

**SONOMA COUNTY
JUNIOR COLLEGE DISTRICT**

SANTA ROSA, CALIFORNIA

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2014

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

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SONOMA COUNTY JUNIOR COLLEGE DISTRICT

ORGANIZATION YEAR ENDED JUNE 30, 2014

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>
Jeff Kunde	President	2014
Don Edgar	Vice President	2016
B. Robert Burdo	Clerk	2014
Richard W. Call	Member	2016
W. Terry Lindley	Member	2016
Kathleen Doyle	Member	2014
Don Zumwalt	Member	2014
Omar Paz, Jr.	Student Member	2015

ADMINISTRATION

Dr. Frank Chong Superintendent/President
Mary Kay Rudolph Vice President of Academic Affairs/Assistant Superintendent
Doug Roberts Vice President of Business Services
Karen Furukawa..... Vice President of Human Resources
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**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Sonoma County Junior College District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, the discretely presented component unit, and the aggregate remaining fund information of the Sonoma County Junior College District, as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 United States of America, which consisted of inquiries of management about the 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.

Supplementary Information

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 basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, 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* in considering the District's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

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

November 21, 2014

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Sonoma County Junior College District for the year ended June 30, 2014. 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.

The Sonoma County Junior College District, familiarly called Santa Rosa Junior College (SRJC), is a public two-year community college, which serves approximately 27,000 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 associate degree majors and 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 SRJC as a whole: the Balance Sheet; the Statement of Revenues, Expenses and Changes in Net Position; 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.

Financial and Attendance Highlights

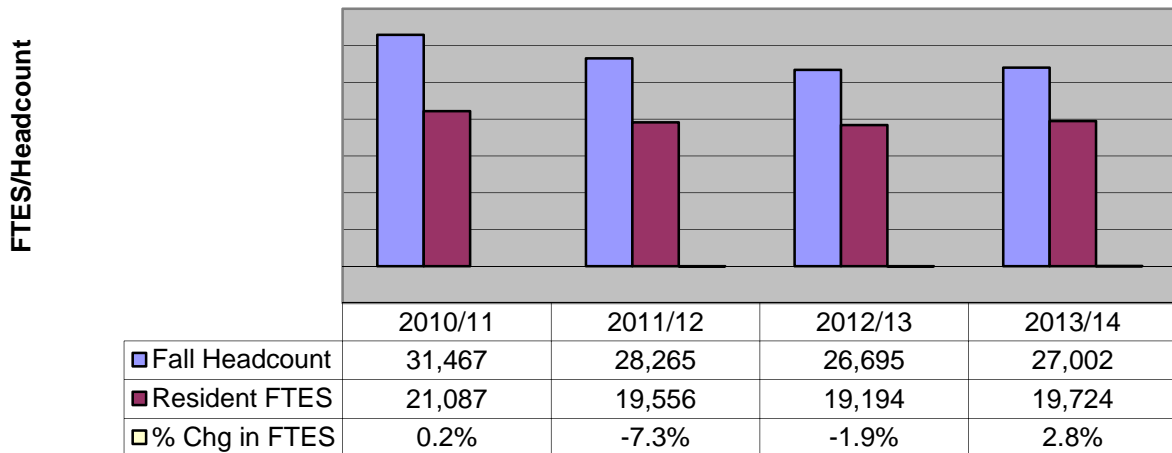
- ☐ Beginning in 2009/10, as a result of the economic crisis, the State began imposing a series of workload reductions on the community college system by reducing the number of FTES that they would fund. By 2011/12, the State had reduced the District's funded FTES by roughly 12%. The District responded to each funded FTES reduction by reducing course offerings. The FTES reduction

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

actually achieved was less than planned due to increased demand caused by unemployment, and enrollment restrictions placed on incoming freshmen by the UC and the CSU systems. With the passage of Proposition 30, the District was spared any additional workload reduction. However, due to the uncertainty of the proposition’s passage, at the time of enrollment planning, the District was conservatively forced to reduce course offerings in anticipation of the proposition’s possible failure. As a result, the District experienced a further FTES reduction of nearly 2% in 2012/13. For 2013/14, the District’s budget included a planned 8% increase in course offerings to restore base apportionment FTES and capture State restoration/growth funds. Unfortunately the District fell short of its academic year FTES goals and was forced to include 1,100 FTES from Summer 2014 in 2013/14 to ensure it captured all available growth funds.

Annual Enrollment and Headcount



Notes:

1) FTES = full-time equated students; 1 FTES = 525 student contact lecture hours.

☐ In 2013/14, during the twelfth year of implementation of its \$251.7 million General Obligation Bond program (Measure A), with the major construction completed, the District completed numerous maintenance projects and technology and equipment purchases. 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 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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

- ☐ 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, 2014, was 0.491% compared to 0.828% for the June 30, 2013 quarter.

Financial Aid and Doyle Scholarships

For the years ended June 30, 2014 and 2013, the following sources of student financial aid were disbursed:

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>% Change</u>
Federal	\$ 18,839,624	\$ 19,140,242	\$ (300,618)	(1.57%)
State	872,677	1,124,140	(251,463)	(22.37%)
Local	146,513	261,879	(115,366)	(44.05%)
Scholarships	<u>291,294</u>	<u>93,046</u>	<u>198,248</u>	213.06%
Total	<u>\$ 20,150,108</u>	<u>\$ 20,619,307</u>	<u>\$ (469,199)</u>	(2.28%)

The Federal financial aid includes the Pell, SEOG, Federal Family Education Loans, National Service Trust, and Federal Work Study Programs. The State programs include EOPS Grants and the Cal Grant Program. 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 SRJC for scholarships to assist students attending Santa Rosa Junior College. After a number of years of not issuing Doyle Scholarships due to a suspension of dividends by Exchange Bank, the program started again with 718 scholarships being awarded in 2013/14 for \$700 each.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Balance Sheet

The Balance Sheet includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting method used by most private sector organizations. Net Position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is an indicator of the financial health of a District.

	2014	2013	Change
ASSETS			
Current assets	\$ 53,141,738	\$ 58,115,754	\$ (4,974,016)
Non-current assets	<u>352,587,208</u>	<u>356,849,532</u>	<u>(4,262,324)</u>
TOTAL ASSETS	<u>405,728,946</u>	<u>414,965,286</u>	<u>(9,236,340)</u>
 DEFERRED OUTFLOW OF RESOURCES	 <u>16,235,577</u>	 <u>17,293,972</u>	 <u>(9,236,340)</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 421,964,523</u>	 <u>\$ 432,259,258</u>	 <u>\$ (18,472,680)</u>
 LIABILITIES			
Current liabilities	23,115,777	23,958,667	(842,890)
Non-current liabilities	<u>203,772,633</u>	<u>211,405,293</u>	<u>(7,632,660)</u>
TOTAL LIABILITIES	<u>226,888,410</u>	<u>235,363,960</u>	<u>(8,475,550)</u>
 NET POSITION			
Invested in capital assets, net of related debt	147,693,941	148,345,776	(651,835)
Restricted	34,301,522	37,760,626	(3,459,105)
Unrestricted	<u>13,080,650</u>	<u>10,788,896</u>	<u>2,291,755</u>
TOTAL NET POSITION	<u>195,076,113</u>	<u>196,895,298</u>	<u>(1,819,185)</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 421,964,523</u>	 <u>\$ 432,259,258</u>	 <u>\$ (10,294,735)</u>

Current assets at June 30, 2014 consist of:

- ☐ Current cash and cash equivalents, mainly held at the county treasury, total \$25.9 million.
- ☐ Restricted cash and cash equivalents which include cash in the Bond Fund (\$114.5 thousand) and General Obligation debt service fund held for current repayments of the bonds (\$9.6 million).
- ☐ Accounts receivables which include amounts due from grants, contracts, and general apportionment earned, but not received, by year-end. Accounts receivable increased \$1.1 million over prior year, due mainly to timing in apportionment payments.
- ☐ Inventory which consists primarily of Bookstore inventory of approximately \$806 thousand.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Non-current assets are:

- ☐ Restricted cash and cash equivalents which consist of tax revenues collected by the county for payment of Measure A, General Obligation Bonds principal and interest in future years.
- ☐ Restricted investments which are funds from the General Obligation Bond, Series D issue that are invested with Bond Logistix.
- ☐ Capital assets which 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 which consist mainly of amounts due to vendors (\$3.1 million) and employees (\$2.3 million). Accounts payable increased by \$1.1 million over prior year, mostly due to a change in the timing of payments to vendors.
- ☐ Unearned revenue related to federal, state and local program funding that had been 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 2014 semesters (\$476 thousand).

Non-current liabilities are:

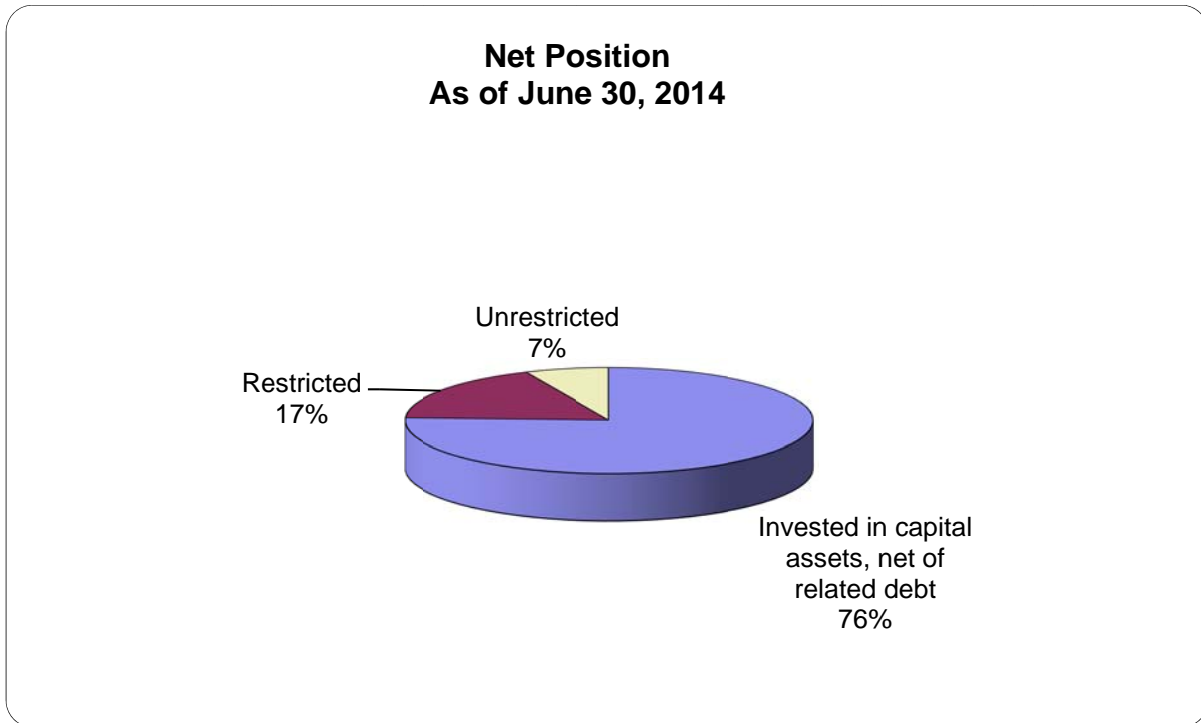
- ☐ Liabilities and/or debt to be paid in one year or later. The major component of the non-current portion is long-term debt (\$203.8 million). Detailed information regarding the District's long-term debt can be found in the footnotes to the financial statements.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Analysis of the District's Financial Position

Net Position is the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of liabilities, and is an indicator of the District's financial position. Net Position is reported in three components: Net Investment in Capital Assets, Restricted and Unrestricted. Net Investment in Capital Assets (\$147.7 million) consists of capital assets net of accumulated depreciation, less outstanding capital debt net of unspent proceeds. The Restricted portion includes amounts legally restricted for payment of debt service (\$26.7 million), capital projects (\$7.3 million) or other special purposes (\$0.3 million). The Unrestricted portion (\$13.1 million) represents resources with no external restrictions, but which may be designated by the Board of Trustees for contingencies and other special purposes. This represents 7% of the Total Position at June 30, 2014.



SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position 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. There was an adjustment to the beginning net position in 2012/13 for changes in capitalized interest and bond issuance costs resulting from the implementation of GASBs 62 and 65.

	2014	2013	Change
Total operating revenues	\$ 54,467,956	\$ 53,339,445	\$ 1,128,511
Total operating expenses	156,379,381	147,200,256	9,179,125
Operating income (loss)	(101,911,425)	(93,860,811)	(8,050,614)
Total non-operating revenues (expenses)	86,604,110	76,228,500	10,375,610
Gain (loss) before capital revenues	(15,307,315)	(17,632,311)	2,324,996
Capital revenues	13,488,130	14,252,593	(764,463)
Increase (decrease) in net position	(1,819,185)	(3,379,718)	1,560,533
Net Position - Beginning of year	196,895,298	185,079,425	11,815,873
Cumulative effect of change in accounting principle		15,195,591	
Net Position - End of year	\$ 195,076,113	\$ 196,895,298	\$ (1,819,185)

Changes in operating revenues:

- ☐ Net tuition and fees decreased to \$14.4 million. Enrollment fees are set by the state legislature for all community colleges, which was \$46 a unit in 2013/14

- ☐ Auxiliary enterprise sales and charges are primarily Bookstore sales (\$5.59 million) and Farm sales (\$956 thousand). Bookstore sales decreased by \$389 thousand from prior year, while Farm sales increased by \$265 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 \$45.8 million of the non-operating revenues and property taxes are \$43.2 million. State apportionment increased by \$7.2 million from prior year and property tax revenue increased by \$1.4 million.

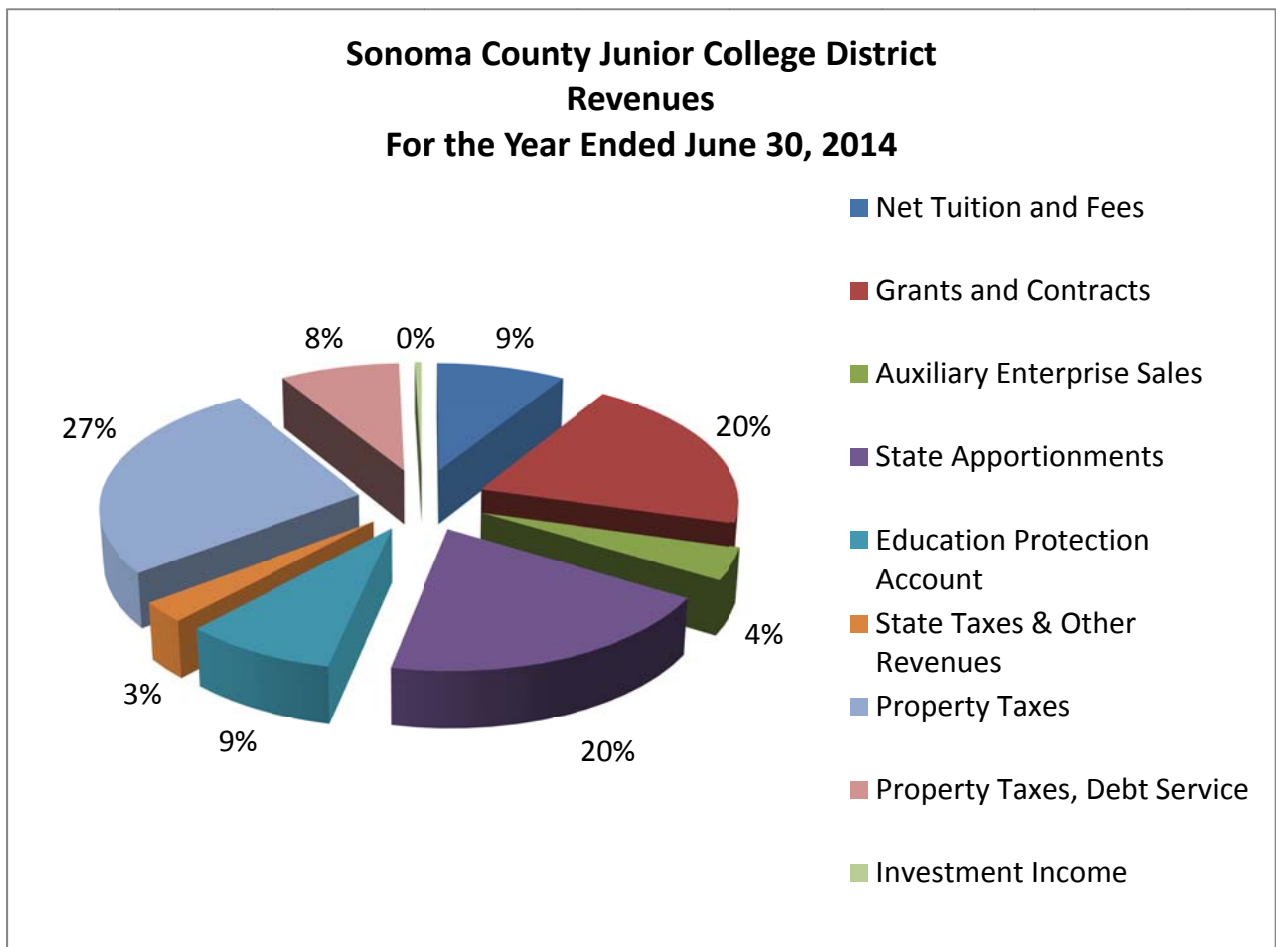
- ☐ Investment income – non-capital is a gain of \$493 thousand after adjusting the cash and investments to fair market value as required by GASB 31.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Revenues

	For the Year Ended <u>June 30, 2014</u>
Net Tuition and Fees	\$ 14,443,684
Grants and Contracts	33,288,416
Auxiliary Enterprise Sales	6,735,856
State Apportionments	31,961,681
Education Protection Account	13,898,759
State Taxes & Other Revenues	4,385,676
Property Taxes	43,158,453
Property Taxes, Debt Service	13,462,390
Investment Income	<u>750,746</u>
Total Revenues	<u>\$ 162,085,661</u>

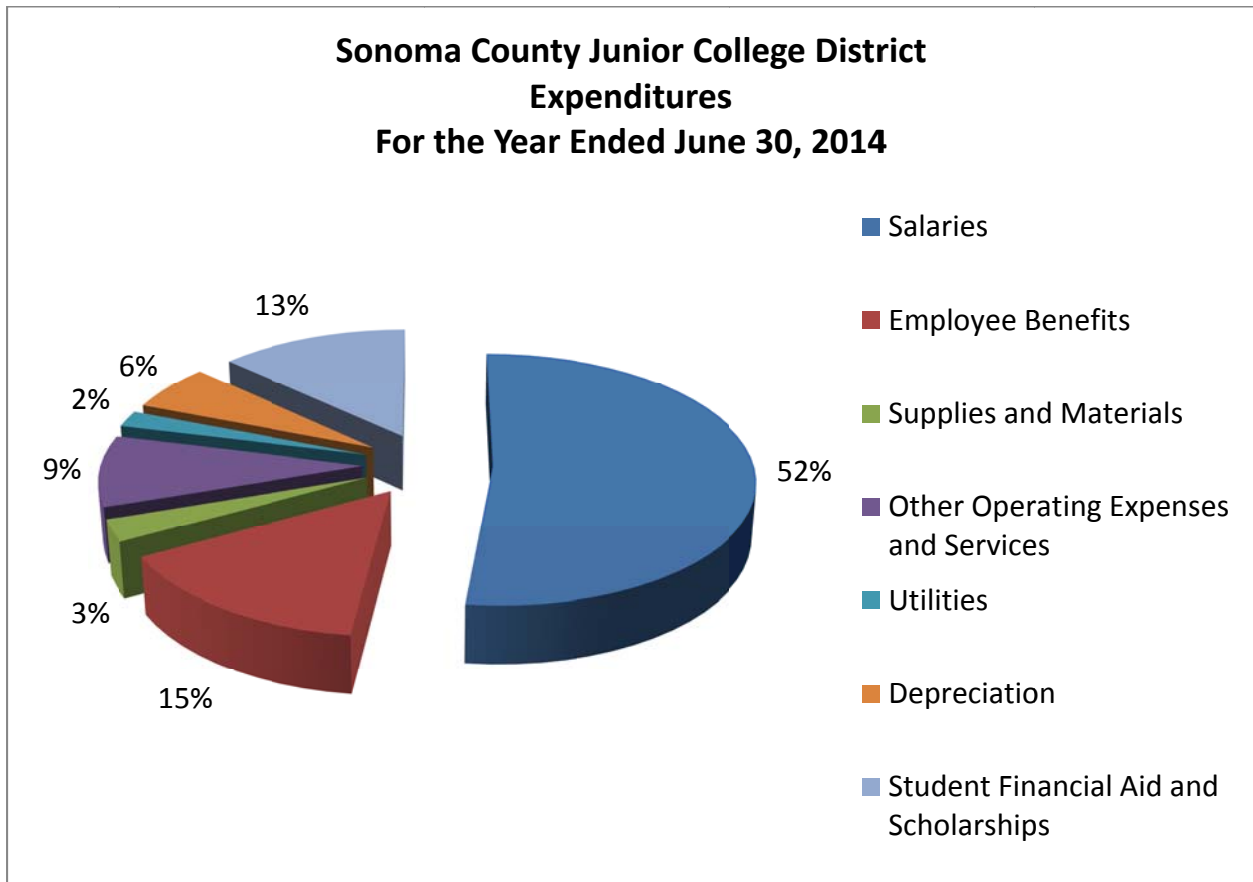


SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Operating Expenses (by natural classification)

