, both the members and the District contribute 3.75% of gross salary. Participants contributing to a 403(b) plan have an immediate vested right to their benefits. During the fiscal year ended June 30, 2012, employees and the District each contributed \$123,336 to the 403(b) plan.

OTHER POSTEMPLOYMENT BENEFIT PLAN

Under the terms of certain District employee agreements and Board adopted policies, the District maintains a single-employer plan to provide \$84-\$136.50 per month for specified group health insurance for the life of eligible retiring employees and their surviving spouses. Benefit provisions and obligations to contribute for non-management employees are established and may be amended through employee union negotiations. Benefit provisions and obligations to contribute for management employees are established and may be amended by the District's Board of Trustees. At June 30, 2012, there were 416 retirees receiving health care benefits. The retiree must be age 55 or greater at retirement with at least 15 years of service. For classified retirees, the total of age plus years of service must be at least 80 years.

As of June 30, 2012, the District had not established an irrevocable trust or designated a trustee for the payment of plan benefits. As such, there is no separately issued report of the plan.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. During the year ended June 30, 2012, expenditures of \$1,959,622 were recognized for the OPEB expense. The 2011-12 contributions consist of \$1,324,342 of postemployment benefits for current retirees on a pay-as-you-go basis.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimations are made about the future. Projections of benefits are based on the types of benefits provided under the substantive plan at the time of each valuation and on the pattern of sharing of benefit costs between the employer and plan members to that point, and, if applicable, the disclosure that the projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation. The schedule of funding progress included in the required supplementary information presents information regarding whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

Actuarial cost method	Projected Unit Credit
Amortization method	30 year level dollar, open period
Remaining amortization period at June 30, 2012	26
Interest rate assumption	5% Single Weighted Average
Health inflation assumption	4-8%
Projected payroll increase	0%
Annual required contribution	\$ 2,000,582
Interest on net OPEB obligation	136,067
Adjustment to annual required contribution	<u>(177,027)</u>
Annual OPEB expense	1,959,622
Contributions made	<u>(1,324,342)</u>
Increase in OPEB obligation	635,280
Net OPEB obligation at July 1, 2011	<u>3,501,511</u>
Net OPEB obligation at June 30, 2012	<u>\$ 4,136,791</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net obligation for the years ended June 30, 2012, 2011, and 2010 is as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB expense</u>	<u>% of annual OPEB expense contributed</u>	<u>Net OPEB obligation</u>
6/30/10	\$ 2,427,800	44.89%	\$ 2,721,334
6/30/11	\$ 1,959,622	60.19%	\$ 3,501,511
6/30/12	\$ 1,959,622	67.58%	\$ 4,136,791

The District's funding status for other postemployment benefits as of the most recent valuation date, July 1, 2010, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ([b - a] / c)</u>
7/1/10	\$ 0	\$ 18,095,593	\$ 18,095,593	0%	\$ 53,387,655	34%

11. ON-BEHALF PAYMENTS MADE BY THE STATE OF CALIFORNIA

The District was the recipient of on-behalf payments made by the State of California to CalSTRS. These payments consisted of state general fund contributions to CalSTRS in the amount of \$1,761,537 (4.855% of 2009-10 salaries subject to CalSTRS).

REQUIRED SUPPLEMENTARY INFORMATION SECTION

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/09	\$ 0	\$ 23,240,100	\$ 23,240,100	0%	\$ 56,700,000	41%
7/1/10	\$ 0	\$ 18,095,593	\$ 18,095,593	0%	\$ 53,387,655	34%

