Rancho Santiago Community College District

Annual Financial Report

June 30, 2012

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2012

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

We have audited the accompanying basic financial statements of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2012, and its discretely presented component units as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to previously present fairly, in all material respects, the financial position of Rancho Santiago Community College District and its discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Rancho Santiago Community College District.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the supplementary information, such as the Management's Discussion and Analysis on pages 4 through 12 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and other supplementary information listed in the Table of Contents, are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Rancho Santiago Community College District (the District) as of June 30, 2012. The report consists of three basic financial statements: the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

Rancho Santiago Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and No. 35, *Basic Financial Statements - and Management Discussion and Analysis - for Public College and Universities.* These statements allow for the presentation of financial activity and results of operations which focuses on the District as a whole. The entity-wide financial statements present the overall results of operations whereby all of the District's activities are consolidated into one total versus the traditional presentation by fund type. The focus of the Statement of Net Assets is designed to be similar to the bottom line results of the District. This statement combines and consolidates current financial resources with capital assets and long-term obligations. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on the costs of the District's operational activities with revenues and expenses categorized as operating and nonoperating, and expenses are reported by natural classification. The Statement of Cash Flows provides an analysis of the sources and uses of cash within the operations of the District.

The California Community Colleges Chancellor's Office has recommended that all State community colleges follow the Business Type Activity (BTA) model for financial statement reporting purposes.

FINANCIAL HIGHLIGHTS

The Annual Report consists of three basic financial statements that provide information on the District as a whole and will be discussed below:

- The Statement of Net Assets
- The Statement of Revenues, Expenses, and Changes in Net Assets
- The Statement of Cash Flows

THE DISTRICT AS A WHOLE

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities), presenting the reader a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The net assets (formerly called fund balance) are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are 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. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District.

The Statement of Net Assets as of June 30, 2012 and 2011, is summarized below:

Table 1

(Amounts in thousands)	2012	2011	Change	Percentage Change
ASSETS				
Current Assets				
Cash and investments	$ 175,810	$ 202,211	$ (26,401)	-13.06%
Accounts receivable	35,955	30,422	5,533	18.19%
Other current assets	8,669	5,951	2,718	45.67%
Total Current Assets	220,434	238,584	(18,150)	-7.61%
Capital Assets (net)	375,874	354,749	21,125	5.95%
Total Assets	$ 596,308	$ 593,333	$ 2,975	0.50%
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$ 23,639	$ 23,376	$ 263	1.13%
Current portion of long-term debt	7,112	6,645	467	7.03%
Total Current Liabilities	30,751	30,021	730	2.43%
Long-term Debt	403,138	380,796	22,342	5.87%
Total Liabilities	433,889	410,817	23,072	5.62%
NET ASSETS				
Invested in capital assets	90,983	115,567	(24,584)	-21.27%
Restricted	29,848	26,378	3,470	13.15%
Unrestricted	41,588	40,571	1,017	2.51%
Total Net Assets	162,419	182,516	(20,097)	-11.01%
Total Liabilities and Net Assets	$ 596,308	$ 593,333	$ 2,975	0.50%

Fiscal year ended 2012 compared to 2011:

- Current assets overall decreased by approximately $18.2 million. The increases in additional State apportionment deferrals and other receivables were offset by a 13 percent decrease in cash and investments due mostly to the continued expenditure in capital assets related to the bond program and the planned spend down of the budget stabilization reserves during this economic downturn.

- Net capital assets increased by approximately $21.1 million mainly due to completed construction of the following projects: (1) Child Development Center renovation at Centennial Education Center, (2) Child Development Center renovation at Santa Ana College, (3) Building K remodel at Santa Ana College, (4) Johnson Center renovation at Santa Ana College, and (5) Building D at Santa Ana College.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets are presented on the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the operating and nonoperating revenues earned whether received or not by the District, the operating and nonoperating expenses incurred whether paid or not by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

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. Nonoperating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations while budgeted for operations, are considered nonoperating revenue according to generally accepted accounting principles because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