	For the Year Ended <u>June 30, 2014</u>
Salaries	\$ 81,156,585
Employee Benefits	23,510,824
Supplies and Materials	4,417,548
Other Operating Expenses and Services	14,237,579
Utilities	3,236,363
Depreciation	9,300,964
Student Financial Aid and Scholarships	<u>20,519,518</u>
Total Operating Expenses	<u>\$ 156,379,381</u>

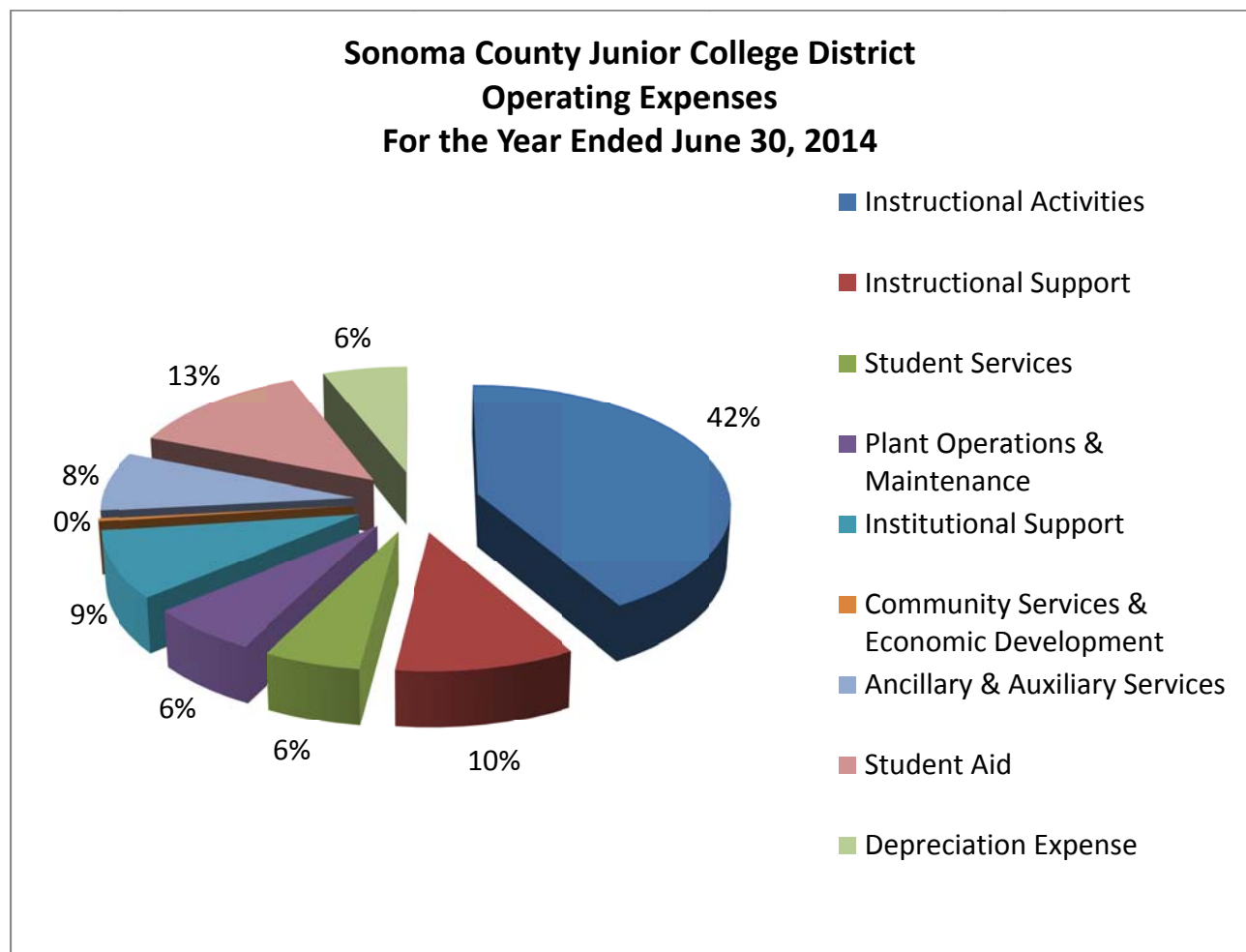


SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

Operating Expenses (by function)

	For the Year Ended June 30, 2014
Instructional Activities	\$ 65,176,977
Instructional Support	16,235,320
Student Services	8,628,886
Plant Operations & Maintenance	9,821,495
Institutional Support	14,140,595
Community Services & Economic Development	588,236
Ancillary & Auxiliary Services	12,214,794
Student Aid	20,283,259
Depreciation Expense	<u>9,289,819</u>
Total Operating Expenses	<u>\$ 156,379,381</u>



SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

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		
	2014	2013	Change
Net Cash provided (Used) By:			
Operating activities	\$ (91,364,661)	\$ (85,266,094)	\$ (6,098,567)
Non-capital financing activities	92,288,501	88,031,141	4,257,360
Capital and related financing activities	(4,027,592)	(11,140,022)	7,112,430
Investment activities	493,014	(485,922)	978,936
Net increase (decrease) in cash	(2,610,738)	(8,860,897)	6,250,159
Cash - Beginning of the fiscal year	56,070,918	64,931,815	(8,860,897)
Cash - End of the fiscal year	\$ 53,460,180	\$ 56,070,918	\$ (2,610,738)

- ☐ Net cash used for operating activities increased by \$6.1 million from the prior year. This change was largely due to changes in payments to suppliers and employees and tuition and fees payments.
- ☐ Net cash provided by noncapital financing activities are from state apportionments and property taxes. Cash received from state apportionments and receipts increased by \$2.75 million over prior year due mainly to the decrease of apportionment payments deferred by the state until after the fiscal year. Cash received from property taxes (non-capital) increased \$1.37 million over prior year as home prices began rebounding in the county.
- ☐ 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 property taxes (\$13.5 million), and interest in capital investments (\$258 thousand). Cash outflows were comprised of changes in principal (\$6.1 million) and interest (\$11.3 million) paid on long term debt and construction or acquisition of capital assets (\$2.5 million).

Capital Assets

The District had additions of \$2.5 million in capital assets for the year, of which \$844 thousand were for construction costs and land improvements. There are no major projects remaining in Measure A. In 2012/13 year, the District implemented GASB 62, which resulted in a cumulative change to capital assets of \$17.2 million of prior years' interest costs being capitalized, resulting in a change in accounting principle that restated the beginning net position of the District.

Long-Term Debt

The District's long-term debt balance of \$203.8 million is comprised of: bonds payable (\$199.1 million) and post-employment health benefits (\$4.7 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, 2014

Economic Factors That May Affect the Future

- ☐ With better than 90% of the District's Unrestricted General Fund revenue being tied directly to enrollment (reported FTES), maintaining and growing the District's FTES is paramount to the District's ability to maintain fiscal health. During the recent recession, the State twice helped balance its own budget by reducing support to the Community College System. They did this through the process of workload reductions. Between 2008-09 and 2012/13 the State reduced the number of FTES that they would fund, which resulted in a loss of revenue of roughly 12%.
- ☐ Although the passage of Proposition 30 did not provide any additional funding to the District in 2012/13, it did avert nearly \$6.3 million in additional cuts that year. Starting in 2013/14, the additional taxes created by Proposition 30 have allowed the State to renew giving COLA and growth funding. In 2013/14, and 2014/15, the amount of COLA funding given to the system was 1.57% and 0.85% respectively. The growth funding made available for 2013/14 and 2014/15 was 1.63% and 2.75% respectively. Unfortunately, the availability of this additional funding has yet to bring SRJC's apportionment revenues back to pre-recession funding levels.
- ☐ In response to the State's recessionary cuts, the District took mitigation efforts. The most effective and appreciated, were the series of one-year salary and benefit concessions agreed to by the District's employees. Between 2008/09 and 2012/13, despite the loss of funding from the State, the District's employees not only helped the District bridge potential budgetary shortfalls, but they also helped the District improve its ending fund balance. The District was also helped by the State's retracting the threatened 2011/12 Tiered triggered cuts, the 2012/13 Prop-30-failure triggered cuts, and reducing apportionment deficit funding in 2010/11.
- ☐ In February 2014, the State Chancellor's Office announced a dramatic change in deficit funding for 2012/13, which also affected the estimated deficit funding used in the 2013/14 budget. Combined, the prior year \$2.7 million adjustment (one-time money) and the current year \$1.8 million estimate change (on-going money) added \$4.5 million to the 2013/14 budget. These changes significantly reduced the \$5.5 million general fund balance spend-down that had been originally projected for 2013/14. It was also helpful that the District was able to include in its enrollment report, for 2013/14, certain FTES from summer 2014 that normally would have been reported in 2014/15. Without this period reporting change, the District would not have been able to capture about \$5 million in restoration and growth funding that it had included in its 2013/14 budgeted revenues. As is, the District was able to show a roughly \$12.3 million general fund balance, as of June 30, 2014, which was only a slight reduction from the balance of previous year. Unfortunately, the resultant fund balance of 2013/14 has masked some fiscal concerns. First, the District's 2013/14 finances were significantly helped by the \$2.7 million one-time adjustment due to the State Chancellor's Office correction of the deficit funding for 2012/13. Had that correction been posted to 2012/13, and the two years' financial records restated, the actual spend-down, from 2012/13 to 2013/14, would have been closer to \$2.9 million, and have been more indicative of a potential ongoing fiscal problem. Secondly, had the District not borrowed FTES from summer 2014, it would have reported closer to 18,625 FTES, for fiscal 2013/14, and apportionment revenue for the year would have been \$5 million less. Fortunately, given attendance reporting rules, and the stability mechanism guaranteed in the Education Code, the District is not at immediate risk of losing apportionment revenues, and has the time and opportunity to grow into the 19,724 FTES it reported for 2013/14. However, because it had to borrow around 1,100 FTES from 2014/15, the District will most likely be on stability for 2014/15, and will not be eligible for any growth funding. The inability to capture growth funding may be a

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

problem for some time to come, due to the fact that District enrollments are not increasing, which is principally the result of the improved local economy (which draws students away) and the Legislature's changes to course repeatability, which has discouraged many of the College's former life-long learners.

