

**NAPA VALLEY COMMUNITY
COLLEGE DISTRICT**

COUNTY OF NAPA

AUDIT REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2013**

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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 FOR THE FISCAL YEAR ENDED JUNE 30, 2013
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INDEPENDENT AUDITORS' REPORT

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State Board of Accountancy*

Board of Trustees
Napa Valley Community College District
Napa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Napa Valley Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Napa Valley Community College 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Napa Valley Community College District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance 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 required supplementary information, such as management's discussion and analysis on pages 4 through 10, and the schedule of funding progress on page 44 be presented to supplement the basic financial statements. Such information, although not 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 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 Napa Valley Community College District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents 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 December 14, 2013 on our consideration of Napa Valley Community College 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 Napa Valley Community College District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
December 14, 2013

**MANAGEMENT'S DISCUSSION AND
ANALYSIS**

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The Napa Valley Community College District (the District) was founded in 1942 as a political subdivision of the State of California. It provides higher education in the greater Napa area, which consists of portions of four counties. The District consists of one main campus in Napa with one educational center in St. Helena. The District also offers classes and programs at various other locations throughout the District. The District serves approximately 10,000 full and part-time, credit and non-credit students per semester.

The following discussion and analysis provides an overview of the financial position and activities of the Napa Valley Community College District for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements and notes thereto which follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

FINANCIAL HIGHLIGHTS

- Total net position was \$2.8 million at June 30, 2013. This was an increase of \$2.1 million or 295.1% percent over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District was required to implement the reporting standards of Governmental Accounting Standards Board (GASB) Statement No. 34, as amended by GASB Statement No. 35 on July 1, 2002. This adoption changed the format and the content of the District's basic financial statements. The District is following the Business Type Activity (BTA) model. Rather than issuing fund-type financial statements, these Statements require the following components to be included in the District's financial statements:

- Management's Discussion and Analysis
- Basic financial statements including Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows for the District as a whole.
- Notes to financial statements

Additionally, fund balance is referred to as Net Position, and the Statements of Cash Flows are presented using the direct method.

The basic financial statements are designed to provide readers with a broad overview of the District's finances, using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the District's activities.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Statement of Net Position presents the assets, liabilities, and net position of the District as of the end of the fiscal year ended June 30, 2013 and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private sector organizations. The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the District, or one way to measure the financial health of the District.

The net position is divided into three major categories. The first category, Net investment in Capital Assets, represents the equity amount in property, plant, and equipment owned by the District. The second category is Expendable Restricted Net Position. This net position is available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. Restrictions can also be enforced through agreements, laws, or regulations of creditors, other governmental agencies, imposed bylaws through constitutional provisions or enabling legislation. The final category is Unrestricted Net Position that is available to the District for any lawful purpose. Although unrestricted, the District's Governing Board may place internal restrictions on this net position, but it retains the power to change, remove, or modify such restrictions.

The Statements of Revenues, Expenses, and Changes in Net Position represent the operating results of the District. The purpose of the statements is to present the revenues received by the District, both operating and non-operating, the expenses paid by the District, operating and non-operating, and any other revenues, expenses, gains and losses. Thus, these statements present the District's results of operations.

Changes in total net position are based on the activity presented in the Statements of Revenues, Expenses, and Changes in Net Position.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided. For example, state appropriations are non-operating revenues because they are provided by the State Legislature to the District without the Legislature directly receiving commensurate goods and services for the revenues.

The Statements of Cash Flows provide information about cash receipts and cash payments during the fiscal year, major uses, and sources of cash. These statements also help users assess the District's ability to generate positive cash flows, meet obligations as they become due and evaluate the need for external financing.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Statements of Cash Flows are divided into five parts. The first part reflects operating cash flows and shows the net cash provided by the operating activities of District. The second part details cash received for non-operating, non-investing, and non-capital activities of the institution. The third section deals with the cash used for the acquisition and construction of capital and related financing activities. The fourth part provides information from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments. The final section reconciles the net cash from operating activities to the operating loss reflected on the Statements of Revenues, Expenses, and Changes in Net Position. The net cash reconciliation is shown in the expanded version of the Statements of Cash Flows in the financial statements.

The Statements of Net Position as of June 30, 2013 and 2012 is summarized below:

	Primary Government		
	2013	2012	Net Change
ASSETS			
Current assets	\$ 21,448,674	\$ 19,146,899	\$ 2,301,775
Non-current assets	148,062,011	148,314,212	(252,201)
Total Assets	169,510,685	167,461,111	2,049,574
LIABILITIES			
Current liabilities	12,728,790	11,958,488	770,302
Non-current liabilities	153,945,880	154,784,838	(838,958)
Total Liabilities	166,674,670	166,743,326	(68,656)
NET POSITION			
Net investment in capital assets	7,351,161	7,474,970	(123,809)
Restricted	7,676,264	7,598,976	77,288
Unrestricted	(12,191,410)	(14,356,161)	2,164,751
Total Net Position	\$ 2,836,015	\$ 717,785	\$ 2,118,230

The District's total assets increased \$2.0 million or 1.22 percent from the previous year. The majority of the increase was based on increases of capital assets as detailed in the capital assets section of this report, consistent with the GASB Statement No. 35 provisions, and decreases in current assets.

Total liabilities decreased \$0.07 million or 0.04 percent. This is related mainly to the annual payments of general obligation bonds offset by the increase in other post-employment benefits.

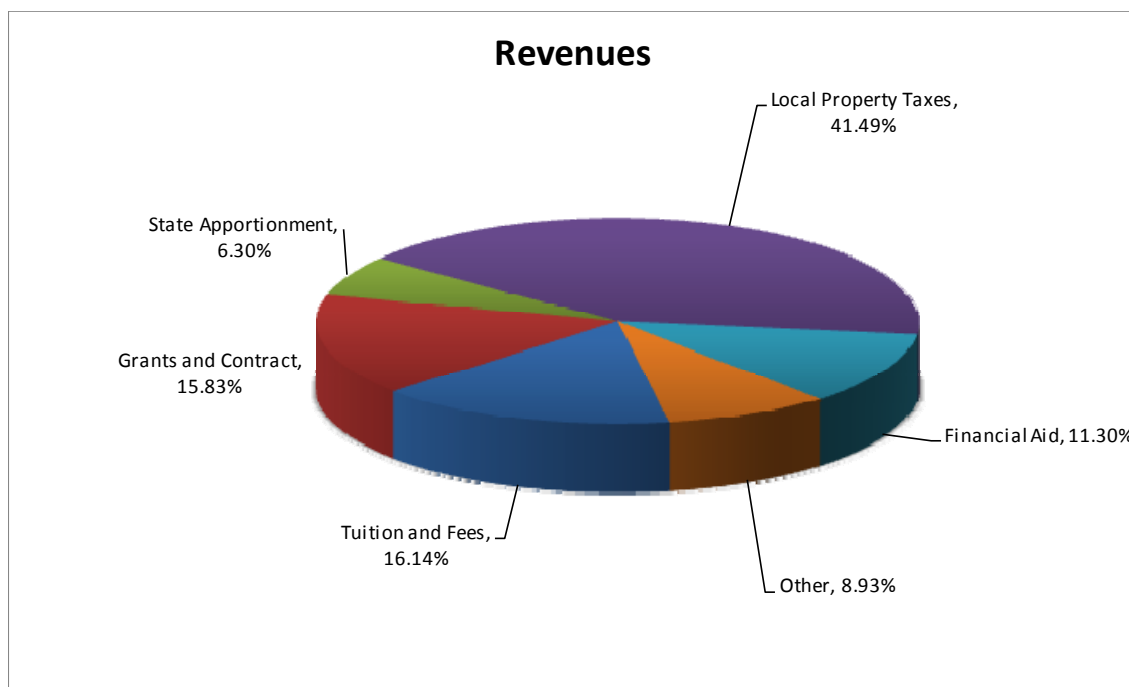
**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Statements of Revenues, Expenses, and Changes in Net Position for the fiscal years ended June 30, 2013 and 2012 are summarized below:

	Primary Government		
	2013	2012	Net Change
Revenues			
Tuition and fees (net)	\$ 3,727,796	\$ 3,894,374	\$ (166,578)
Grants and contracts, noncapital	8,573,705	9,844,312	(1,270,607)
Enterprises sales	1,451,148	1,636,187	(185,039)
General revenues - property taxes	26,272,534	24,761,274	1,511,260
General revenues - state revenues	9,445,900	6,987,344	2,458,556
General revenues - other	7,203,228	7,965,194	(761,966)
Total Revenue	56,674,311	55,088,685	1,585,626
Expenses			
Operating expenses	43,671,360	49,149,167	(5,477,807)
Other nonoperating expenses	14,157,486	20,412,067	(6,254,581)
Total Expenses	57,828,846	69,561,234	(11,732,388)
Change in net position	\$ (1,154,535)	\$ (14,472,549)	\$ 13,318,014