Table 2

(Amounts in thousands)	2012	2011	Change	Percentage Change
Operating Revenues				
Tuition and fees	$ 11,349	$ 10,406	$ 943	9.06%
Auxiliary sales and charges	664	-	664	0.00%
Total Operating Revenues	12,013	10,406	1,607	15.44%
Operating Expenses				
Salaries and benefits	140,000	135,935	4,065	2.99%
Supplies and maintenance	42,624	33,146	9,478	28.59%
Financial aid	23,144	23,474	(330)	-1.41%
Depreciation	11,873	11,061	812	7.34%
Total Operating Expenses	217,641	203,616	14,025	6.89%
Loss on Operations	(205,628)	(193,210)	(12,418)	6.43%
Nonoperating Revenues				
State apportionments	83,912	91,351	(7,439)	-8.14%
Property taxes	37,368	41,868	(4,500)	-10.75%
Federal grants	36,442	37,256	(814)	-2.18%
State grants	17,426	14,367	3,059	21.29%
State taxes and other revenue	5,354	4,674	680	14.55%
Net interest expense	(21,910)	(13,782)	(8,128)	58.98%
Other nonoperating revenues	8,663	8,154	509	6.24%
Total Nonoperating Revenue	167,255	183,888	(16,633)	-9.05%
Other Revenues				
State and local capital income	18,276	21,529	(3,253)	-15.11%
Net Change in Net Assets	$ (20,097)	$ 12,207	$ (32,304)	-264.64%

Fiscal year ended 2012 compared to 2011:

- Fees increased 9 percent in 2012 due to the increase in State enrollment fees from $26 to $36, offset by a decrease of approximately 10 percent in the total funded full-time equivalent students served.

- Supplies and maintenance costs increased $9.5 million due primarily to the net effect of the two bond refunding issuances made by the District in 2011-2012.

- State apportionments and property taxes decreased by a total of $11.9 million due to the continuing reductions in State revenue and corresponding allocations to the District based on the imposed workload measures reduction from 30,745 full-time equivalent students served in 2010-2011 to 27,708 served in 2011-2012.

In accordance with requirements set forth by the California Community Colleges Chancellor's Office, the District reports operating expenses by object code. Operating expenses by functional classification are as follows:

Table 3

Year ended June 30, 2012:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 57,860	$ 2,868	$ -	$ -	$ 60,728
Academic support	10,867	346	-	-	11,213
Student services	29,271	1,628	-	-	30,899
Plant operations and maintenance	4,909	3,158	-	-	8,067
Instructional support services	24,880	7,327	-	-	32,207
Community services and economic development	2,408	599	-	-	3,007
Ancillary services and auxiliary operations	9,271	4,058	-	-	13,329
Student aid	-	-	23,144	-	23,144
Physical property and related acquisitions	535	22,640	-	-	23,175
Depreciation	-	-	-	11,872	11,872
Total	$ 140,001	$ 42,624	$ 23,144	$ 11,872	$ 217,641

Year ended June 30, 2011:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 63,232	$ 3,226	$ -	$ -	$ 66,458
Academic support	12,458	469	-	-	12,927
Student services	22,718	1,016	-	-	23,734
Plant operations and maintenance	4,467	2,211	-	-	6,678
Instructional support services	21,995	4,617	-	-	26,612
Community services and economic development	2,620	288	-	-	2,908
Ancillary services and auxiliary operations	7,948	3,017	-	-	10,965
Student aid	-	-	23,474	-	23,474
Physical property and related acquisitions	497	10,674	-	-	11,171
Other outgo	-	7,800	-	-	7,800
Depreciation	-	-	-	11,061	11,061
Total	$ 135,935	$ 33,318	$ 23,474	$ 11,061	$ 203,788

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due, and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by operating activities of the District. The second part details cash received for nonoperating, noninvesting, and noncapital financing purposes. The third part shows cash flows from capital and related financing activities and deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net change in cash and cash equivalents to the ending cash and cash equivalents balance reflected on the Statement of Net Assets.

Statement of Changes in Cash Position

- Operating activities consist of cash receipts from enrollment fees, grants and contracts, and cash payments for salaries, benefits, supplies, utilities, and other items related to the instructional program.
- Noncapital financing activities are primarily State apportionment and property taxes.

- Capital financing activities consist of purchases of capital assets (land, buildings, and equipment) and bond interest payments and receipts from Federal and State grants for capital purposes, as well as property tax revenue for bond repayments.

- Cash from investing activities is interest earned on investments through the Orange County Investment Pool and the Local Agency Investment Fund (LAIF).