- ☐ The Governor's budget for 2014/15 provides almost \$1.2 billion in additional money to the community college system. At face value, it would seem that this influx of money would surely solve any of the District's potential fiscal concerns. Looking at the detail of funding, \$498 million, or 42% of the new money, is being used to buy-down the system's deferred revenues. This funding, unfortunately, does not provide any new money to community colleges. What it does provide is more community college money during the fiscal year, rather than after the year is over. Another \$441 million, or 37% of the new money, is being given in support of numerous categorical programs, and, although welcome, this money can only be expended for the restricted purpose for which the funds were received, and does not help the general fund balance.
- ☐ To the system's collective Unrestricted General Funds, the Governor's 2014/15 budget provides: \$140.4 million to fund 2.75% growth, \$49.5 million for Mandated Costs, and \$47.3 million to provide a 0.85% COLA. Unfortunately, as discussed earlier, with the District being on stability in 2014/15, the District will not be able to garner any of the growth funding. The funding for Mandated Costs is one-time funding, that takes the place of similar one-time funding provided in 2013/14. So, for SRJC, the only new, additional money being received in 2014/15 is the 0.85% COLA which amounts to approximately \$800,000.
- ☐ Given 1) the abundance of good news surrounding the size of the Governor's 2014/15 funding increase to the community college system, 2) the sense of improvement in the State's economy, and 3) the significant improvement in the 2013/14 ending fund balance, over what had been initially projected in adopted budget, the District's negotiations groups sought, and were offered, salary and benefit increases for 2014/15.
- ☐ For 2014/15, the District has budgeted a \$6.2 million spend-down of fund balance, which still leaves the District with a better-than 5% ending fund balance (reserve). According to the State Chancellor's Office, the minimum prudent Unrestricted General Fund balance is 5%. The trend of the District's spend-down, however, is a concern, especially as the budget assumptions for 2014/15 include none of the sizable, State-threatened revenue reductions that had been included in the budgets of the past. Also, the 2014/15 budget assumes the near-annual, apportionment deficit funding to be only 1%, and (unlike prior year budgets) assumes a built-in \$1 million savings from a hiring slowdown.
- ☐ The State Chancellor's 2015/16 System Budget Request submitted to the Board of Governors, on September 9, 2014, include the following requests:
 - \$ 120 million for 2.0% growth funding,
 - \$ 200 million for increased funding for the Student Success and Equity programs,
 - \$ 180 million for a 3.0% COLA,
 - \$ 115 million for the restoration of categorical programs,
 - \$ 70 million for full-time faculty hiring,
 - \$ 25 million for employee professional development,
 - \$ 25 million for workforce development programs, and
 - \$ 460 million in (suggested) one-time funding for deferred maintenance, instructional equipment and mandated costs.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

It also requests a guaranteed revenue backfill to end the annual uncertainty of deficit funding applied to apportionment revenues with which all of the State's colleges have had to contend. Were this guarantee already in place for 2014/15, it would have eliminated \$1 million in threatened revenue loss that SRJC (in order to be conservative) included in the budget.

- ☐ The chances that the system's requests for 2014/15 may be granted are better than they have been in the past. The State's economic picture has been slowly improving and given the current pace of receipts, the State's 2014/15 general fund revenues are projected to come in higher than what had been budgeted. Excess 2014/15 revenues could be used to buy down the remainder of the deferred revenues owed to the K-14 system, and thereby free up money that had tentatively been planned for such funding purposes in 2015/16. Increased 2014/15 revenue will also increase the 2015/16 revenue projections, which would then make more money available to the State's over-all general fund, and, per the Prop 98 guarantees to K-14, could have a positive impact on community college funding.
- ☐ Proposition 30 and the improved State economy are credited for the improvement in State revenue, however the effects are not permanent. The quarter-percent increase of State-wide sales tax comes to an end December 31, 2016, and the increased personal income tax on people making more than \$250,000 per year ends December 31, 2018. It is hoped that by the time the provisions of Proposition 30 end, the State's economy will have fully recovered and the rainy day funds set aside by the Governor will mitigate the effects to K-14 districts of future economic slumps.
- ☐ The State's primary employee pension providers, CalPERS and CalSTRS, are greatly underfunded. Starting in 2014/15, the employer contribution for CalSTRS will increase by 8%, with additional annual increases of 22% from 2015/16 through 2018/19, and 12% in 2019/20, resulting in an overall increase from 8.25% in 2013/14 to 19.10% by 2019/20. The impact of this change on SRJC, from 2015/16 through 2018/19, will be a successive annual increase of over \$900,000 per year. The increase for the CalPERS program will be almost as dramatic as those for CalSTRS. Starting small, CalPERS employer costs, in 2014/15, went up by \$72,000 or 3%. By 2020/21, the cost will have risen 80% adding another \$2 million to costs. Healthcare premium costs are also expected to continue their annual increase. Between 2007/08 and 2013/14, the District's cost for employee healthcare rose by \$2.8 million.
- ☐ As outlined in the District's Strategic Plan, one of the District's goals is to diversify its revenues. The District has certainly increased its activity with regards to grant applications, and was successful in 2013/14 in being named a "Hispanic Serving Institute" which will provide additional funding to the District to serve a recognized underserved student population. Although grant funds cannot directly provide funding to the District's Unrestricted General Fund, its operating fund, it does provide varying degrees of indirect help. One District initiative that does provide additional operational funding is increasing the District's non-resident/international student population. Although building such a student population takes time, the District has embarked on greater outreach and student support. To date, the increased efforts have resulted in a revenue increase of roughly \$250,000. The ultimate goal is to build SRJC's program to a size similar to some of its sister-districts, whose non-resident income range as high as \$12 to \$24 million (as compared to the \$1.8 million that the District budgeted in 2014/15).

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2014

- ☐ On November 4, 2014, voters within the District's boundaries approved Measure H, a \$410 million, Proposition 39, capital improvements bond. As dramatically as the \$252 million from the 2002 Measure A bonds have transformed the District, the Measure H bonds will continue and expand that transformation. Although such bond funding cannot be used to help the District's General Fund, what the bond can afford in newer, larger classrooms, updated infrastructure and technology will have benefits that should reduce some of the District's operational costs in the area of utilities, maintenance and repair.

- ☐ Planning for 2015/16 and beyond, the District has already formed workgroups with its employees to study and make recommendations regarding the largest component of the District's costs, namely, salaries and benefits. Whatever the future may hold, the District and its employees will undoubtedly remain committed to its mission and strategic plan. As demonstrated during the recession, SRJC and its employees will work together and take the steps necessary to maintain the long-term fiscal health of the District and continue its mission.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

BALANCE SHEET JUNE 30, 2014

	Primary Institution	Foundation
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 25,958,023	\$ 2,557,103
Restricted Cash and Cash Equivalents	9,762,918	
Cash with Trustee	662,369	
Accounts Receivable	15,715,674	4,889
Pledges Receivable		45,897
Inventory	806,476	
Prepaid Expenses	236,278	143,025
Total Current Assets	53,141,738	2,750,914
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	17,076,870	
Restricted Investments	13,042,439	41,569,622
Endowment Fund		1,043,992
Pledges Receivable		33,843
Charitable Remainder Trust Investments		3,095,747
Nondepreciable Capital Assets	12,269,233	
Depreciable Capital Assets, Net	310,198,666	
Total Noncurrent Assets	352,587,208	45,743,204
DEFERRED OUTFLOW OF RESOURCES:		
Deferred Charge on Refunding	16,235,577	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 421,964,523	\$ 48,494,118
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 6,590,705	\$ 136,348
Unearned Revenue	3,941,253	252,745
Interest Payable	3,474,148	
Liabilities Under Charitable Remainder Trusts		40,314
Amounts Held on Behalf of Others	1,184,396	904,252
Long-Term Liabilities Due Within One Year:		
Compensated Absences Payable	2,835,275	
Bonds Payable	5,090,000	
Total Current Liabilities	23,115,777	1,333,659
Noncurrent Liabilities:		
Postemployment Benefits	4,685,658	
Liabilities Under Charitable Remainder Trusts		203,662
Bonds Payable	199,086,975	
Total Noncurrent Liabilities	203,772,633	203,662
TOTAL LIABILITIES	226,888,410	1,537,321
NET POSITION:		
Net Investment in Capital Assets	147,693,941	
Restricted for:		
Expendable:		
Capital Projects	7,257,399	
Debt Service	26,714,787	
Other Special Purposes	329,336	
Restricted by Donors		45,295,751
Unrestricted	13,080,650	1,661,046
TOTAL NET POSITION	195,076,113	46,956,797
TOTAL LIABILITIES AND NET POSITION	\$ 421,964,523	\$ 48,494,118

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2014

	Primary Institution	Foundation
OPERATING REVENUES:		
Tuition and Fees (gross)	\$ 24,774,262	
Less: Scholarship Discounts and Allowances	(10,330,578)	
Net Tuition and Fees	14,443,684	
Grants, Contracts, and Donations, Noncapital:		
Federal	21,151,241	
State	8,073,539	
Local	4,063,636	
Contributions		\$ 2,310,090
Other		613,252
Auxiliary Enterprise Sales and Charges	6,735,856	
TOTAL OPERATING REVENUES	54,467,956	2,923,342
OPERATING EXPENSES:		
Academic Salaries	50,445,526	
Classified Salaries	30,711,059	
Employee Benefits	23,510,824	
Supplies and Materials	4,417,548	
Other Operating Expenses and Services	14,237,579	635,958
Utilities	3,236,363	
Depreciation	9,300,964	
Student Financial Aid and Scholarships	20,519,518	1,403,041
TOTAL OPERATING EXPENSES	156,379,381	2,038,999
OPERATING GAIN (LOSS)	(101,911,425)	884,343
NON-OPERATING REVENUES (EXPENSES):		
State Apportionments, Noncapital	31,935,941	
Education Protection Account	13,898,759	
Local Property Taxes	43,158,453	
State Taxes and Other Revenues	4,385,676	
Investment Income (Loss) - Noncapital	493,014	5,480,610
Investment Income - Capital	257,732	
Interest Expense on Capital Asset-Related Debt	(7,495,547)	
Other Non-Operating Expenses	(29,918)	
Other Non-Operating Transfers		(722,425)
TOTAL NON-OPERATING REVENUES (EXPENSES)	86,604,110	4,758,185
GAIN (LOSS) BEFORE CAPITAL REVENUES:	(15,307,315)	5,642,528
State Apportionments, Capital	25,740	
Local Property Taxes and Revenues, Capital	13,462,390	
INCREASE (DECREASE) IN NET POSITION	(1,819,185)	5,642,528
NET POSITION -- BEGINNING OF YEAR	196,895,298	41,314,269
NET POSITION -- END OF YEAR	\$ 195,076,113	\$ 46,956,797