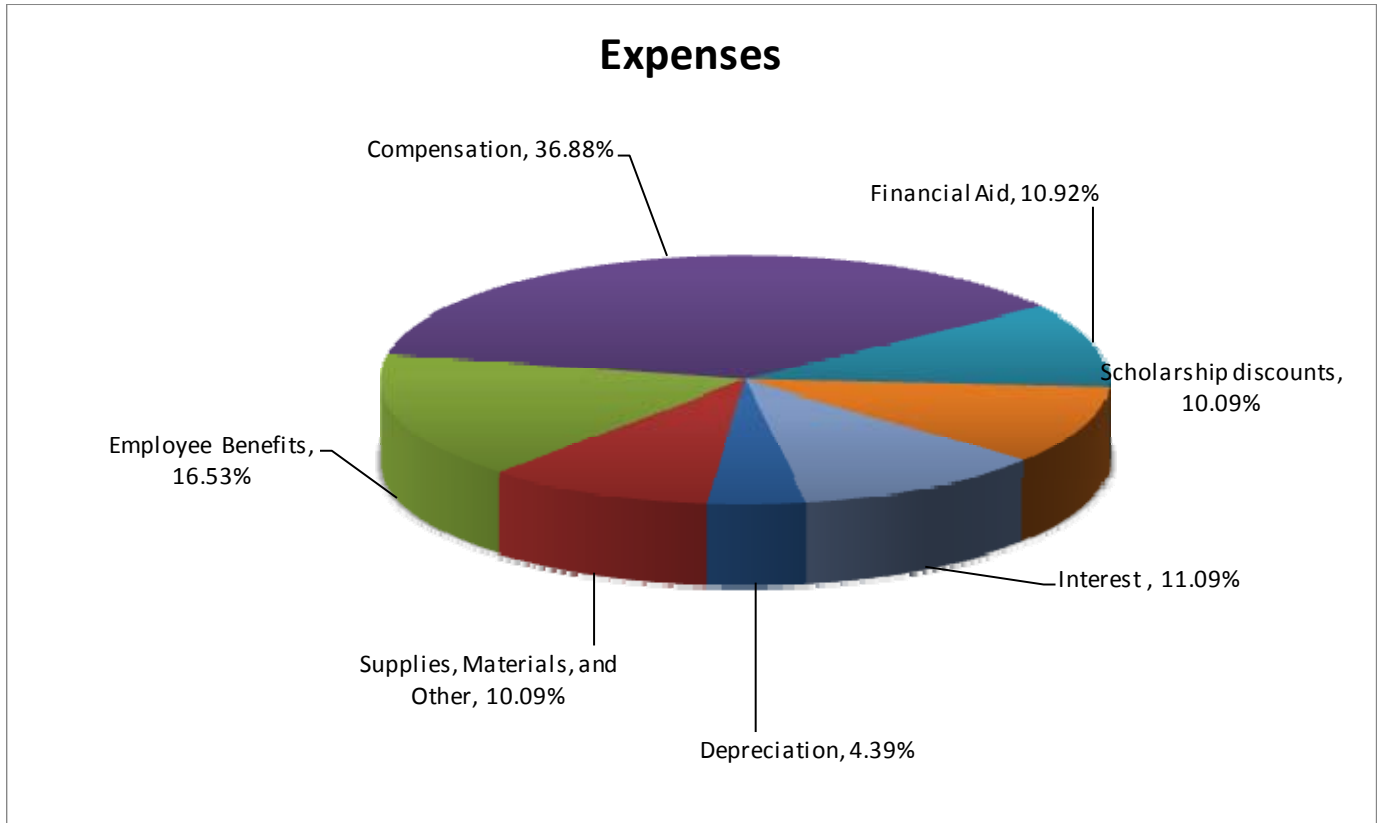
Operating and nonoperating revenues are comparatively reflected below:



**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Operating and nonoperating expenses are comparatively reflected below:



**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. Net position of fiduciary activities are excluded from the District's net position because the District cannot use fiduciary assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets

As of June 30, 2013, the District had approximately \$181.5 million invested in capital assets. Capital assets consist of land and land improvements, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other equipment that met the capitalization threshold recommended by GASB Statement No. 35. These assets have accumulated depreciation of \$34.9 million, leaving a net capital asset amount of \$146.5 million.

Note 5 to the financial statements provides detail information on capital assets. A summary of capital assets net of accumulated depreciation and changes therein is presented below:

	Primary Government		
	2013	2012	Net Change
Land and construction in progress	\$ 977,897	\$ 4,064,675	\$ (3,086,778)
Buildings and equipment	180,538,744	172,656,965	7,881,779
Accumulated depreciation	(34,982,748)	(31,330,161)	(3,652,587)
Total Capital Assets	\$ 146,533,893	\$ 145,391,479	\$ 1,142,414

Total net capital assets increased \$1.1 million. Major changes consisted of capitalized interest resulting from the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited), continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

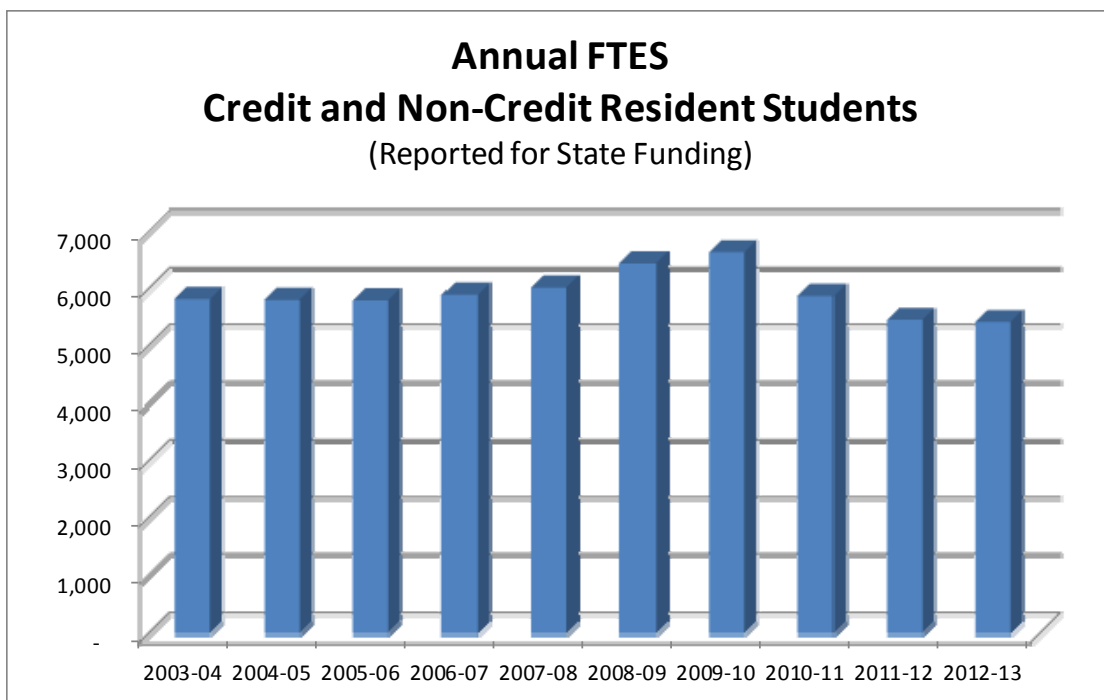
ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The FY 2013-2014 state budget for community colleges included a cost of living adjustment (COLA) of 1.57% on general purpose apportionments and 1.63% for growth funding statewide. The college is prepared to earn the additional growth funds while containing enrollments to available funding levels. Enrollment fees remain at \$46/unit. Although enrollment fees have increased 130% in the last 5 years, they are still among the lowest in the nation.

For the first time in many years, the state provided funding for instructional equipment and scheduled maintenance in its FY 2013-2014 budget. The scheduled maintenance funds will assist in addressing the facility maintenance needs of the college. The District has begun the process to prepare and complete its Facility Master Plan for use in prioritizing facilities' related project funding.

HISTORICAL FULL TIME EQUIVALENT STUDENTS (FTES) TRENDS

In 2012-2013, the District reported 5,418 credit and non-credit resident FTES. See the below chart for a historical perspective on the changes in FTES over the past 10 fiscal years.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, you may contact the Director of Fiscal Services, Business and Finance, at Napa Valley Community College District, 2277 Napa-Vallejo Highway, Napa, CA 94558.