SUPPLEMENTARY INFORMATION SECTION

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Program Expenditures
U.S. Department of Education:			
Student Financial Assistance Programs Cluster:			
Pell Grant Program	84.063	N/A	\$ 16,573,447
Supplemental Educational Opportunity Grant Program	84.007	N/A	179,377
Federal Work-Study Program	84.033	N/A	272,068
Direct Student Loan Program	84.268	N/A	<u>3,271,211</u>
Subtotal Student Financial Assistance Programs Cluster			<u>20,296,103</u>
Passed Through California Community Colleges Chancellor's Office (CCCCO):			
Title II-C	84.048	04-C01-061	559,755
CTE Transitions	84.048	04-139-069	<u>46,970</u>
Subtotal 84.048			<u>606,725</u>
Passed Through California Department of Education:			
Adult Education (English Literacy/Civics Education Grant)	84.002A	14109	84,823
Adult Education (English As a Second Language)	84.002A	14508	<u>181,953</u>
Subtotal Adult Education and Family Literacy Act			<u>266,776</u>
Passed Through California Department of Rehabilitation:			
College to Career	84.126A	28109	250,000
Vocational Rehabilitation (Workability III)	84.126	24626	<u>194,906</u>
Subtotal Vocational Rehabilitation Cluster			<u>444,906</u>
Total U.S. Department of Education			<u>21,614,510</u>
U.S. Department of Health and Human Services:			
Passed Through CCCC0:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	48,960
Passed Through County of Sonoma:			
Temporary Assistance to Needy Families (SonomaWorks)	93.558	17-0405-1SW	<u>199,977</u>
Subtotal TANF State Programs			248,937
Medical Administrative Activities	93.778	04-35070	<u>104,117</u>
Total U.S. Department of Health and Human Services			<u>353,054</u>
U.S. National Science Foundation:			
Education and Human Resources	47.076	DUE-9952831	<u>38,773</u>
Small Business Administration:			
Passed Through Humboldt State University Sponsored Programs Foundation:			
Small Business Development Center	59.037	C02-0057	<u>289,579</u>

See the accompanying notes to supplemental information.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued) YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Identifying Number</u>	<u>Program Expenditures</u>
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
USDA - Agriculture Marketing Service	10.168	12-25-G-1135	40,865
USDA - Beginning Farmers & Ranchers	10.311	SA7701	32,168
Child and Adult Care Food Program	10.558	1800-1A	51,715
Passed Through County of Sonoma:			
Healthy Food Outlet (Rural Business Enterprise Grant)	10.769	N/A	<u>9,971</u>
Total U.S. Department of Agriculture			<u>134,719</u>
U.S. Corporation of National and Community Service			
National Service Trust Grant	94.006	N/A	<u>214,327</u>
Total Expenditures of Federal Awards			<u>\$ 22,644,962</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2012

Program Title	Entitlements		Program Revenues			Program Expenditures
	Current Year	Deferred Revenue and Cash Received	Accounts Receivable	Deferred/ Payables	Total	
Apprenticeship	\$ 83,151	\$ 82,151	\$ 1,000		\$ 83,151	\$ 83,151
Basic Skills 09/10		170,073			170,073	170,073
Basic Skills 10/11		161,357		\$ 145,583	15,774	15,774
Basic Skills 11/12	116,548	116,548		116,548		
Block Grant 00/01		709,225		709,225		
CalWorks	379,001	359,002	19,642		378,644	378,644
CalWorks Regional	10,000		7,089		7,089	7,089
CCCECE	46,000	14,748	30,579		45,327	45,327
Child Development	537,930	450,836	52,535	5,414	497,957	497,957
Child Development Consortium	15,000	15,456			15,456	15,456
Child Development Renovation & Repair	20,000	20,000			20,000	20,000
Cooperative Agency Resource Education	45,055	45,055			45,055	45,055
CTE Core	171,750	24,362	77,324	398	101,288	101,288
CTE Green Water	19,298	17,420	1,878		19,298	19,298
Disabled Student Program & Services	2,008,335	2,008,335			2,008,335	2,008,335
Economic Development	10,163	10,896		733	10,163	10,163
Employment Training Panel	238,000	19,613			19,613	19,613
Enrollment Growth	260,687	218,977	34,371		253,348	253,348
Enrollment Growth Carryover 09	114,000	183,672	59,950		243,622	243,622
EWD Youth Entrepreneur Program	10,000	2,518			2,518	2,518
Extended Opportunity Program and Services	456,111	456,111			456,111	456,111
Faculty and Staff Diversity	9,296	11,308			11,308	11,308
Financial Aid Administration	630,800	630,800			630,800	630,800
Financial Aid Administration Carryover		61,338			61,338	61,338
Foster Parent Training Program	168,742	104,404	64,338		168,742	168,742
Healthcare Workforce Dev IDR	333,333		241,385		241,385	241,385
Hope Grant Extension		72,191			72,191	72,191
Instructional Equip 07/08		223,193		214,307	8,886	8,886
Instructional Equip 08/09		36,175			36,175	36,175
Instructional Equip 08/09 (1x)		170,747		40,353	130,394	130,394
Matriculation (Credit)	646,343	646,343			646,343	646,343
Matriculation (Non-Credit)	169,260	169,260			169,260	169,260
MESA	50,500	37,875	12,625		50,500	50,500
MESA Day		2,979		872	2,107	2,107
MESA Schools Pilot Program	80,000		64,037		64,037	64,037
MHSA-PEI	90,000	44,469	24,951		69,420	69,420
POST Pre-employment	39,233	35,486			35,486	35,486
Program for Infant/Toddler Caregivers	28,515	22,564	5,951		28,515	28,515
Scheduled Maintenance 06/07		392,727		286,961	105,766	105,766
Scheduled Maintenance 07/08		121,488		121,488		
Scheduled Maintenance 08/09		221,139		221,139		
Tire Derived Product Grant	21,367		21,008		21,008	21,008
Transfer Center and Articulation		2,555		2,515	40	40
Workforce Innovation Partnership	76,004	76,004			76,004	76,004
YESS-ILP	22,500	7,804	14,696		22,500	22,500
Total	\$ 6,906,922	\$ 8,177,204	\$ 733,359	\$ 1,865,536	\$ 7,045,027	\$ 7,045,027