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

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2014

	Primary Institution	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and Fees	\$ 14,046,862	
Federal Grants and Contracts	20,558,001	
State Grants and Contracts	9,489,068	
Local Grants and Contracts	4,373,824	
Contributions		\$ 2,344,104
Payments to Suppliers	(21,689,304)	
Payments to/on behalf of Employees	(103,885,041)	
Payments to/on behalf of Students	(20,825,133)	(1,403,041)
Auxiliary Enterprise Sales and Charges	6,582,386	
Other Receipts and Payments	(15,324)	206,968
Net Cash Provided (Used) by Operating Activities	(91,364,661)	1,148,031
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State Apportionments and Receipts	49,055,580	
Property Taxes	43,158,453	
Student Organization Agency Disbursements	74,468	
Interest on Noncapital Investments		945,873
Other Transfers		(722,425)
Net Cash Provided by Noncapital Financing Activities	92,288,501	223,448
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State Apportionments for Capital Purposes	902,937	
Purchases of Capital Assets	(2,511,234)	
Proceeds from Sales of Capital Assets	7,002	
Principal Paid on Capital Debt	(6,095,280)	
Interest Paid on Capital Debt	(11,305,869)	
Purchases of Capital Investments	(3,190,270)	
Proceeds from Sale of Capital Investments	4,445,000	
Interest on Capital Investments	257,732	
Local Property Taxes and Other Revenues for Capital Purposes	13,462,390	
Net Cash Used by Capital and Related Financing Activities	(4,027,592)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Investments		(12,240,647)
Sales and Maturities of Investments		11,470,272
Gain on Pooled Cash and Cash Equivalents	493,014	
Net Cash Used by Investing Activities	493,014	(770,375)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(2,610,738)	601,104
CASH AND EQUIVALENTS -- BEGINNING OF YEAR	56,070,918	1,955,999
CASH AND EQUIVALENTS -- END OF YEAR	\$ 53,460,180	\$ 2,557,103

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, 2014

Reconciliation to Balance Sheet:

Cash and Equivalents	\$ 25,958,023	\$ 2,557,103
Restricted Cash and Cash Equivalents - Current	9,762,918	
Cash with Trustee	662,369	
Restricted Cash and Cash Equivalents - Noncurrent	<u>17,076,870</u>	
Total Cash and Cash Equivalents	<u>\$ 53,460,180</u>	<u>\$ 2,557,103</u>

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

Operating Gain (Loss)	\$ (101,911,425)	\$ 884,343
Donated investments		(30,288)
Adjustments to Reconcile Operating Gain (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	9,300,964	
Changes in Assets and Liabilities:		
Accounts Receivable	174,145	(3,389)
Pledges Receivable		69,765
Inventories, Prepaids, and Other Assets	(380,675)	285,049
Endowment Fund		(101,844)
Accounts Payable	1,015,167	56,839
Unearned Revenue	267,845	100,071
Postemployment Benefits	243,974	
Compensated Absences	(74,656)	
Liabilities Under Charitable Remainder Trusts		(86,519)
Amounts Held on Behalf of Others		<u>(25,996)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (91,364,661)</u>	<u>\$ 1,148,031</u>

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

Amortization of Deferred Charge on Refunding	\$ (1,058,395)	
Amortization of Premium on Long-Term Debt	<u>2,286,634</u>	
Net Non-Cash Investing, Capital, and Financing Activities	<u>\$ 1,228,239</u>	<u>\$</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2014

	<u>Agency Funds</u>
	<u>Associated Students and Student Representation Fees</u>
ASSETS:	
Cash and Cash Equivalents	\$ 546,295
Accounts Receivable	<u>3,778</u>
TOTAL ASSETS	<u>\$ 550,073</u>
LIABILITIES:	
Accounts Payable	\$ 3,079
Due to District	1,548
Amounts Held in Trust for Others	<u>545,446</u>
TOTAL LIABILITIES	<u>\$ 550,073</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 Statements No. 39 and 61. 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).

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, 2014

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 balance sheet based on anticipated use.

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 position.

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.

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, 2014

Capital assets – Capital assets are those assets purchased or acquired with a minimum 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

Interest incurred during the construction phase of capital assets is included as part of the capitalizable value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. Interest costs of \$2,237 were capitalized for the year ended June 30, 2014.

Unearned revenues – Unearned revenues include amounts received for tuition and fees prior to the end of the fiscal year, but related to the subsequent accounting period. Unearned revenues also include amounts received from grants, contracts, and certain categorical programs that have not yet been earned.

Deferred Outflows/Deferred Inflows – In addition to assets, the balance sheet will sometimes report a separate section called *deferred outflows of resources*. A deferred outflow of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The District has one item, deferred charge on refunding, that qualifies for reporting in this category in the balance sheet. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or refunding bond.

In addition to liabilities, the balance sheet will sometimes report a separate section called *deferred inflows of resources*. A deferred inflow of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

Compensated absences – Employee vacation pay is accrued at year-end for financial statement purposes based on vacation time accrued and current pay rates. The liability and expense incurred are recorded at year-end as accrued vacation payable in the balance sheet 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 postemployment benefits and bond repayments and related interest that will not be paid within the next fiscal year.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Net position – The District's net position is classified as follows:

- Net investment in capital assets – 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 of net investment in capital assets.
- Restricted net position – expendable – Restricted expendable net position includes resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- Unrestricted net position – Unrestricted net position represents 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 position includes amounts internally designated for District obligations.

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.

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 revenues, expenses, and changes in net position. The District offers Board of Governor's (BOG) grants 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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Future Accounting Pronouncements – In June of 2012, the GASB issued GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with required implementation for the District during the year ended June 30, 2015 and in November of 2013, issued GASB Statement 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which simply amended portions of GASB 68. GASB 68 is an amendment of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*. The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. It will require employers to report a net pension liability for the difference between the present value of projected pension benefits for past service and restricted resources held in trust for the payment of benefits. The Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB 68 is required to be implemented retroactively and will require a restatement of beginning net position.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District's cash, cash equivalents, and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Balance sheet of the Primary Institution:	
Cash and cash equivalents	\$ 25,958,023
Restricted cash and cash equivalents – current	9,762,918
Restricted cash and cash equivalents - noncurrent	17,076,870
Restricted investments	13,042,439
Cash with trustee	662,369
Statement of fiduciary net position:	
Cash and cash equivalents	<u>546,295</u>
Total cash, cash equivalents, and investments	<u>\$ 67,048,914</u>

The District's cash, cash equivalents, and investments as of June 30, 2014 consist of the following:

Cash and cash equivalents in Sonoma County Treasury	\$ 49,936,765
Deposits with financial institutions	3,331,415
Cash on hand	65,461
Cash equivalents and investments with fiscal agent:	
Money Market	10,465
Cash held by trustee	662,369
U.S. Municipal Securities	<u>13,042,439</u>
Total cash, cash equivalents, and investments	<u>\$ 67,048,914</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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.

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
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptance	180 days	40%	30%
Commercial Paper	270 days	25% or 40%	10%
Negotiable Certificates of Deposits	5 years	30%	30%
CD Placement Services	5 years	30%	30%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds & Money Market 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 Powers Authority Pool	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Investments Authorized by Debt Agreements

The District's cash, cash equivalents, and investments with fiscal agent in the amount of \$13,167,441 represents unspent proceeds of the General Obligation Bond, Series D at June 30, 2014, 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.

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, 2014, the weighted average maturity of the investments contained in the District's Treasury's investment pool is approximately 791 days. As of June 30, 2014, 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	\$ 13,042,439	\$ 11,588,090	\$ 1,454,349	\$

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.S. Municipal Securities	\$ 13,042,439		\$ 11,324,817	\$ 805,150	\$ 912,472
Money Market	10,465	\$ 10,465			
	<u>\$ 13,052,904</u>	<u>\$ 10,465</u>	<u>\$ 11,324,817</u>	<u>\$ 805,150</u>	<u>\$ 912,472</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014:

<u>Investment</u>	<u>Total Market Value</u>
Municipal variable rate demand obligations:	
California Health Facilities Financing Authority VRDO, 0.030% due 10/1/31	\$ 3,800,000
Metropolitan Water District of Southern California VRDO, 0.020% due 7/1/35	3,700,000
Department of Transportation of the State of Kansas VRDO, 0.070%, due 9/1/19	3,065,000

Cash on Hand, in Banks, and in Revolving Fund

As of June 30, 2014, the carrying amount of the District's bank balance was \$3,228,800. Of the bank balance, \$261,879 was insured by the Federal Depository Insurance Corporation (FDIC). Cash on hand of \$65,461 is not insured. District deposits held with financial institutions in excess of FDIC limits were \$2,966,921. Of the total bank balance, \$2,838,426 is held by the primary institution and \$390,374 is held by fiduciary funds.

Restricted Cash, Cash Equivalents, and Investments

The District's restricted cash, cash equivalents, and investments are \$39,882,227 at June 30, 2014. Included in this restricted balance is \$13,167,441 for the 2008 Series D General Obligation Bond unspent proceeds and \$26,714,786 for the assessments collected by the County Treasurer's Office on behalf of the District for the repayment of the District's 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, 2014:

Federal Grants and Contracts	\$ 1,201,117
State Grants and Contracts	570,597
Local Grants and Contracts	239,669
State Apportionment-Non-Capital	11,353,435
Auxiliaries	131,418
Tuition and Fees	1,909,284
Other	<u>310,154</u>
Totals	<u>\$ 15,715,674</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

5. FUNCTIONAL EXPENSES

For the year ended June 30, 2014, 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	\$ 47,606,691	\$ 12,724,338	\$ 4,786,976	\$ 58,972			\$ 65,176,977
Instructional Support	11,609,681	3,497,255	1,128,384				16,235,320
Student Services	5,876,051	1,929,647	622,166	201,022			8,628,886
Plant Operations & Maintenance	3,811,552	1,787,160	4,222,783				9,821,495
Institutional Support	6,957,395	1,832,580	5,350,620			\$ 2,038,698	16,179,293
Community Services & Economic Development	288,866	41,917	257,451				588,236
Ancillary & Auxiliary Services	5,006,349	1,697,927	5,499,373		\$ 11,145		12,214,794
Student Aid			23,735	20,259,524			20,283,259
Depreciation Expense					9,289,819		9,289,819
Totals	<u>\$ 81,156,585</u>	<u>\$ 23,510,824</u>	<u>\$ 21,891,490</u>	<u>\$ 20,519,518</u>	<u>\$ 9,300,964</u>	<u>\$ 2,038,698</u>	<u>\$ 158,418,079</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

6. CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Capital Assets, Not Depreciated:				
Land	\$ 11,966,606	\$ 302,627		\$ 12,269,233
Total Capital Assets, Not Depreciated	11,966,606	302,627		12,269,233
Capital Assets, Depreciated:				
Buildings	372,765,969	446,832		373,212,801
Improvement of Sites	11,658,122	94,427	\$ (8,392)	11,744,157
Vehicles	3,162,067	902,313		4,064,380
Machinery and Equipment	12,216,058	765,035	(171,865)	12,809,228
Total Capital Assets, Depreciated	399,802,216	2,208,607	(180,257)	401,830,566
Less Accumulated Depreciation for:				
Buildings	(62,405,935)	(8,350,751)		(70,756,686)
Improvement of Sites	(8,657,975)	(235,887)	8,392	(8,885,470)
Vehicles	(2,309,007)	(207,362)		(2,516,369)
Machinery and Equipment	(9,101,356)	(506,964)	134,945	(9,473,375)
Total Accumulated Depreciation	(82,474,273)	(9,300,964)	143,337	(91,631,900)
Total Capital Assets, Depreciated, Net	317,327,943	(7,092,357)	(36,920)	310,198,666
Capital Assets, Net	\$ 329,294,549	\$ (6,789,730)	\$ (36,920)	\$ 322,467,899