FINANCIAL SECTION

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Primary Government	Component Unit
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,219,466	\$ 40,869
Accounts receivable	4,106,122	3,956
Prepaid expenses	504,784	69
Due from fiduciary funds	618,302	-
Total Current Assets	21,448,674	44,894
NONCURRENT ASSETS		
Deferred cost on issuance	1,528,118	-
Depreciable assets, net of accumulated depreciation	146,533,893	-
Total Noncurrent Assets	148,062,011	-
TOTAL ASSETS	169,510,685	44,894
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	2,692,430	1,484
Due to fiduciary funds	22,204	-
Deferred revenue	2,253,917	-
Accrued interest payable	1,696,997	-
Current Portion - Long-term debt	6,063,242	-
Total Current Liabilities	12,728,790	1,484
NONCURRENT LIABILITIES		
Noncurrent portion - Long-term debt	153,945,880	-
TOTAL LIABILITIES	166,674,670	1,484
NET POSITION		
Net investment in capital assets	7,351,161	-
Restricted for:		
Debt service	6,793,377	-
Capital projects	882,887	-
Unrestricted	(12,191,410)	43,410
TOTAL NET POSITION	\$ 2,836,015	\$ 43,410

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Primary Government</u>	<u>Component Unit</u>
OPERATING REVENUES		
Student Tuition and Fees	\$ 10,218,480	\$ -
Less: Scholarship discount & allowance	(6,490,684)	-
Net tuition & fees	<u>3,727,796</u>	<u>-</u>
Grants and Contracts, noncapital:		
Federal	2,251,301	-
State	5,394,353	-
Local	928,051	55
Enterprise Sales and Charges	<u>1,451,148</u>	<u>56,612</u>
Subtotal	<u>10,024,853</u>	<u>56,667</u>
TOTAL OPERATING REVENUES	<u>13,752,649</u>	<u>56,667</u>
OPERATING EXPENSES		
Salaries	23,722,753	-
Benefits	10,631,748	-
Supplies, materials, & other operating expenses	6,490,094	27,816
Depreciation	<u>2,826,765</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>43,671,360</u>	<u>27,816</u>
OPERATING LOSS	<u>(29,918,711)</u>	<u>28,851</u>
NONOPERATING REVENUES/(EXPENSES)		
State apportionments, non-capital	3,834,394	-
Local property taxes	26,272,534	-
State taxes & other revenues	5,611,506	-
Investment income - Non-capital	44,972	3
Financial aid revenues - federal	6,728,499	-
Financial aid revenues - state and local	429,757	-
Financial aid expenses	(7,026,525)	-
Interest expense	<u>(7,130,961)</u>	<u>-</u>
TOTAL NONOPERATING REVENUES	<u>28,764,176</u>	<u>3</u>
LOSS BEFORE OTHER REVENUES	(1,154,535)	28,854
OTHER REVENUES		
Local property taxes and revenues, capital	<u>157,104</u>	<u>-</u>
TOTAL OTHER REVENUES	<u>157,104</u>	<u>-</u>
DECREASE IN NET ASSETS	(997,431)	28,854
NET POSITION, BEGINNING OF YEAR	<u>717,785</u>	<u>5,953,021</u>
ADJUSTMENT FOR RESTATEMENT (see Note 12)	3,115,661	(5,938,465)
NET POSITION, AS RESTATED	<u>3,833,446</u>	<u>14,556</u>
NET POSITION, END OF YEAR	<u>\$ 2,836,015</u>	<u>\$ 43,410</u>

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Primary Government	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 3,435,137	\$ -
Grants, contracts and sales	10,339,432	55,029
Payments to or on behalf of employees	(34,550,625)	-
Payments to vendors for supplies and services	(5,985,127)	(28,014)
Net Cash Used in Operating Activities	<u>(26,761,183)</u>	<u>27,015</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State apportionments	6,093,788	-
Property taxes	26,258,002	-
State taxes and other nonoperating activity	5,960,526	-
Net Cash Provided by Non-capital Financing Activities	<u>38,312,316</u>	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,257,503)	-
Local property tax, capital projects	157,104	-
Principal paid on capital debt	(5,275,000)	-
Interest paid on capital debt	(2,206,731)	-
Net Cash Used by Capital Financing Activities	<u>(8,582,130)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	44,972	3
NET DECREASE IN CASH & CASH EQUIVALENTS	3,013,975	27,018
CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,205,491</u>	<u>13,851</u>
CASH & CASH EQUIVALENTS, END OF YEAR	<u>\$ 16,219,466</u>	<u>\$ 40,869</u>

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS, continued
FOR THE FISCAL YEARS ENDED JUNE 30, 2013**

	<u>Primary Government</u>	<u>Component Unit</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating gain/(loss)	\$ (29,918,711)	\$ 28,851
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:		
Depreciation expense	2,826,765	-
Changes in Assets and Liabilities:		
Receivables, net	21,920	(1,583)
Prepaid items	13,288	-
Accounts payable and accrued liabilities	(196,124)	(253)
Deferred revenue	422,035	-
Compensated absences	69,644	-
Total Adjustments	<u>3,157,528</u>	<u>(1,836)</u>
Net Cash Flows From Operating Activities	<u>\$ (26,761,183)</u>	<u>\$ 27,015</u>

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION – FIDUCIARY FUNDS
JUNE 30, 2013**

	<u>Agency</u>		<u>District Trust</u>	<u>Total 2013</u>
	<u>Associated Students Napa Valley College</u>	<u>Student Representation Fee</u>		
ASSETS				
Cash and cash equivalents	\$ 72,294	\$ 35,197	\$ 1,179,066	\$ 1,286,557
Investments	-	-	1,042,517	1,042,517
Accounts receivable	105	-	57,963	58,068
Due from other funds	23,801	2,203	-	26,004
Prepaid expenses	-	-	10,197	10,197
Total Assets	<u>96,200</u>	<u>37,400</u>	<u>2,289,743</u>	<u>2,423,343</u>
LIABILITIES				
Accounts payable	-	273	1,050,268	1,050,541
Deferred revenue	15,070	5,197	41,373	61,640
Due to other funds	406	4,878	618,302	623,586
Due to student groups	80,724	27,052	-	107,776
Total Liabilities	<u>96,200</u>	<u>37,400</u>	<u>1,709,943</u>	<u>1,843,543</u>
NET ASSETS				
Reserved	-	-	579,800	579,800
Total Liabilities and Net Assets	<u>\$ 96,200</u>	<u>\$ 37,400</u>	<u>\$ 2,289,743</u>	<u>\$ 2,423,343</u>

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN NET POSITION – FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>2013</u>
	<u>District Trust</u>
ADDITIONS	
Operating revenues	\$ -
Total Additions	<u>-</u>
 DEDUCTIONS	
Operating expenses	<u>52,572</u>
Total Deductions	<u>52,572</u>
 Change in Net Assets	 (52,572)
Net Assets - Beginning	<u>632,372</u>
Net Assets - Ending	<u>\$ 579,800</u>

The notes to financial statements are an integral part of this statement.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 – ORGANIZATION

The Napa Valley Community College District (the District) was founded in 1942 as a political subdivision of the State of California. It provides higher education in the greater Napa area, which consists of portions of four counties. The District consists of one main campus in Napa with one educational center in St. Helena. The District also offers classes and programs at various other locations throughout the District. The District serves approximately 10,000 full and part-time, credit and non-credit students per semester. Full-Time Equivalent Students (FTES) for 2012-2013 were 5,418.

Financial Reporting Entity

The District has adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. 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 and GASB Statement No. 14 and Statement No. 39. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board of Trustees' ability to exercise oversight responsibility. A second criterion used in evaluating potential component units is the scope of public service. A third criterion used to evaluate potential component units is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

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

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

The District, the Napa Valley College Foundation (the Foundation), and the Napa Valley Viticulture & Wine Technology Foundation (the VWT Foundation) have financial and operational relationships that require analysis to determine whether they meet the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) for inclusion as component units of the District. After analysis the VWT Foundation was determined to have met these criteria, while the Foundation did not. Accordingly, the financial activities of the VWT Foundation have been included in the financial statements of the District. The separately audited financial statements of the Foundation may be obtained from the District. The VWT Foundation does not issue separate audited financial statements at this time.

NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 1 – ORGANIZATION (continued)

Financial Reporting Entity (continued)

The following are those aspects of the relationship between the District and the component units that satisfies the GASB:

Accountability The VWT Foundation operates under a master agreement with the District in accordance with the California Education Code requirements. The District is able to impose its will upon the VWT Foundation.

Discrete Presentation For financial presentation purposes, the VWT Foundation financial activities have been discretely presented with the financial activities of the District.