See the accompanying notes to supplemental information.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2012

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2011 Only)			
1. Noncredit ¹	498.16		
2. Credit	1,383.80		
B. Summer Intersession (Summer 2012 – Prior to July 1, 2012)			
1. Noncredit	1.62		
2. Credit	44.65		
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	13,020.90		
(b) Daily Census Contact Hours	737.89		
2. Actual Hours of Attendance Courses:			
(a) Noncredit	2,054.75		
(b) Credit	612.95		
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	948.07		
(b) Daily Census Procedure Courses	251.35		
(c) Noncredit Independent Study	2.07		
D. Total Full-Time Equivalent Students	19,556.21		
<u>Supplemental Information</u>			
E. In-service Training Courses	276.88		
F. Basic Skills courses and Immigrant Education			
(a) Noncredit	592.04		
(b) Credit	882.12		
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	510.83		
Centers FTES			
(a) Noncredit	98.34		
(b) Credit	3,718.29		

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2012

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
ACADEMIC SALARIES							
Instructional Salaries:							
Contract or Regular	1100	\$ 17,401,773			\$ 17,619,971		
Other	1300	16,786,616			16,888,431		
Total Instructional Salaries		34,188,389			34,508,402		
Non-Instructional Salaries:							
Contract or Regular	1200				8,230,005		
Other	1400				992,712		
Total Non-Instructional Salaries					9,222,717		
Total Academic Salaries		34,188,389			43,731,119		
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				16,049,688		
Other	2300				1,569,135		
Total Non-Instructional Salaries					17,618,823		
Instructional Aides:							
Regular Status	2200	1,543,245			1,699,218		
Other	2400	606,650			1,052,629		
Total Instructional Aides		2,149,895			2,751,847		
Total Classified Salaries		2,149,895			20,370,670		
Employee Benefits	3000	7,780,916			18,487,067		
Supplies and Materials	4000				1,970,468		
Other Operating Expenses	5000	1,061,259			7,779,474		
Equipment Replacement	6420				6,879		
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		45,180,459			92,345,677		

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2012

	Object/TOP Codes	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900						
Student Health Services Above Amount Collected	6441				\$ 1,983		
Student Transportation	6491						
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740						
Objects to Exclude:							
Rents and Leases	5060				173,116		
Lottery Expenditures:							
Academic Salaries	1000				444,231		
Classified Salaries	2000				1,096,511		
Employee Benefits	3000				716,985		
Supplies and Materials:	4000						
Software	4100						
Books, Magazines & Periodicals	4200						
Instructional Supplies & Materials	4300						
Noninstructional Supplies & materials	4400						
Total Supplies and Materials							
Other Operating Expenses and Services	5000						
Capital Outlay:	6000						
Library Books	6300						
Equipment Replacement:	6400						
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
					\$ 2,432,826		
TOTAL EXCLUSIONS							
Total for ECS 84362, 50% Law		\$ 45,180,459			\$ 89,912,851		
Percent of CEE (Instructional Salary Cost / Total CEE)		50.25%			100%		
50% of Current Expense of Education					\$ 44,956,426		

SONOMA COUNTY JUNIOR COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

All fund balances agree to the audit.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2012

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2012, was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with OMB Circular A-133, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General – The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements.
- Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.

Schedule of State Financial Assistance

The California Community Colleges Chancellor's Office requires disclosure of the financial activities of all state funded programs. To comply with this requirement, the Schedule of State Financial Assistance is presented.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

The Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance represents the basis of apportionment for the District's annual source of funding.