7. LONG-TERM LIABILITIES

General Obligation Refunding Bonds

In May 2013, the District issued General Obligation Refunding Bonds, in the amount of \$133,215,000, with interest rates ranging from 2.00% - 5.00%. 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 future debt service payments of \$137,302,500 of General Obligation Bonds, Series B, and \$93,758,875 of General Obligation Bonds, Series C. As a result, the refunded bonds are considered to be partially defeased as a legal defeasance and a prorated portion of the liability has been removed from the balance sheet. The reacquisition price exceeded the net carrying amount of the old debt resulting in a deferred charge on refunding. The deferred charge on refunding at June 30, 2014 of \$16,235,577 is being amortized over the remaining life of the new debt.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

The 2013 General Obligation Refunding Bonds mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,170,000	\$ 6,131,000	\$ 7,301,000
2016	1,170,000	6,107,600	7,277,600
2017	695,000	6,085,475	6,780,475
2018	280,000	6,070,850	6,350,850
2019	7,455,000	5,929,600	13,384,600
2020-2024	48,650,000	23,950,200	72,600,200
2025-2029	56,415,000	11,285,125	67,700,125
2030	<u>14,770,000</u>	<u>369,250</u>	<u>15,139,250</u>
Subtotal	130,605,000	65,929,100	196,534,100
Plus: Unamortized Premium	<u>25,903,610</u>		<u>25,903,610</u>
Totals	<u>\$ 156,508,610</u>	<u>\$ 65,929,100</u>	<u>\$ 222,437,710</u>

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%. As described above, these bonds were partially refunded in May 2013, and the refunded portion of the liability has been removed from the balance sheet.

The remaining General Obligation Bonds, Series B mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015		\$ 1,175,500	\$ 1,175,500
2016		1,175,500	1,175,500
2017		1,175,500	1,175,500
2018		1,175,500	1,175,500
2019		1,175,500	1,175,500
2020-2024		5,877,500	5,877,500
2025-2029	\$ 19,095,000	3,583,625	22,678,625
2030	<u>4,415,000</u>	<u>110,375</u>	<u>4,525,375</u>
Subtotal	23,510,000	15,449,000	38,959,000
Plus: Unamortized Premium	<u>1,097,222</u>		<u>1,097,222</u>
Totals	<u>\$ 24,607,222</u>	<u>\$ 15,449,000</u>	<u>\$ 40,056,222</u>

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%. As described above, these bonds were partially refunded in May 2013, and the refunded portion of the liability has been removed from the balance sheet.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

The remaining General Obligation Bonds, Series C mature as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015		\$ 144,600	\$ 144,600
2016		144,600	144,600
2017		144,600	144,600
2018	\$ 3,615,000	72,300	3,687,300
Subtotal	3,615,000	506,100	4,121,100
Plus: Unamortized Premium	123,190		123,190
Totals	<u>\$ 3,738,190</u>	<u>\$ 506,100</u>	<u>\$ 4,244,290</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>
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	2,970,000	74,250	3,044,250
Subtotal	16,990,000	1,642,600	18,632,600
Plus: Unamortized Premium	617,954		617,954
Totals	<u>\$ 17,607,954</u>	<u>\$ 1,642,600</u>	<u>\$ 19,250,554</u>

Revenue Bonds

The District's revenue bond indebtedness at June 30, 2014, consisted of the following:

	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2013</u>	<u>Current Year Payments</u>	<u>Current Year Additions</u>	<u>Outstanding June 30, 2014</u>
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	\$ 1,850,000	\$ 135,000	\$	\$ 1,715,000

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Future payments relating to revenue bonds payable were as follows at June 30, 2014:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 140,000	\$ 76,081	\$ 216,081
2016	145,000	69,491	214,491
2017	150,000	62,669	212,669
2018	160,000	55,500	215,500
2019	165,000	47,984	212,984
2020-2024	<u>955,000</u>	<u>114,584</u>	<u>1,069,584</u>
Totals	<u>\$ 1,715,000</u>	<u>\$ 426,309</u>	<u>\$ 2,141,309</u>

Changes In Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2014, 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	\$ 210,708,889		\$ 8,246,914	\$ 202,461,975	\$ 4,950,000
Revenue Bonds	1,850,000		135,000	1,715,000	140,000
Other Postemployment Benefits (Note 10)	4,441,684	\$ 2,027,113	1,783,139	4,685,658	
Compensated Absences	<u>2,909,931</u>	<u>2,835,275</u>	<u>2,909,931</u>	<u>2,835,275</u>	<u>2,835,275</u>
Total	<u>\$ 219,910,504</u>	<u>\$ 4,862,388</u>	<u>\$ 13,074,984</u>	<u>\$ 211,697,908</u>	<u>\$ 7,925,275</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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 JPAs may be obtained from:

JPA	Address
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

Self-insurance and other limits are as follows:

Type of Coverage	Self-Insurance	SWACC	SAFER	PIPS
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 three 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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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

	SWACC Property / Liability June 30, 2013	SAFER Property / Liability June 30, 2013	PIPS Workers' compensation June 30, 2013
Total Assets	\$ 52,337,870	\$ 11,250,266	\$ 93,631,244
Total Liabilities	\$ 21,094,905	\$ 8,977,165	\$ 77,229,529
Net Position	31,242,965	2,273,101	16,401,715
Total Liabilities and Net Position	\$ 52,337,870	\$ 11,250,266	\$ 93,631,244
Total Revenues	\$ 10,051,708	\$ 1,255,177	\$ (19,392,414)
Total Expenses	6,417,336	(204,475)	(12,800,520)
Net Increase (Decrease) in Net Position	\$ 3,634,372	\$ 1,459,652	\$ (6,591,894)

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.

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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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.

CalPERS Funding Policy

Classic 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. Effective January 1, 2013, new active members are required to contribute 6% of their salary. 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 2013-14 was 11.442% 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, 2014, 2013, and 2012 were \$3,355,227, \$3,005,251, and \$2,842,497, 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.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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 2013-14 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, 2014, 2013, and 2012, were \$2,883,360, \$2,781,051, and \$2,894,586 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, 2014, employees and the District each contributed \$339,053 to the Plan.

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, 2014, employees and the District each contributed \$115,604 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, 2014, there were 473 retirees receiving health care benefits. The retiree must be age 55 or greater at retirement with at least 15 years of service.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

As of June 30, 2014, 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, 2014, expenditures of \$2,027,113 were recognized for the OPEB expense. The 2013-14 contributions consist of \$1,615,601 of postemployment benefits for current retirees on a pay-as-you-go basis, and the implicit subsidy of \$167,538.

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.

Actuarial cost method	Projected Unit Credit
Amortization method	30 year level dollar, open period
Remaining amortization period at June 30, 2014	24
Interest rate assumption	4% Single Weighted Average
Health inflation assumption	4-8%
Projected payroll increase	0%
Annual required contribution	\$ 2,100,872
Interest on net OPEB obligation	165,472
Adjustment to annual required contribution	(239,231)
Annual OPEB expense	2,027,113
Contributions made:	
Pay-as-you-go	(1,615,601)
Implicit subsidy	(167,538)
Increase in OPEB obligation	243,974
Net OPEB obligation at July 1, 2013	4,441,684
Net OPEB obligation at June 30, 2014	\$ 4,685,658

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

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, 2014, 2013, and 2012 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>
6/30/12	\$ 1,959,622	67.58%	\$ 4,136,791
6/30/13	\$ 2,027,113	84.96%	\$ 4,441,684
6/30/14	\$ 2,027,113	87.96%	\$ 4,685,658

The District's funding status for other postemployment benefits as of the most recent valuation date, July 1, 2012, 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>
7/1/12	\$ 0	\$ 20,278,031	\$ 20,278,031	0%	\$ 51,735,223	39%

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 \$1,810,679 (5.204% of 2011-12 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, 2014

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%
7/1/12	\$ 0	\$ 20,278,031	\$ 20,278,031	0%	\$ 51,735,223	39%

SUPPLEMENTARY INFORMATION SECTION

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2014

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	\$15,794,147
Supplemental Educational Opportunity Grant Program	84.007	N/A	192,676
Federal Work-Study Program	84.033	N/A	258,769
Direct Student Loan Program	84.268	N/A	<u>2,460,567</u>
Subtotal Student Financial Assistance Programs Cluster			<u>18,706,159</u>
Passed Through California Community Colleges Chancellor's Office (CCCCO):			
Title II-C	84.048	04-C01-061	535,087
CTE Transitions	84.048	04-139-069	<u>44,025</u>
Subtotal Career and Technical Education			<u>579,112</u>
Passed Through California Department of Education:			
Adult Education (English Literacy/Civics Education Grant)	84.002A	14109	87,531
Adult Education (English As a Second Language)	84.002A	14508	<u>217,786</u>
Subtotal Adult Education			<u>305,317</u>
Passed Through Office of Migrant Education:			
High School Equivalency Program	84.141A	N/A	<u>416,882</u>
Passed Through California Department of Rehabilitation:			
College to Career	84.126A	28109	221,577
Vocational Rehabilitation (Workability III)	84.126	24626	<u>176,631</u>
Subtotal Vocational Rehabilitation			<u>398,208</u>
Total U.S. Department of Education			<u>20,405,678</u>
U.S. Department of Health and Human Services:			
Passed Through CCCCCO:			
Temporary Assistance to Needy Families (TANF)	93.558	N/A	74,192
Passed Through County of Sonoma:			
Temporary Assistance to Needy Families (SonomaWorks)	93.558	17-0405-1SW	<u>212,319</u>
Subtotal TANF State Programs			286,511
Medical Administrative Activities	93.778	04-35070	<u>79,987</u>
Total U.S. Department of Health and Human Services			<u>366,498</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued) YEAR ENDED JUNE 30, 2014