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with four joint powers agencies (JPAs). These organizations do not meet the criteria for inclusion as component units of the District. The JPAs are the Northern California Community College Self Insurance Authority (NCCCSIA), Statewide Association of Community Colleges (SWACC), Schools Self-Insurance of Contra Costa County (SSICCC), and Protected Insurance Program for Schools (PIPS). See Note 8 for more information.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency and intra-fund transactions have been eliminated.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place and amounts are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year end.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include state apportionments, property taxes, certain grants, entitlements, and donations. Revenue from state apportionments is generally recognized in the fiscal year in which it is apportioned from the state. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges Chancellor's Office.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, now codified in the FASB Accounting Standards Codification, unless those pronouncements conflict with or contradict GASB pronouncements. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office Budget and Accounting Manual.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The Business type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statements of Net Position
 - Statements of Revenues, Expenses, and Changes in Net Position
 - Statements of Cash Flows
- Notes to Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and demand deposits. Cash equivalents also include cash with county treasury balances for purposes of the statements of cash flows.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair market value. Fair market value is estimated based on published market prices at year-end. Investments for which there are no quoted market prices are not material.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursements of allowable expenditures made pursuant to the District's grants and contracts. The District utilizes the allowance method with respect to its accounts receivable. The allowance was \$681,556 at June 30, 2013.

Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30, 2013.

Inventory

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

Deferred Charges

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

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of \$5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed. Routine repairs and maintenance that do not extend the life of the building or equipment are charged as operating expenses in the year the expense is incurred.

NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Capital Assets and Depreciation (*continued*)

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 20 to 65 years; equipment, 5 to 20 years; library books, 5 years; technology equipment, 5 years. Land and construction in progress are considered nondepreciable capital assets; therefore, no depreciation is computed.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Compensated Absences

Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from federal and state grants received before the eligibility requirements are met.

NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, *continued*
JUNE 30, 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Net Position

GASB Statements No. 34 and No. 35 report equity as “Net Position.” Net position is classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net position categories:

- **Net investment in Capital Assets**– Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted – Expendable** – Net position whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time.
- **Unrestricted** – Net position that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District’s practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$7,676,264 of restricted net position.

Operating Revenues and Expenses

Classification of Revenues – The District has classified its revenues as either operating or nonoperating 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) internal service – self-insurance charges, (3) most federal, state, and local grants and contracts, and (4) interest on institutional student loans.
- **Nonoperating revenues** – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state apportionments, property taxes, investment income, and other revenue sources described in GASB Statement No. 34.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses (continued)

Classification of Expenses – Nearly all the District’s expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

- **Operating expenses** – Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.
- **Nonoperating expenses** – Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the state are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District’s financial records when received.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the State Teachers Retirement System (STRS) on behalf of all community colleges in California. The amounts of on-behalf payments were \$579,689.

Estimates

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

Property Tax

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The counties apportion secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the *California Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll, approximately October 1 of each year.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax

Property taxes are recorded as local revenue sources by the District. The California Community Colleges Chancellor's Office reduces that District's entitlement by the District's local property tax revenue and student fees. The balance is paid from the State's General Fund and is referred to as the State apportionment. The District's base revenue is the amount of general purpose tax revenue, per full-time equivalent student (FTES) that the District is entitled to by law.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statements of Revenues, Expenditures, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payment on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Interfund Activity

Exchange transactions between funds of the District are reported as revenues and expenses within the statements of Revenues, Expenses, and Changes in Net Position. Flows of cash or goods from one fund to another without a requirement for repayment are recognized as interfund transfers within the District's fund financial statements. Amounts owing between funds for both exchange and non-exchange transactions are recorded as interfund receivables and payables within the District's fund financial statements. Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

New Accounting Pronouncement

In March 2012, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements. GASB Statement No. 62 establishes standards of financial accounting and reporting for capitalizing interest cost as a part of the historical cost of acquiring certain assets. For the purposes of applying this Statement, interest cost includes interest recognized on obligations having explicit interest rates and interest imputed on certain types of payables.

The District has implemented the provisions of this Statement for the year ended June 30, 2013. See Note 12 for more information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncement (continued)

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, Elements of Financial Statements, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, and will be incorporated in the 2013-14 fiscal year.

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncement (continued)

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures, as well as note disclosure and required supplementary information requirements.

This Statement is effective for fiscal years beginning after June 15, 2014, and will be implemented by the District in the 2014-15 fiscal year.

NOTE 3 – CASH AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; medium term corporate notes; certificates of participation; obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair market value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair market value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 3 – CASH AND INVESTMENTS

General Authorizations

Primary Institution – Credit Risk

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

Component Units – Credit Risk

The Component Units’ investment policies allow for investment in equity securities and fixed income instruments. Any corporate obligations must be rated BBB or a better rating by Standard & Poor’s or a similar rating agency. The Component Units’ investments are rated at least BBB or better by Standard & Poor’s as of June 30, 2013.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	40%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE 3 – CASH AND INVESTMENTS (continued)

Summary of Cash and Investments

Cash and investments as of June 30, 2013, consist of the following:

Governmental Funds:

Cash on hand and in banks	\$	596,242
Investment in Napa County Investment Pool		15,623,224
Total Cash and Investments	\$	<u>16,219,466</u>

Fiduciary Funds:

Cash on hand	\$	<u>1,286,557</u>
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Interest Rate Risk

Interest rate risk is risk to the earnings or market value of a portfolio due to uncertain future interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair market value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County Investment Pool and in other investment agreements.

Specific Identification

Information about the sensitivity of the fair market values of the District's investments to market interest rate fluctuations is indicated by the 405 day weighted average maturity for the District's deposits of \$15,623,224 held with the Napa County Treasurer.

Credit Risk

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 District's investment in the County pool is not required to be rated, nor has it been rated as of June 30, 2013. As of June 30, 2013, the Napa County Treasury was not rated.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 3 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District’s bank balance was not exposed to custodial credit risk because the first \$250,000 deposited per bank was covered under the FDIC insurance limit, and the remaining balance was collateralized with securities held by the pledging financial institution’s trust department or agency.

NOTE 4 – ACCOUNTS RECEIVABLE

Receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2013 was as follows:

	Balance July 01, 2012	Additions	Deductions	Adjustments	Balance June 30, 2013
Capital Assets not being Depreciated					
Land	\$ 977,897	\$ -	\$ -	\$ -	\$ 977,897
Construction in progress	3,086,778	-	-	(3,086,778)	-
Total Capital Assets not Being Depreciated	<u>4,064,675</u>	<u>-</u>	<u>-</u>	<u>(3,086,778)</u>	<u>977,897</u>
Capital Assets being Depreciated					
Site improvements	42,711,097	-	-		42,711,097
Buildings & improvements	113,489,550	-	-	7,111,586	120,601,136
Furniture & equipment	16,456,318	853,518	83,325		17,226,511
Total Capital Assets Being Depreciated	<u>172,656,965</u>	<u>853,518</u>	<u>83,325</u>	<u>7,111,586</u>	<u>180,538,744</u>
Total Capital Assets	<u>176,721,640</u>	<u>853,518</u>	<u>83,325</u>	<u>4,024,808</u>	<u>181,516,641</u>
Less Accumulated Depreciation					
Land improvements	17,173,133	171,919	-		17,345,052
Buildings & improvements	12,809,205	2,087,514	-	909,147	15,805,866
Furniture & equipment	1,347,823	567,332	83,325		1,831,830
Total Accumulated Depreciation	<u>31,330,161</u>	<u>2,826,765</u>	<u>83,325</u>	<u>909,147</u>	<u>34,982,748</u>
Net Capital Assets	<u>\$ 145,391,479</u>	<u>\$ (1,973,247)</u>	<u>\$ -</u>	<u>\$ 3,115,661</u>	<u>\$ 146,533,893</u>

Depreciation expense for the year was \$2,826,765.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 6 – LONG-TERM OBLIGATIONS

Summary

The changes in the District’s long-term obligations for the 2013 fiscal year consisted of the following:

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Long-Term Obligations					
General obligation bonds	\$ 138,118,948	\$ 4,976,095	\$ 5,275,000	\$ 137,820,043	\$ 5,700,000
Premium on bonds	7,132,825	-	794,041	6,338,784	-
Compensated absences	1,206,449	767,788	698,144	1,276,093	-
Supplemental employee retirement plan	1,108,663	-	363,242	745,421	363,242
Other postemployment benefits	11,689,518	2,139,263	-	13,828,781	-
Totals	<u>\$ 159,256,403</u>	<u>\$ 7,883,146</u>	<u>\$ 7,130,427</u>	<u>\$ 160,009,122</u>	<u>\$ 6,063,242</u>

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax collections. The General Fund makes payments for the compensated absences, other postemployment benefits and the supplemental employee retirement plan. Accrued vacation will be paid by the fund for which the employee worked.