Reconciliation of ECS 84362 (50 Percent Law) Calculation

The Reconciliation of ECS 84362 (50 Percent Law) Calculation form shows the annual reported data from the CCFS-311 and any audit adjustments.

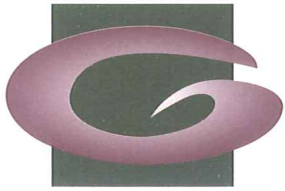
Reconciliation of Annual Financial and Budget Report (Form CCFS 311) With Audited Financial Statements

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

2. FEDERAL AWARDS PAYABLE

During the fiscal year ended June 30, 2012, the District identified payments totaling \$1,342 it has received and reported as expenditures on the SEFA under CDFA #11.557 in prior years that were not eligible for reimbursement per U.S. Department of Commerce (DOC) regulations and returned the funds to the DOC.

OTHER INDEPENDENT AUDITOR'S REPORTS



**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***

**Members of the Board of Trustees
Sonoma County Junior College District
Santa Rosa, California**

We have audited the financial statements of the Sonoma County Junior College District (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

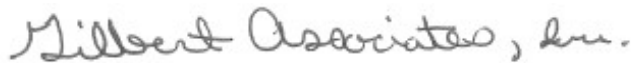
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed

**Members of the Board of Trustees
Sonoma County Junior College District
Page 2**

instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Questioned Costs as items 12-1 and 12-2.

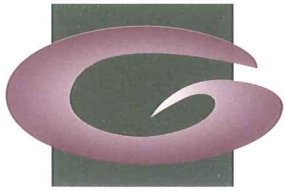
The District's response to the compliance findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, District management, 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.



**GILBERT ASSOCIATES, INC.
Sacramento, California**

October 31, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Independent Auditor's Report

**Members of the Board of Trustees
Sonoma County Junior College District
Santa Rosa, California**

Compliance

We have audited Sonoma County Junior College District's (the District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

**Members of the Board of Trustees
Sonoma County Junior College District
Page 2**

over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

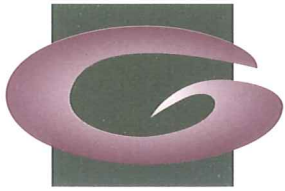
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did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

This report is intended solely for the information and use of the Board of Trustees, District 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.

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

October 31, 2012



REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS IN ACCORDANCE WITH THE CONTRACTED DISTRICT AUDIT MANUAL

Independent Auditor's Report

**Members of the Board of Trustees
Sonoma County Junior College District
Santa Rosa, California**

We have audited the Sonoma County Junior College District's (the District) compliance with the types of compliance requirements described in Section 400, State Compliance Requirements, of the *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office identified in the schedule below for the year ended June 30, 2012. Compliance with the requirements referred to above 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 Section 400, State Compliance Requirements, of the *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 noncompliance with the types of compliance requirements referred to above that could have a material effect on the programs identified in the below schedule 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 under 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 connection with the requirements referred to above, we have selected and tested transactions and records to determine the District's compliance with the applicable programs identified below:

- Salaries of Classroom Instructors (50% Law)
- Apportionment for Instructional Service Agreements/Contracts
- State General Apportionment Funding System
- Residency Determination for Credit Courses
- Students Actively Enrolled
- Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Gann Limit Calculation

**Members of the Board of Trustees
Sonoma County Junior College District
Page 2**

- California Work Opportunity and Responsibility to Kids (CalWORKS)
- Open Enrollment
- Student Fees – Instructional and Other Materials
- Student Fees – Health Fees and Use of Health Fee Funds
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- Curriculum and Instruction
- To Be Arranged Hours (TBA)

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Contracted District Audit Manual*, and which are described in the accompanying Schedule of Audit Findings and Questioned Costs as items 12-1 and 12-2.

The District's response to the compliance findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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

Gilbert Associates, Inc.

**GILBERT ASSOCIATES, INC.
Sacramento, California**

October 31, 2012

FINDINGS AND RECOMMENDATIONS SECTION

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

Noncompliance material to financial statements noted?

	<u> </u> Yes	<u> X </u> No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

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

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?

	<u> </u> Yes	<u> X </u> No
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Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Programs or Cluster</u>
84.063, 84.007, 84.033, 84.268	Student Financial Assistance Programs Cluster

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

Auditee qualified as low-risk auditee?