<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. National Science Foundation:			
Passed Through City College of San Francisco:			
Education and Human Resources	47.076	DUE-0802284	1,673
Improving Pathways in Sustainable Agriculture Education	47.076	DUE-1304588	<u>41,201</u>
Total U.S. National Science Foundation			<u>42,874</u>
U.S. Department of Agriculture:			
Passed Through California Department of Education:			
USDA - Beginning Farmers & Ranchers	10.311	SA7701	150,799
Child and Adult Care Food Program	10.558	1800-1A	<u>49,127</u>
Total U.S. Department of Agriculture			<u>199,926</u>
U.S. Department of Commerce:			
Passed Through the Foundation for California Community Colleges:			
ARRA - California Connects Program	11.557	06-43-B10541	<u>2,800</u>
U.S. Corporation of National and Community Service:			
National Service Trust Grant	94.006	N/A	<u>133,465</u>
Total Expenditures of Federal Awards			<u><u>\$21,151,241</u></u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE YEAR ENDED JUNE 30, 2014

Program Title	Entitlements		Program Revenues			Program Expenditures
	Current Year	Unearned Revenue and Cash Received	Accounts Receivable	Unearned/Payables	Total	
Adult Ed AB 86	\$ 308,051	\$ 154,026		\$ 154,026		
Apprenticeship	83,151	83,151			\$ 83,151	\$ 83,151
Basic Skills 11/12		113,875			113,875	113,875
Basic Skills 12/13		167,590		96,888	70,702	70,702
Basic Skills 13/14	154,414	154,414		154,414		
Block Grant 00/01		709,225		709,225		
Cal Grants	858,077	852,741	\$ 5,336		858,077	858,077
CalWorks	455,607	455,607		9,164	446,443	446,443
CalWorks Regional	10,000	10,000		10	9,990	9,990
CCCSHMP	135,199	83,332	24,767		108,099	108,099
Child Development	443,468	424,577	14,968		439,545	439,545
Child Development Consortium	15,000	7,688		437	7,251	7,251
Child Development Renovation & Repair		18,960		1,160	17,800	17,800
Clean Energy	660,336	660,336		634,596	25,740	25,740
Cooperative Agency Resource Education	44,171	44,171			44,171	44,171
CTE Entrepreneur	128,408	28,204	22,938		51,142	51,142
CTE NIMS	80,543	96,611		7,839	88,772	88,772
Disabled Student Program & Services	1,888,375	1,888,375			1,888,375	1,888,375
Employment Training Panel	60,000	5,544			5,544	5,544
Enrollment Growth	363,500	305,340	54,299		359,639	359,639
EOPS Grants	14,600	14,600			14,600	14,600
ESL/Basic Skills	62,500	62,500			62,500	62,500
Extended Opportunity Program and Services	551,790	551,790			551,790	551,790
Faculty and Staff Diversity	8,296	8,892			8,892	8,892
Financial Aid Administration	657,054	657,054			657,054	657,054
Foster Parent Training Program	149,410	74,218	75,192		149,410	149,410
Instructional Equipment 07/08		214,307		46,918	167,389	167,389
Instructional Equipment 13/14	242,601	242,597		242,597		
Matriculation (Credit)	1,148,139	1,148,139		108,848	1,039,291	1,039,291
Matriculation (Non-Credit)	187,924	187,924			187,924	187,924
MESA	50,500	30,300	20,200		50,500	50,500
MESA Schools Pilot Program		35,434		27,341	8,093	8,093
MHSA-PEI	100,000	72,723	25,560		98,283	98,283
Program for Infant/Toddler Caregivers	29,592	20,925	8,667		29,592	29,592
Scheduled Maintenance	242,601	242,601		242,601		
TAFY	15,000	7,462	7,538		15,000	15,000
Transfer Center and Articulation		2,515		1,177	1,338	1,338
YESS-ILP	22,500	11,367	11,133		22,500	22,500
Total	<u>\$ 9,170,807</u>	<u>\$ 9,849,115</u>	<u>\$ 270,598</u>	<u>\$ 2,437,241</u>	<u>\$ 7,682,472</u>	<u>\$ 7,682,472</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE YEAR ENDED JUNE 30, 2014

STATE GENERAL APPORTIONMENT

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2013 Only)			
1. Noncredit	517.18		517.18
2. Credit	1,172.85		1,172.85
B. Summer Intersession (Summer 2013 – Prior to July 1, 2014)			
1. Noncredit	2.27		2.27
2. Credit	1,104.92		1,104.92
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses:			
(a) Weekly Census Contact Hours	11,462.80	(37.72)	11,425.08
(b) Daily Census Contact Hours	779.44	(20.42)	759.02
2. Actual Hours of Attendance Courses:			
(a) Noncredit	2,154.78		2,154.78
(b) Credit	813.94		813.94
3. Alternative Attendance Accounting Procedure:			
(a) Weekly Census Procedure Courses	1,323.07		1,323.07
(b) Daily Census Procedure Courses	261.23		261.23
(c) Noncredit Independent Study	0.00		0.00
D. Total Full-Time Equivalent Students	19,592.48	(58.14)	19,534.34
 <u>Supplemental Information</u>			
E. In-service Training Courses (FTES)	357.85		357.85
F. Basic Skills Courses and Immigrant Education (FTES)			
(a) Noncredit	619.09		619.09
(b) Credit	850.47		850.47
 <u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES	603.11		603.11
 Centers FTES			
(a) Noncredit	147.74		147.74
(b) Credit	3,382.95		3,382.95

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2014

	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	\$ 17,707,829		\$ 17,707,829	\$ 17,838,790		\$ 17,838,790
Other	1300	19,559,145		19,559,145	19,559,145		19,559,145
Total Instructional Salaries		<u>37,266,974</u>		<u>37,266,974</u>	<u>37,397,935</u>		<u>37,397,935</u>
Non-Instructional Salaries:							
Contract or Regular	1200				8,667,397		8,667,397
Other	1400				1,217,345		1,217,345
Total Non-Instructional Salaries					<u>9,884,742</u>		<u>9,884,742</u>
Total Academic Salaries		<u>37,266,974</u>		<u>37,266,974</u>	<u>47,282,677</u>		<u>47,282,677</u>
CLASSIFIED SALARIES							
Non-Instructional Salaries:							
Regular Status	2100				16,982,239		16,982,239
Other	2300				2,133,227		2,133,227
Total Non-Instructional Salaries					<u>19,115,466</u>		<u>19,115,466</u>
Instructional Aides:							
Regular Status	2200	1,990,044		1,990,044	2,072,071		2,072,071
Other	2400	1,004,465		1,004,465	1,147,104		1,147,104
Total Instructional Aides		<u>2,994,509</u>		<u>2,994,509</u>	<u>3,219,175</u>		<u>3,219,175</u>
Total Classified Salaries		<u>2,994,509</u>		<u>2,994,509</u>	<u>22,334,641</u>		<u>22,334,641</u>
Employee Benefits	3000	9,106,715		9,106,715	20,045,308		20,045,308
Supplies and Materials	4000				2,939,979		2,939,979
Other Operating Expenses	5000	1,182,813		1,182,813	9,232,830		9,232,830
Equipment Replacement	6420				3,799		3,799
TOTAL EXPENDITURES PRIOR TO EXCLUSIONS		<u>50,551,011</u>		<u>50,551,011</u>	<u>101,839,234</u>		<u>101,839,234</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

RECONCILIATION OF ECS 84362 (50 PERCENT LAW) CALCULATION YEAR ENDED JUNE 30, 2014

	Object/TOP <u>Codes</u>	Activity (ECSA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6110			Activity (ECSB) ECS 84362 B Total CEE AC 0100-6799		
		<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
EXCLUSIONS							
Activities to Exclude:							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900						
Student Health Services Above Amount Collected	6441				28,202		28,202
Student Transportation	6491				25,540		25,540
Noninstructional Staff-Retirees' Benefits and Retirement Incentives	6740						
Objects to Exclude:							
Rents and Leases	5060				151,922		151,922
Lottery Expenditures:							
Academic Salaries	1000				689,862		689,862
Classified Salaries	2000				1,613,060		1,613,060
Employee Benefits	3000				389,810		389,810
Supplies and Materials:							
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:							
Library Books	6300						
Equipment:							
Equipment - Additional	6410						
Equipment - Replacement	6420						
Total Equipment							
Total Capital Outlay							
Other Outgo	7000						
TOTAL EXCLUSIONS					<u>2,898,396</u>		<u>2,898,396</u>
Total for ECS 84362, 50% Law		<u>\$ 50,551,011</u>		<u>\$ 50,551,011</u>	<u>\$ 98,940,838</u>		<u>\$ 98,940,838</u>
Percent of CEE (Instructional Salary Cost / Total CEE)		51.09%		100%			
50% of Current Expense of Education				\$ 49,470,419		49	

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

RECONCILIATION OF EDUCATION PROTECTION ACCOUNT EXPENDITURES TO DISTRICT ACCOUNTING RECORDS YEAR ENDED JUNE 30, 2014

Prop 30 EPA Expenditure Report

Activity Classification	Activity Code				Unrestricted
EPA Proceeds:	8630				\$ 13,898,759
Activity Classification	Activity Code	Salaries and Benefits (1000-3000)	Operating Expenses (4000-5000)	Capital Outlay (6000)	Total
Instructional Activities	0100-5900	\$ 6,949,380			6,949,380
Academic Administration	6010	1,341,650			1,341,650
Library	6120	925,964			925,964
Media	6130	714,109			714,109
Admissions and Records	6200	1,473,418			1,473,418
Counseling and Guidance	6310	174,584			174,584
Matriculation and Student Assessment	6320	250,437			250,437
Extended Opportunity Programs and Services (EOPS)	6430	73,113			73,113
Financial Aid Administration	6460	533,312			533,312
Building Maintenance and Repairs	6510	1,437,217			1,437,217
Custodial Services	6530	<u>25,575</u>			<u>25,575</u>
Total Expenditures for EPA*		<u>\$ 13,898,759</u>	<u>\$</u>	<u>\$</u>	<u>13,898,759</u>
Revenues less Expenditures					<u>\$</u>

*Total Expenditures for EPA may not include Administrator Salaries and Benefits or other administrative costs.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014**

	Capital Projects Fund
June 30, 2014 Annual Financial and Budget Report (Form CCFS-311) Fund Balance	\$ 8,134,596
Adjustments and Reclassifications decreasing fund balance:	
Adjustment to defer state apportionment revenue for the Scheduled Maintenance and Proposition 39 Clean Energy cash receipts that had not been expended in the current year	<u>(877,197)</u>
June 30, 2014 Audited Financial Statements Fund Balance	<u>\$ 7,257,399</u>

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2014

1. PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the year ended June 30, 2014, 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 Education Protection Account Expenditures to District Accounting Records

This reconciliation of Education Protection Account Expenditures shows the annual general apportionment and the expenditures the District applied toward the apportionment.

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

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

OTHER 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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the business-type activities, the discretely presented component unit, and the aggregate remaining fund information of the Sonoma County Junior College District (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are disclosed in the accompanying Schedule of Audit Findings and Questioned Costs as items 2014-001, 2014-002, 2014-003, and 2014-004.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

November 21, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the 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, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gilbert Associates, Inc.