Original issuance premiums and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Bonded Debt

The outstanding general obligation bonded debt as of June 30, 2013 is as follows:

Series	Issue Date	Interest Yield	Maturity Date	Bonds	Accreted	Redeemed	Bonds	Due Within
				Outstanding July 1, 2012	Interest Addition		Outstanding June 30, 2013	
2002 Series B	3/17/2005	3.00% - 5.38%	8/1/2029	\$ 27,496,583	\$ 1,214,187	\$ 665,000	\$ 28,045,770	\$ 1,165,000
2002 Series C	7/18/2007	4.7% - 5.18%	8/1/2034	55,055,070	2,881,461	-	57,936,531	-
2005 Refunding	3/4/2005	3.50% - 5.25%	8/1/2018	18,324,124	220,020	2,000,000	16,544,144	1,745,000
2006 Refunding	11/16/2006	3.75% - 5.00%	8/1/2020	37,243,171	660,427	2,610,000	35,293,598	2,790,000
Total				\$ 138,118,948	\$ 4,976,095	\$ 5,275,000	\$ 137,820,043	\$ 5,700,000

2002 General Obligation Bonds, Election 2002, Series B

General obligation bonds were approved by a local election in November 2002. The total amount approved by the voters was \$133,800,000. During March 2005, the District issued, from the November 2002 election, the General Obligation Bonds, Series B in the amount of \$64,997,723. The bonds issued consisted of \$49,010,000 of Current Interest Serial bonds and \$15,987,723 in Capital Appreciation Serial bonds. The bonds mature beginning on August 1, 2006 through August 1, 2029, with interest rates ranging from 3.00 percent to 5.38 percent. At June 30, 2013, the principal balance outstanding (including accreted interest to date) was \$27,496,583.

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,165,000	\$ 2,097,025	\$ 3,262,025
2015	1,345,000	2,050,425	3,395,425
2016	1,540,000	1,989,900	3,529,900
2017	-	1,928,300	1,928,300
2018	-	1,858,500	1,858,500
2019-2023	-	6,625,500	6,625,500
2024-2028	12,498,187	393,500	12,891,687
2029-2030	3,489,537	-	3,489,537
Total	\$ 20,037,724	\$ 16,943,150	\$ 36,980,874

* Principal excludes \$8,008,047 accreted interest as of June 30, 2013.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Bonded Debt (continued)

2002 General Obligation Bonds, Election 2002, Series C

During July 2007, the District issued, from the November 2002 election, the General Obligation bonds, Series C in the amount of \$43,799,997. The bonds issued consisted of \$43,799,997 of Capital Appreciation bonds. The bonds mature beginning on August 1, 2020 through August 1, 2034, with interest yields ranging from 4.70 percent to 5.18 percent. At June 30, 2013, the principal balance outstanding (including accreted interest to date) was \$55,055,070.

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ -	\$ -
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019-2023	13,266,366	-	13,266,366
2024-2028	8,447,061	-	8,447,061
2029-2033	15,239,708	-	15,239,708
2034-2035	6,846,861	-	6,846,861
	\$ 43,799,996	\$ -	\$ 43,799,996

* *Principal excludes \$14,136,535 accreted interest as of June 30, 2013.*

NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, *continued*
 JUNE 30, 2013

NOTE 6 – LONG-TERM OBLIGATIONS (*continued*)

Bonded Debt (*continued*)

2005 General Obligation Bonds, Refunding Bonds

Proceeds from the 2005 General Obligation Refunding Bonds of \$21,473,116, issued in March 2005, were used to advance refund the outstanding Election 2002, Series A bonds. Investments backed by the U.S. government were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds, and accordingly the refunding transaction met the criteria for an in-substance defeasance. The liabilities related to the refunded bonds were removed from the District's financial statements for the fiscal year ended June 30, 2005.

The bonds issued consisted of \$13,090,000 of Current Interest bonds and \$8,383,116 in Capital Appreciation bonds. The bonds mature beginning on August 1, 2005 through August 1, 2018, with interest rates ranging from 3.50 percent to 5.25 percent. At June 30, 2013, the principal balance outstanding (including accreted interest to date) was \$18,324,124.

Year Ended June 30,	Principal*	Interest	Total
2014	\$ 1,745,000	\$ 577,581	\$ 2,322,581
2015	1,895,000	516,507	2,411,507
2016	2,065,000	444,563	2,509,563
2017	2,250,000	359,087	2,609,087
2018	2,450,000	266,087	2,716,087
2019	2,685,000	140,963	2,825,963
Total	\$ 13,090,000	\$ 2,304,788	\$ 15,394,788

* *Principal excludes \$4,601,884 accreted interest as of June 30, 2013.*

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Bonded Debt (continued)

2006 General Obligation Bonds, Refunding Bonds

Proceeds from the 2005 General Obligation Refunding Bonds of \$43,335,283, issued in November 2006, were used to advance refund a portion of the outstanding Election 2002, Series B bonds. Investments backed by the U.S. government were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds, and accordingly the refunding transaction met the criteria for an in-substance defeasance. The liabilities related to the refunded bonds were removed from the District's financial statements for the fiscal year ended June 30, 2007.

The bonds issued consisted of \$40,410,000 of Current Interest bonds and \$2,925,283 in Capital Appreciation bonds. The bonds mature beginning on August 1, 2007 through August 1, 2020, with interest rates ranging from 3.75 percent to 5.00 percent. At June 30, 2013, the principal balance outstanding (including accreted interest to date) was \$37,243,171.

Year Ended June 30,	Principal*	Interest	Total
2014	\$ 2,790,000	\$ 1,398,187	\$ 4,188,187
2015	2,789,094	1,291,875	4,080,969
2016	1,157,838	1,192,500	2,350,338
2017	1,628,350	1,192,500	2,820,850
2018	5,270,000	1,192,500	6,462,500
2019-2021	18,580,000	1,743,500	20,323,500
Total	<u>\$ 32,215,282</u>	<u>\$ 8,011,062</u>	<u>\$ 40,226,344</u>

* Principal excludes \$3,078,315 accreted interest as of June 30, 2013.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 6 – LONG-TERM OBLIGATIONS (continued)

Supplemental Early Retirement Plan

The District provided a board approved SERP retirement plan in 2010. The future cost to the District as of June 30, 2013, was \$726,484. The supplemental Employee Retirement Plan (SERP) is a fixed annuity product designed to qualify under 403 (b) of the Internal Revenue Service Code. Eligibility is restricted to Regular Faculty, Regular Classified or Administrative/Confidential employees in paid status as of December 12, 2009, had at least five years of consecutive service as a regular employee with the District as of June 30, 2010.; was at least 55 years of age as of June 30, 2010; had resigned/retired from employment with the District effective no later than June 30, 2010; and applied for benefits under the plan by February 12, 2010. Payments are to be made from the District’s General Fund according to the following schedule:

Years Ending				
June 30,	Pacific Life		PARS	Total
2014	\$ 344,305	\$	18,937	\$ 363,242
2015	344,305		18,937	363,242
	<u>\$ 688,610</u>	<u>\$</u>	<u>37,874</u>	<u>\$ 726,484</u>

Compensated Absences

Compensated absences refer to accumulated unpaid employee vacation benefits that are accrued as a liability as the benefits are earned. At June 30, 2013, the balance outstanding was \$1,276,093.