	<u> X </u> Yes	<u> </u> No
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State Awards

Internal control over state programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> X </u> None Reported

Any audit findings disclosed that are required to be disclosed in accordance with Contracted District Audit Manual?

	<u> X </u> Yes	<u> </u> No
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Type of auditor's report issued on compliance for state programs: Unqualified

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported.

SECTION III – STATE COMPLIANCE

12-1 – TO BE ARRANGED HOURS

Criteria:

Some courses with regularly scheduled hours of instruction have “hours to be arranged” (TBA) as part of the total contact hours for the course. The TBA portion of the course uses an alternate method for regularly scheduling a credit course for purposes of applying either the Weekly or Daily Census Attendance Accounting Procedures. TBA hours for classes using weekly census procedures should be scheduled the same number of hours each week of the term.

According to California Code of Regulations, Title V, Sections 58102 and 58104, descriptions of all courses should be published in the official catalog and schedule of classes.

According to California Code of Regulations, Title V, Section 55002, an outline (syllabus) for each course should specify the number of contact hours for the course as well as descriptions of course objectives and expectations and the methods of evaluation for determining whether the objectives have been met by students.

Condition:

Various errors were noted during testing of TBA compliance, including the following:

- Certain classes with TBA hours did not list the number of TBA hours in both the class schedule and the college catalog. This does not affect FTES claimed.
- Certain classes with TBA hours did not describe the specific instructional activities to be conducted during TBA hours in the class syllabus or other document. This does not affect FTES claimed.
- Certain classes with TBA hours that applied weekly attendance accounting procedures did not appear to have the same number of TBA hours each week. Total FTES for such classes was 11.057, however, only the TBA portion of such classes is in question.

Questioned Costs:

None.

Context:

TBA hours were not listed in both the class schedule and the college catalog for 15 out of 25 classes tested. Instructional activities to be conducted during TBA hours were not described in the syllabus for 1 out of 25 classes tested. Improper attendance accounting procedures were noted for 4 out of 25 classes tested, with total FTES for such classes of 11.057 out of 187.587 FTES tested.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

Effect:

Time requirements and course expectations may not be clearly communicated to students, which can affect their choice of courses. The District is potentially claiming more FTES than actually earned for weekly census classes that do not offer the same number of TBA hours each week.

Recommendation:

We recommend that the District review college catalogs and class schedules to ensure that TBA hours are properly listed prior to issuance of such publications, and that the District remind instructors about required information to be communicated in the course syllabi. Lastly, we recommend that the District review classes with TBA hours to determine if they qualify for weekly attendance accounting procedures and switch ineligible classes to positive attendance classes to ensure FTES is properly calculated.

Response:

We agree with the auditors' comments, and are investigating the problem in order to determine a corrective action to ensure compliance. The District is currently over its funded FTES level so if there is any error in FTES it has no impact on apportionment funding.

12-2 – INSTRUCTIONAL MATERIALS

Criteria:

Education Code Section 76365 allows districts to require students to provide various types of instructional materials. California Code of Regulations, Title V, Section 59402 defines required instructional materials as “any materials which a student must procure or possess as a condition of registration, enrollment, or entry into a class; or any such material which the instructor determines is necessary to achieve the required objectives of a course.” Instructional materials cannot be solely or exclusively available from the District. However, a material will not be considered solely or exclusively available from the District if it is provided to the student at the District’s actual cost, there are health or safety reasons for the District being the provider, or if the District is providing the material cheaper than it is available elsewhere.

Condition:

Instructional material fees were charged to students at a fee above the District’s actual cost, or were charged to students for materials that were ultimately not provided to the students.

Questioned Costs:

\$3,574.69

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2012

Context:

Instructional materials fees were charged to students at a fee above the District's actual cost for 4 of 25 courses selected for testing. Instructional material fees were charged to students for materials that were ultimately not provided to the students for 2 of the 25 courses sampled.

Effect:

Students were charged fees for materials in excess of the District's cost and were charged fees for materials that were not provided to them.

Recommendation:

We recommend that the District strengthen controls over fees charged for materials, including the procurement and provision of the materials, and a review and approval process for setting such fees, to ensure the District is in compliance with District policies and regulations set forth in the law.

Response:

We agree with the auditors' comments, and the following action will be taken to improve the situation. We are developing internal controls to ensure future compliance and are planning an internal audit of all course fees in the District, including reviewing the items received by student and the cost of each item.

SECTION IV - FEDERAL COMPLIANCE

There were no federal compliance findings reported.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2012

There were no findings in prior year.