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

November 21, 2014

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**

Report on Compliance with Applicable Requirements

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, 2014.

Management's Responsibilities

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's state programs based on our audit of the types of compliance requirements referred to above. 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 and the *Contracted District Audit Manual* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 on compliance. However, 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
- Scheduled Maintenance Program
- Gann Limit Calculation
- Open Enrollment
- Student Fees – Health Fees and Use of Health Fee Funds
- Proposition 39 Clean Energy
- Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Disabled Student Programs and Services (DSPS)
- To Be Arranged Hours (TBA)
- Proposition 1D State Bond Funded Projects
- Proposition 30 Education Protection Account Funds

Basis for Modified Opinion on State Compliance

As described in the accompanying Schedule of Audit Findings and Questioned Costs as items 2014-001, 2014-002, 2014-003, and 2014-004, the District did not comply with certain requirements regarding To Be Arranged Hours, State General Apportionment Funding System – Daily Census Courses, State General Apportionment Funding System – Weekly Census Courses, and State General Apportionment Funding System – Course Outline of Record. Compliance with such requirements is necessary, in our opinion, for the District to comply with the state laws and regulations applicable to those programs.

Modified Opinion on State Compliance

In our opinion, except for the noncompliance described in the “Basis for Modified Opinion” paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

Other Matter

The District’s responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Audit Findings and Questioned Costs. These responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



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

November 21, 2014

FINDINGS AND RECOMMENDATIONS SECTION

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? _____ Yes _____ X No

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
84.126	Vocational Rehabilitation Programs
84.141	High School Equivalency Program

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

Auditee qualified as low-risk auditee? _____ X Yes _____ No

State Awards

Internal control over state programs:

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

Any audit findings disclosed that are required to be disclosed in accordance with Contracted District Audit Manual? _____ X Yes _____ No

Type of auditor's report issued on compliance for state programs: Modified

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported.

SECTION III – STATE COMPLIANCE

2014-001 – 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, 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 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 63.783, however, only the TBA portion of such classes is in question. The TBA portion of the FTES for the 5 classes was a total of 37.626.

Context:

The context of the findings can be described as follows:

- Out of 25 classes tested, 3 classes did not describe the specific instructional activities to be conducted during TBA hours in the class syllabus.
- Out of 25 classes tested, 5 classes using weekly census attendance accounting methods did not have the same number of TBA hours scheduled each week. Of these 5 exceptions, 4 occurred in the Fall 2013 semester, and 1 occurred in the Spring 2014 semester.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

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.

As the Fall 2013 semester was already in process when the District began implementing its corrective action plan for Finding 13-1, errors related to classes with varying TBA hours for weekly census courses noted in the Fall 2013 and Spring 2014 semesters were extrapolated separately as follows:

Fall 2013 semester: An error rate of 30.77% extrapolated to the proportional TBA FTES for the Fall 2013 TBA classes of 242.860 gives an extrapolated overstatement of 74.728 FTES.

Spring 2014 semester: An error rate of 8.33% extrapolated to the proportional TBA FTES for the Spring 2014 TBA classes of 236.294 gives an extrapolated overstatement of 19.683 FTES.

The FTES used in these calculations was obtained from the District's revised P-Annual report.

Questioned Costs:

The total estimated misstatement of the TBA errors identified above is 37.626 FTES, which based on the District's funding per FTES, is equal to \$174,453. The cost of the extrapolation of 94.411 overstated FTES is \$437,736.

Recommendation:

We recommend that the District remind instructors about required information to be communicated in the course syllabi.

We recommend that the District perform an internal audit of classes with TBA hours to determine if they qualify for weekly or daily attendance accounting procedures and switch ineligible classes to positive attendance classes to ensure FTES is properly calculated.

District Corrective Action Plan:

The District agrees with the Auditors' recommended corrective action and has already taken steps to implement corrections. The District is currently conducting an internal audit of 100% of 2014/15 daily and weekly census courses to ensure future compliance.

2014-002 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES

Criteria:

According to California Code of Regulations, Title V, Section 58003.1, for credit courses scheduled to meet for five or more days and scheduled regularly with respect to the number of hours each scheduled day (daily census courses), the units of full-time equivalent students (FTES) shall be computed by multiplying the daily student contact hours of active enrollment as of the census days nearest to one-fifth of the length of the course by the number of days the course is scheduled to meet, and dividing by 525.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

Condition:

One course scheduled by the District was scheduled for 200 minutes on six Wednesday mornings, as well as 110 minute sessions on Thursday afternoons. The course was therefore not scheduled to meet for the same number of hours each day it met.

Context:

A class was not scheduled to meet for the same number of hours each day for 1 out of 25 daily census classes tested.

Effect:

The District claimed 1.690 of FTES for the course in its P-Annual attendance reporting.

To determine the additional impact of such errors, the District provided a report showing all daily census courses for the 2013-14 year, and the days and hours for which each course was scheduled. After reviewing the scheduling of all such courses, ten additional courses were identified with an irregular number of hours on scheduled meeting days.

Questioned Costs:

The total misstatement of the daily census errors identified above is 20.419 FTES, which based on the District's funding per FTES, is equal to \$94,673. This represents the total questioned costs for daily census errors related to improper scheduling, as the full population has been examined.

Recommendation:

We recommend that the District review the scheduled times and number of sessions of daily census classes to ensure that they meet the required guidelines for such courses, and switch courses with varying schedules to positive attendance classes.

District Corrective Action Plan:

The District agrees with the Auditors' recommended corrective action, and has already taken steps to implement corrections. During 2012-13, the District began developing its Educational Management System (EMS), whose intended purpose is to serve as a separate review and reconciliation tool to verify the correctness of information in the District's Student Information System (SIS). Using information from SIS, the EMS system specifically flags variances in published course hours between the catalog and the schedule of classes. The District is using the EMS information to identify courses that are not in full compliance with attendance accounting procedures, and effect changes to identified courses that might otherwise be incorrectly reported. The District has already done a 100% review of all daily census courses in 2014/15 and adjusted any that were not in compliance.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

2014-003 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – WEEKLY CENSUS COURSES

Criteria:

According to California Code of Regulations, Title V, Section 58003.1, under the weekly census procedure, credit courses shall be scheduled regularly with respect to the number of days of the week and the number of hours the course meets each week. For such courses, the units of full-time equivalent students (FTES) shall be computed by multiplying the daily student contact hours of active enrollment as of the census days nearest to one-fifth of the length of the course by the term length multiplier, and dividing by 525.

Condition:

One course offered by the District was scheduled regularly for 250 minutes on Mondays and Wednesdays, but was also scheduled to meet on 7 select Fridays for 80 minutes. Because the Friday sessions were not held regularly on a weekly basis throughout the term, the course was not scheduled to meet for the same number of hours each week.

Context:

A class was not scheduled to meet for the same number of hours each week for 1 out of 25 weekly census classes tested.

Effect:

The District claimed 8.680 of FTES for the course in its P-Annual attendance reporting. The maximum FTES if all students were present for all scheduled class times would be 9.184. The irregularly scheduled FTES for the course can be calculated as follows: 8.680 FTES claimed less 8.587 FTES for the properly scheduled sessions on Mondays and Wednesdays equals 0.093 ineligible FTES.

The error is extrapolated as follows: 0.093 ineligible FTES divided by 118.992 total FTES in our sample of 25 weekly courses, times 11,744.290 of total FTES for weekly census courses per the revised P-Annual report, equals an extrapolated error of 9.179 overstated FTES.

Questioned Costs:

The total ineligible FTES of the weekly census error identified above is 0.093 FTES, which based on the District's funding per FTES, is equal to \$431. The cost of the extrapolation of 9.179 overstated FTES is \$42,558.

Recommendation:

We recommend that the District review the scheduled times and days of weekly census classes to ensure that they meet the required guidelines for such courses, and switch courses with varying schedules to positive attendance classes.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

District Corrective Action Plan:

The District agrees with the Auditors' recommended corrective action, and has already taken steps to implement corrections. During 2012-13, the District began developing its Educational Management System (EMS), whose intended purpose is to serve as a separate review and reconciliation tool to verify the correctness of information in the District's Student Information System (SIS). Using information from SIS, the EMS system specifically flags variances in published course hours between the catalog and the schedule of classes. The District is using the EMS information to identify courses that are not in full compliance with attendance accounting procedures, and effect changes to identified courses that might otherwise be incorrectly reported. The District will be conducting a 100% review of all weekly census courses in 2014/15 and will adjust any that are not in compliance.

2014-004 – STATE GENERAL APPORTIONMENT FUNDING SYSTEM – COURSE OUTLINE OF RECORD

Criteria:

According to California Code of Regulations, Title V, Section 55002, a community college shall maintain a course outline of record in the official college files that describes the course, including the unit value, the expected number of contact hours for the course as a whole, and other relevant information. Scheduling of courses should be consistent with the total contact hours indicated in the approved course outline of record, with the exception of reasonable variances due to legitimate scheduling considerations such as schedule compression.

Condition:

One daily course offered by the District was listed in the course outline of record as 70 hours, but was only scheduled to meet for one hour on 30 days.

Context:

A class's schedule was not consistent with the hours listed in the course outline of record for 1 out of 25 daily census classes tested.

Effect:

There is no impact on FTES for this exception, as the FTES was correctly calculated based on regularly scheduled hours of the course, and not the course outline of record.

Questioned Costs:

There is no financial impact for this exception, as the FTES was correctly calculated based on regularly scheduled hours of the course, and not the course outline of record.

SONOMA COUNTY JUNIOR COLLEGE DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2014

Recommendation:

We recommend that the District compare the actual contact hours of courses with the course outline of record to identify and correct differences between the approved course description and the actual scheduling of the course.

District Corrective Action Plan:

The District agrees with the Auditors' recommended corrective action, and has implemented corrections. This was a timing error between approval of the changes to the course outline of record and implementation of those changes.

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, 2014

Recommendation	Current Status	District Explanation If Not Implemented
13-1 TO BE ARRANGED HOURS We recommend that the District review 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. We recommend that the District perform an internal audit of classes with TBA hours to determine if they qualify for weekly or daily attendance accounting procedures and switch ineligible classes to positive attendance classes to ensure FTES is properly calculated. Lastly, we recommend that the District develop written policies regarding the documentation of student participation in TBA hours and distribute such policies to course instructors.	Partially Implemented	See finding 2014-001.
13-2 STATE GENERAL APPORTIONMENT FUNDING SYSTEM – DAILY CENSUS COURSES We recommend that the District review the scheduled times and number of sessions of daily census classes to ensure that they meet the required guidelines for such courses, and switch courses with varying schedules or less than five scheduled days to positive attendance classes. We recommend that the District’s accounting department perform an internal audit of the components of the FTES calculations entered into the attendance accounting system to ensure such information is consistent with the actual scheduling of the courses.	Partially Implemented	See finding 2014-002.