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits in accordance with District employment contracts to all employees and their eligible dependents who retire from the District until attaining age 65 with at least fifteen years in service. When the retiree attains age 65, the District’s plan will provide MediCare supplemental coverage for the employee. The District contributes 100 percent of the amount of the benefit premium costs incurred by retirees.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2013**

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Plan Description and Contribution Information

Membership of the plan consisted of the following at June 30, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	218
Active plan members	275
Total	<u>493</u>
 Number of participating employers	 1

Funded Status and Funding Progress – OPEB Plans

The funded status of the plan as of the most recent actuarial valuation date is as follows:

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
<u>6/30/2011</u>	<u>\$ 409,215</u>	<u>\$ 30,530,071</u>	<u>\$ 30,120,856</u>	<u>1%</u>

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans (continued)

Additional information as of the latest actuarial valuation follows:

Valuation Date	6/30/2011
Actuarial Cost Method	Normal Cost
Amortization Method	Level Dollar Basis
Amortization Period	28 Years
Asset Valuation	Market Value Basis
Actuarial Assumptions:	
Inflation rate	3.25%
Discount rate	5.00%
Healthcare cost trend rates:	
Long-term	6.5%

Annual OPEB Cost and Net OPEB Asset

The following table shows the elements of the District’s annual OPEB cost for the year, the amount actually paid on behalf of the plan, and changes in the District’s net OPEB obligation for the fiscal year ended June 30, 2013:

Annual required contribution (ARC)	\$ 3,445,941
Interest on net OPEB obligation	584,476
Adjustment to ARC	(798,299)
Annual OPEB cost	<u>3,232,118</u>
Contributions made:	
Pay-as-you-go cost	<u>1,092,855</u>
Total contributions made	<u>1,092,855</u>
Increase in net OPEB obligation	2,139,263
Net OPEB obligation - July 1, 2012	11,689,518
Net OPEB obligation - June 30, 2013	<u>\$ 13,828,781</u>

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 8 – RISK MANAGEMENT

Property and Liability

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District's property and liability coverage is self-insured through the Northern California Community Colleges Self Insurance Authority (NCCCSIA). The District retains the risk up to \$1,000 per occurrence. The NCCCSIA retains the risk up to \$25,000 on property and \$25,000 on liability. Insurance above these levels is ceded to another joint powers authority, Statewide Association of Community Colleges (SWACC) to a level of \$25 million on liability and \$250 million on property. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been significant reduction in coverage from the prior year.

Workers' Compensation

The District is also a member of the NCCCSIA for its workers' compensation coverage. Workers' compensation coverage is funded to 99% confidence levels with aggregate losses capped at \$150,000,000 through the Protected Insurance Program for Schools (PIPS) JPA.

Dental Insurance Program

The District participates in the dental insurance program, organized by the Schools Self-Insurance of Contra Costa County (SSICCC), which is a joint powers authority created to provide dental self-insurance for school districts.

Participation in Public Entity Risk Pools and JPAs

The District pays annual premiums for its property liability and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes. The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

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

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

The CalSTRS, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the CalSTRS the employee is in, post-retirement cost-of-living adjustment may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest for three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percentage factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB Benefit Program is optional; however, if the employee selects the CB Benefit Program and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California State Teachers’ Retirement System (CalSTRS) (continued)

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while 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 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by state statute. The CB Benefit Program is an alternative CalSTRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

Annual Pension Cost

The District’s total contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$793,465, \$826,704, and \$972,872, respectively, and equal 100 percent of the required contributions for each year.

California Public Employees’ Retirement System (CalPERS)

Plan Description

All full-time classified employees participate in the CalPERS System, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Napa Valley Community College District is part of a “cost-sharing” pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, member’s accumulated contributions are refundable with interest credited through the date of separation.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (continued)

California Public Employees' Retirement System (CalPERS) (continued)

Plan Description, Continued

The California Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over \$133.33 if the member participates in Social Security), and the District is required to contribute 5.187% of the employees 7% (PERS Pickup). The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2012-2013 was 11.417 percent of annual payroll.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2013, 2012, and 2011, were \$1,623,012, \$1,446,795, and \$1,471,933, respectively, and equaled 100 percent of the required contributions for each year.

On-Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS of behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to \$610,316 (5.175 percent of 2010-2011 salaries subject to CalSTRS). A contribution from the state to CalPERS was not required for the fiscal year ended June 30, 2013. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the financial statements as a component of nonoperating revenue and employee benefit expense.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (continued)

Accumulation Program for Part-Time and Limited-Service Employees

The District has also adopted the Accumulation Program for Part-Time and Limited-Service Employees (APPLE). The Plan is covered under *Internal Revenue Code*, Section 401A. Plan participants include all individuals who have worked for the District on or after January 1, 1992, provided that they are not covered by any other retirement program (e.g., CalPERS or CalSTRS) through District employment. Participant account balances are fully vested and cannot be forfeited. Participant account balances will be paid in a single distribution upon retirement or other termination.

Funding Policy

Each participant makes tax deferred contributions to APPLE equal to 3.75% of total compensation, and the District then matches that amount. Accounts are established in the name of each participant. Employee contributions are allocated directly to employee accounts. The minimum allocation participants will receive is 7.50% of compensation.

Annual Pension Cost

The District's contributions to APPLE for the fiscal years ended June 30, 2013, 2012 and 2011, were \$46,830, \$45,876, and \$42,305, respectively, and equaled 100% of the required contributions for each year.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District as of June 30, 2013.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2013.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases

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

Construction Commitments

The District had no significant construction commitments at June 30, 2013.

NOTE 11 – RELATED PARTY TRANSACTIONS

As described in Note 1, the Foundation is a supporting organization of the District and the College; therefore, transactions between the Foundation and the District, District personnel, students at the College, and programs of the College, are expected. Per the Foundation's Bylaws, the College President is responsible for Foundation operations and District and College personnel serve in ex-officio and voting capacities on the Foundation's Board.

During the year ended June 30, 2013, the Foundation indirectly supported the District by providing grants to students of the College, paying programmatic expenditures, and/or reimbursing District personnel and departments for programmatic costs.

The Foundation was further supported by the involvement of College and District personnel in the Foundation's events and programs. The total amount of these contributions has not been segregated from the non-District affiliated contributions.

NOTE 12 – ADJUSTMENT FOR RESTATEMENT

An adjustment of \$3,115,661 to increase beginning net position was made to account for the capitalized interest resulting from the District implementation of Governmental Accounting Standards Board (GASB) Statement No. 62 as well as an adjustment to the construction in progress category. This new accounting standard requires capitalization of interest expense on bonded debt that had previously been expensed. See Note 5 for increase to capital assets.

An adjustment of \$5,938,465 to reduce component unit beginning net position was made to remove the Napa Valley College Foundation from discrete presentation. GASB Statement No. 61 *The Financial Reporting Entity: Omnibus* modified requirements for inclusion of component units in the financial reporting entity. The Napa Valley College Foundation is no longer considered a component unit which would require discrete presentation.

REQUIRED SUPPLEMENTARY INFORMATION

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF FUNDING PROGRESS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	\$ 409,215	\$ 30,530,071	\$ 30,120,856	1%	\$ 18,208,000	165%
7/1/2010	\$ -	\$ 31,961,907	\$ 31,961,907	0%	\$ 17,516,000	182%

SUPPLEMENTARY INFORMATION SECTION

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 LOCAL EDUCATIONAL AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2013**

The Napa Valley Community College District (the District) was founded in 1942 as a political subdivision of the State of California. The college was established to provide higher education in the greater Napa area under the laws of the State of California. Napa Valley College is fully accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges. The District operates under a locally-elected seven-member Board form of government. There have been no changes in the District’s boundaries during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mr. Michael Baldini	Trustee	December 2014
Ms. JoAnn Busenbark	Trustee	December 2014
Mr. Bruce Ketron	Board Chair	December 2014
Mr. Bill Blair	Trustee	December 2014
Mr. Dan Digardi	Vice President	December 2016
Mr. Rafael Rios	Trustee	December 2016
Mr. Rusal Cayangyang	Student Trustee	December 2014
Ms. Mary Ann Mancuso	Trustee	November 2014

DISTRICT ADMINISTRATORS

Dr. Ronald Kraft
Superintendent/President

Glenna Aguada
Director, Fiscal Services

Dr. Terry Giugni
Vice President - Instruction

Oscar De Haro
Vice President - Student Services

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Total Expenditures
U.S. DEPARTMENT OF EDUCATION		
STUDENT FINANCIAL AID CLUSTER		
Passed through/direct award		
Federal Work Study	84.033	\$ 120,964
Talent Search	84.044	331,393
Student Support Services	84.042	232,102
Upward Bound	84.047	46,481
Career and Technical Education Act		
VTEA Title II C - Block Grant	84.049	159,193
Title III E Tech Prep	84.049	795,601
U.S. DEPARTMENT OF REHABILITATION		
Passed through/direct award		
Vocational Rehabilitation	84.126	370,756
U.S. DEPARTMENT OF TRANSPORTATION		
FEDERAL HIGHWAY ADMINISTRATION		
Passed through/direct award		
Highway Training and Education	20.215	30,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Temporary Assistance for Needy Families	93.558	16,653
Foster Parent Training	93.658	42,264
CDC Training Consortium	93.575	110
U.S. DEPARTMENT OF COMMERCE		
Small Business Development Center	59.037	102,561
Total Expenditures of Federal Awards		<u>\$ 2,248,078</u>

See accompanying note to supplementary information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Program Title	PROGRAM ENTITLEMENT			PROGRAM REVENUES				
	Current Year Auth Amt.	Prior year Carry-Over	Total Entitlement	Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
Basic Skills Current	\$ 90,000	\$ 12,852	\$ 102,852	\$ 102,852	\$ -	\$ 48,111	\$ 54,742	\$ 54,742
EOPS - State	373,680	-	373,680	373,680	-	-	373,680	373,680
EOPS - Federal Grant	44,486	-	44,486	44,486	-	-	44,486	44,486
DSPS	1,018,981	-	1,018,981	1,018,981	-	-	1,018,981	1,018,981
DSPS PY	-	243	243	243	-	-	243	243
CARE - State	32,092	-	32,092	32,092	-	-	32,092	32,092
CARE - Federal Grant	19,340	-	19,340	19,340	-	-	19,340	19,340
Financial Aid - BFAP	240,797	-	240,797	240,797	-	-	240,797	240,797
EWD Leadership (12-13)	172,500	-	172,500	103,500	69,000	-	172,500	172,500
EWD Priority Leadership	-	84,119	84,119	-	84,119	-	84,119	84,119
EWD Leadership (Carryover)	-	11,516	11,516	11,516	-	-	11,516	11,516
YEP - Rancho Santiago	-	50,000	50,000	50,000	-	12,230	37,770	37,770
EWD - Business Entrepreneur Center	205,000	-	205,000	123,000	-	58,298	64,702	64,702
Youth Entrepreneurial Program	125,000	-	125,000	93,750	-	80,114	13,636	13,636
EWD Youth Entrepreneur (YEP)	-	45,565	45,565	38,065	7,500	-	45,565	45,565
BEC	-	138,146	138,146	138,146	-	-	138,146	138,146
TANF State	16,653	-	16,653	16,653	-	-	16,653	16,653
Matriculation - Credit	186,191	-	186,191	186,191	-	-	186,191	186,191
Matriculation - Non-Credit	67,895	-	67,895	67,895	-	-	67,895	67,895
CalWORKS Program	80,784	-	46,075	80,784	-	-	80,784	80,784
CalWORKS Program	46,264	-	46,264	46,264	-	-	46,264	46,264
CalWORKS Program	5,089	-	5,089	5,089	-	-	5,089	5,089
Faculty Staff Diversity (EEO) PY	-	10,820	10,820	10,820	-	9,583	1,236	1,236
Faculty Staff Diversity (EEO)	4,964	-	4,964	4,964	-	4,964	-	-
PT Faculty Compensation	127,607	43,492	171,099	171,099	-	30,986	140,113	140,113
MESA (PY)	-	7,191	7,191	7,191	-	-	7,191	7,191
MESA	50,500	-	50,500	30,300	15,701	-	46,001	46,001
CTE Green III	-	230,270	230,270	230,270	-	-	230,270	230,270
CTE Green - Supplement	-	112,676	112,676	112,676	-	-	112,676	112,676
CTE Green IV	-	411,350	411,350	370,215	-	187,436	182,779	182,779
CTE Green V	387,023	-	387,023	290,267	-	287,220	3,047	3,047
A D N Enrollment Growth	-	131,106	131,106	131,106	-	-	131,106	131,106
A D N Enrollment Growth	146,887	-	146,887	123,417	23,470	-	146,887	146,887
Foster Parent Training (State)	62,489	-	62,489	36,885	12,802	-	49,687	49,687
Child Care - Preschool	164,397	-	164,397	164,397	-	-	164,397	164,397
Child Care - Gen.	419,011	-	419,011	419,011	-	-	419,011	419,011
Child Dev. Trnng Consortium	16,250	-	16,250	16,250	-	45	16,205	16,205
Transfer & Articulation PY	-	1,994	1,994	1,994	-	1,331	663	663
City of Napa - Spec Business Training	-	1,311	1,311	1,311	-	-	1,311	1,311
Responsive Training Grant	113,650	-	113,650	68,190	-	43,235	24,955	24,955
EWD - EMT	-	87,322	87,322	87,322	-	-	87,322	87,322
POST - EVOG Training	4,800	-	4,800	1,335	1,780	-	3,115	1,780
Commission on POST - OPD	22,566	-	22,566	22,566	-	-	22,566	22,566
P.O.S.T. Training Contract	271,416	-	271,416	677,515	271,416	-	948,931	948,931
FEP - Rancho Santiago	-	10,000	10,000	10,000	-	1,979	8,021	8,021
Lottery Funds	125,538	-	125,538	125,538	-	-	125,538	125,538
California Connection - (MESA)	-	8,000	8,000	8,000	-	-	8,000	8,000
CERT Grant	-	1,500	1,500	-	-	1,500	-	-
	\$ 4,641,851	\$ 1,399,472	\$ 6,006,614	\$ 5,915,963	\$ 485,788	\$ 767,033	\$ 5,636,218	\$ 5,634,883

See accompanying note to supplementary information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL/ACTUAL ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
Credit Full-Time Equivalent Student (FTES)			
1. Summer	421	-	421
2. Weekly census	3,806	-	3,806
3. Daily census	320	-	320
4. Actual hours of attendance	581	-	581
Subtotal	5,128	-	5,128
Noncredit FTES			
1. Summer	68	-	68
2. Actual hours of attendance	222	-	222
Subtotal	290	-	290
Total FTES	5,418	-	5,418
Basic Skills Courses			
1. Credit			84
2. Noncredit			-
Total Basic Skills FTES			84
In-service Training Courses			
			-

See accompanying note to supplementary information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2013.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	Object/ TOP Codes	Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6100			Activity (ESCB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	5,672,216	-	5,672,216	5,672,216	-	5,672,216
Other	1300	3,119,722	-	3,119,722	3,119,722	-	3,119,722
Total Instructional Salaries		8,791,938	-	8,791,938	8,791,938	-	8,791,938
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	2,701,834	-	2,701,834
Other	1400	-	-	-	330,755	-	330,755
Total Non-Instructional Salaries		-	-	-	3,032,589	-	3,032,589
Total Academic Salaries		8,791,938	-	8,791,938	11,824,527	-	11,824,527
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	4,618,092	-	4,618,092
Other	2300	-	-	-	470,892	-	470,892
Total Non-Instructional Salaries		-	-	-	5,088,984	-	5,088,984
Instructional Aides							
Regular Status	2200	605,761	-	605,761	605,761	-	605,761
Other	2400	278,475	-	278,475	278,475	-	278,475
Total Instructional Aides		884,236	-	884,236	884,236	-	884,236
Total Classified Salaries		884,236	-	884,236	5,973,220	-	5,973,220
Employee Benefits	3000	3,345,107	-	3,345,107	6,071,275	-	6,071,275
Supplies and Materials	4000	-	-	-	375,375	-	375,375
Other Operating Expenses	5000	84,316	-	84,316	2,726,653	-	2,726,653
Equipment Replacement	6420	-	-	-	1,235	-	1,235
Total Expenditures Prior to Exclusions		13,105,597	-	13,105,597	26,972,285	-	26,972,285
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	448,714	-	448,714	448,714	-	448,714
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Non-instructional Staff-Retirees' Benefits and Retirement Incentives	6740	-	-	-	644,141	-	644,141
Object to Exclude							
Rents and Leases	5060	-	-	-	115,612	-	115,612
Lottery Expenditures							
Academic Salaries	1000	-	-	-	71,125	-	71,125
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	7,930	-	7,930
Supplies and Materials	4000						
Software	4100	-	-	-	-	-	-
Books, Magazines & Periodicals	4200	-	-	-	831	-	831
Instructional Supplies & Materials	4300	-	-	-	5,992	-	5,992
Non-instructional Supplies & Materials	4400	-	-	-	18,528	-	18,528
Total Supplies and Materials		-	-	-	25,351	-	25,351
Other Operating Expenses and Services	5000	-	-	-	536,699	-	536,699
Capital Outlay	6000	-	-	-	-	-	-
Library Books	6300	-	-	-	23,543	-	23,543
Equipment	6400	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	87,271	-	87,271
Equipment - Replacement	6420	-	-	-	1,235	-	1,235
Total Equipment	6420	-	-	-	88,506	-	88,506
Total Capital Outlay		-	-	-	112,049	-	112,049
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		\$ 448,714	\$ -	\$ 448,714	\$ 1,961,621	\$ -	\$ 1,961,621
Total for ECS 84362, 50% Law		\$ 12,656,883	\$ -	\$ 12,656,883	\$ 25,010,664	\$ -	\$ 25,010,664
Percent of CEE (Instructional Salary Cost/Total CEE)		50.61%	0.00%	50.61%	100.00%	0.00%	100.00%
50% of Current Expense of Education		\$ -	\$ -	\$ -	\$ 12,505,332	\$ -	\$ 12,505,332

See accompanying note to supplementary information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
 DETAILS OF THE EDUCATION PROTECTION ACCOUNT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

EPA Revenue	4,555,811
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Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	Total
Total		4,555,811	-	-	4,555,811

See accompanying note to supplementary information.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
NOTE TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

NOTE 1 – PURPOSE OF SCHEDULES

A. Local Educational Agency Organizational Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

B. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

C. Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State Awards includes the state grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

D. Schedule of Workload Measures for State General Apportionment – Annual/Actual Attendance

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

E. Reconciliation of Annual Financial and Budget Report with Fund Financial Statements

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

F. Reconciliation of the ECS 84632 (50 Percent Law) Calculation

This schedule reports any audit adjustments made to the reported data to ensure that a minimum of 50 percent of the District's current expense of education is expended for salaries of classroom instructors.

G. Details of the Education Protection Account

This schedule reports the District revenue and expenditure classification of the Proposition 30 Education Protection Account funds.

OTHER INDEPENDENT AUDITORS' 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**

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Independent Auditors'

Board of Trustees
Napa Valley Community College District
Napa, 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 Napa Valley Community College District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Napa Valley Community College District's basic financial statements, and have issued our report thereon dated December 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Napa Valley Community College 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Napa Valley Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of Napa Valley Community College 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. Control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Christy White Associates". The signature is written in a cursive style with a horizontal line extending from the end of the word "Associates".

San Diego, California
December 14, 2013

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

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

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Independent Auditors'

Board of Trustees
Napa Valley Community College District
Napa, California

Compliance

We have audited Napa Valley Community College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Napa Valley Community College District's major federal programs for the year ended June 30, 2013. Napa Valley Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of 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 Napa Valley Community College 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 Napa Valley Community College 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 Napa Valley Community College District's compliance.

Opinion on Each Major Federal Program

In our opinion, Napa Valley Community College 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 federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Napa Valley Community College 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 Napa Valley Community College 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 Napa Valley Community College 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.



San Diego, California
December 14, 2013

REPORT ON STATE COMPLIANCE

Independent Auditors'

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

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Board of Trustees
Napa Valley Community College District
Napa, California

Report on State Compliance

We have audited Napa Valley Community College District's compliance with the types of compliance requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2013.

Management's Responsibility

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 Napa Valley Community College District's compliance with the 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 the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about Napa Valley Community College 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 with the requirements referred to above. However, our audit does not provide a legal determination of Napa Valley Community College District's compliance with those requirements.

Opinion on State Compliance

As described in findings #2013-1 and #2013-2 in the accompany schedule of findings and questioned costs, Napa Valley Community College District did not comply with all requirements. Compliance with such requirements is necessary, in our opinion, for Napa Valley Community College District to comply with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2013.

Napa Valley Community College District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Napa Valley Community College District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Napa Valley Community College District's compliance with the state laws and regulations applicable to the following items:

- Section 421 – Salaries of Classroom Instructors (50 Percent Law)
- Section 423 - Apportionment for Instructional Service Agreements/Contracts
- Section 424 - State General Apportionment Funding System
- Section 425 - Residency Determination for Credit Courses
- Section 426 - Students Actively Enrolled
- Section 427 - Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Section 431 - Gann Limit Calculation
- Section 433 - CalWORKS
- Section 435 - Open Enrollment
- Section 437 - Student Fees – Instructional and Other Materials
- Section 438 - Student Fees – Health Fees and Use of Health Fee Funds
- Section 474 - Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Section 475 - Disabled Student Programs and Services (DSPS)
- Section 479 - To Be Arranged Hours (TBA)
- Section 490 - Proposition 1D State Bond Funded Projects
- Section 491- Proposition 30 Education Protection Account Funds

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing over state laws and regulations based on the requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2012-13*. Accordingly, this report is not suitable for any other purpose.



San Diego, California
December 14, 2013

**FINDINGS AND QUESTIONED COSTS
SECTION**

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
84.007, 84.032, 84.063, 84.375, 84.033	Student Financial Aid Cluster
84.126	Vocational Rehabilitation

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Modified</u>

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS, continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

There were no financial statement findings or questioned costs identified during 2012-13.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS, continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal award findings or questioned costs identified during 2012-13.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS, *continued*
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

FINDING #2013-1 – ANNUAL CCFS-311 REPORTING

Criteria: The California Community Colleges Chancellor's Office requires that each community college district report the financial activity of the General Fund on a quarterly basis via the CCFS-311Q report and the districts' total revenues and expenditures for the fiscal year via the CCFS-311 by October 10 of each year. This report is also required to include the adopted budget for the subsequent fiscal year.

Condition: In our testing of the District annual CCFS-311 for the fiscal year 2012-13 we noted that the certification and filing did not occur by October 10, 2013.

Questioned Costs: No questioned costs noted.

Effect: Noncompliance with submission requirements for the annual CCFS-311.

Cause: The annual CCFS-311 report was certified to the State Chancellor's Office on December 5, 2013.

Recommendation: We recommend that in accordance with the instructions of the State Chancellor's Office for the Annual Financial and Budget Report requirements, the annual activity of all funds of the District be made available to the public on or before September 30 of each year and be submitted to the Chancellor's Office no later than October 10 of each year.

District Response: The final CCFS-311 report for 2012-13 was completed and filed with the State Chancellor's Office. It is expected that all subsequent reports will be completed in a timely fashion.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS, continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Section IV – State Award Findings and Questioned Costs, continued

FINDING #2013-2: DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)

Criteria: Records must be available to support the determination of eligibility for all students participating in DSPS per CCR Title V, Section 56006. In addition, a student educational contract should be prepared for and agreed upon by every student enrolled in DSPS per CCR Title V, Section 56022.

Condition: During our testing of 15 statistically significant sampled students enrolled in DSPS, we noted the following exceptions:

- For 9/15 students sampled, student educational contracts tested were not signed by the student.
- For 8/15 student sampled (3 at Napa College and 5 at off-site locations), we were unable to obtain disability verification forms.

Questioned Cost: Based upon the extrapolation of our audit results based on students served during the 2012-13 academic year, we estimate that 1,146 student educational contracts were unsigned, and 1,019 student files did not contain evidence of disability verification. With DSPS funding for individual students based upon need and services provided, we could not extrapolate the results of our findings into a monetary questioned cost.

Cause: Unknown.

Effect: Non-compliance with CCR Title V, Sections 56006 and 56022.

Recommendation: Records should be maintained to support the eligibility determination for all students. In addition, all student educational contracts should be signed by the related student as well as the DSPS professional staff.

District Response: The District agrees with this finding, and will implement procedures to ensure that eligibility determination records are maintained and all student educational contracts are signed by the related students.

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINDING #2012-1 – TRUST FUND ACCOUNTS

Criteria: The California Community Colleges Chancellor’s Office Budget and Accounting Manual describes the General Fund as the primary operating fund of the district. It is used to account for those transactions that, in general, cover the full scope of operations of the district (instruction, administration, student services, maintenance and operations, etc.). All transactions shall be accounted for in the General Fund unless there is a compelling reason (e.g., legal or contractual requirement) to report them in another fund.

Condition: In our testing of the District’s trust fund accounts, we noted that operating revenue and expense of an instructional program of the District was recorded in a trust fund, rather than in the general fund. There was no legal, contractual, or other compelling requirement to report the activity of the Criminal Justice Training Program (CJT) outside of the general fund. .

Cause: Unknown.

Effect: Increased potential for non-compliance with the 50% law by reporting inaccurate or incomplete data on the Annual Financial and Budget Reports (CCFS-311).

Recommendation: We recommend that the District continue working towards bringing the CJT activity into to the general fund, where it can be tracked by a local designation to ensure accurate reporting of the program activity within the general fund.

District Response: The District is currently in progress on reviewing all trust accounts to determine whether the activity occurring in the trust accounts should be recorded in the District’s general fund.

Current Status: Implemented

**NAPA VALLEY COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

FINDING #2012-2 – STUDENT FEES

Criteria: California Education Code Section 76355(a)(2)(c) requires a District charging a mandatory health fee to provide an exemption for students who depend exclusively upon prayer for healing. The California Community Colleges Chancellor's Office Student Fee Handbook requires the health fee exemption to be described in the course catalog and any other informational source concerning student fees.

Condition: Description of an exemption to a mandatory health fee was not provided in the course catalog or other sources concerning student fees..

Cause: At the time the District became aware of the non-compliance the course catalogs had already been printed.

Effect: Noncompliance with California Education Code and the Chancellor's office requirements.

Recommendation: We recommend that the District add a description of the health fee exemption in the course catalog, and any other source concerning student fees.

District Response: The District will implement procedures to ensure compliance as subsequent course catalogs are developed.

Current Status: Implemented.