Table 4

(Amounts in thousands)

	2012	2011	Change
Cash Provided by (Used in)			
Operating activities	$ (196,130)	$ (184,352)	$ (11,778)
Noncapital financing activities	186,545	215,473	(28,928)
Capital financing activities	(17,941)	(39,036)	21,095
Investing activities	1,126	2,184	(1,058)
Net Decrease in Cash	(26,400)	(5,731)	(20,669)
Cash, Beginning of Year	202,210	207,941	(5,731)
Cash, End of Year	$ 175,810	$ 202,210	$ (26,400)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal year ended 2012 compared to 2011:

As of June 30, 2012, the District had $488.7 million in capital assets, less $112.8 million accumulated depreciation for net capital assets of $375.9 million. The District continues to work on the facilities projects that are part of the $337 million bond master plan. The District spent approximately $34 million on capital assets in 2011-2012, of which $29 million relates to bond proceeds. Depreciation charges totaled $11.9 million in 2011-2012.

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	$ 137,948	$ 26,220	$ 12,151	$ 152,017
Buildings and improvements	261,086	14,988	1,092	274,982
Furniture and equipment	58,480	4,849	1,649	61,680
Subtotal	457,514	46,057	14,892	488,679
Accumulated depreciation	102,765	11,872	1,832	112,805
	$ 354,749	$ 34,185	$ 13,060	$ 375,874

Obligations

Fiscal year ended 2012 compared to 2011:

At June 30, 2012, the District had $410.3 million in outstanding long-term liabilities compared to $393 million at June 30, 2011. The net increase of $17.3 million includes an increase of $3.1 million in the Other Postemployment Benefits Obligation in accordance with the most recent actuarial study of Retiree Health Liabilities dated July 17, 2012, and an increase of $14.8 million related to the issuance of two General Obligation Refunding Bonds during the fiscal year.

Table 6

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	$ 339,578	$ 97,347	$ 82,565	$ 354,360
Notes payable	15	-	15	-
Claims payable	685	-	285	400
Compensated absences	5,391	-	654	4,737
Load banking	3,104	389	-	3,493
Net OPEB obligation	44,184	8,741	5,664	47,261
Total Long-Term Obligations	$ 392,957	$ 106,477	$ 89,183	$ 410,251
Amount due within one year				$ 7,113

BUDGETARY HIGHLIGHTS

At the time the 2012-2013 budget was developed, the following assumptions were made:

- The 2012-2013 State budget for community colleges again contains no Cost of Living Allowance (COLA) increase.
- The District budget includes no growth funding with a total estimated amount of Full-Time Equivalent Students served at 28,000.
- The District's budget is balanced by using a portion of the 2011-2012 unrestricted ending balance stabilization funds.
- The District transitioned to a new budget allocation model based on SB 361 moving the District to a revenue allocation system. This model will continue in transition until ongoing revenues and expenses are balanced without the need of stabilization funding.

ECONOMIC FACTORS

- The financial position of the Rancho Santiago Community College District is closely tied to that of the State of California. The District receives over 70 percent of its combined General Fund revenues through State apportionments and local property taxes. These two sources along with student paid enrollment fees essentially make up the District's general apportionment, the main funding support for California community colleges.

- Due to the ongoing national and State recession, California continues to feel the effects of a number of negative economic indicators. The erosion of State funding support over the last five years has compelled colleges to make significant budget cuts, including reduced services and class offerings for our students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Rancho Santiago Community College District, attention Vice Chancellor, Business Operations and Fiscal Services, 2323 North Broadway, Santa Ana, CA 92706 (714) 480-7340.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS - PRIMARY GOVERNMENT
JUNE 30, 2012

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 4,398,087
Cash and cash equivalents - restricted	72,777
Investments - unrestricted	62,523,325
Investments - restricted	108,815,427
Accounts receivable	35,745,088
Student loans receivable	210,444
Due from fiduciary funds	544,210
Prepaid expenses - current portion	1,015,177
Stores inventories	1,178,147
Cost of issuance	3,705,132
Deferred charge on refunding	2,226,559
Total Current Assets	220,434,373
Noncurrent Assets	
Nondepreciable capital assets	152,016,718
Depreciable capital assets, net of depreciation	223,857,135
Total Noncurrent Assets	375,873,853
TOTAL ASSETS	596,308,226
LIABILITIES	
Current Liabilities	
Accounts payable	11,766,343
Accrued interest payable	5,265,377
Due to fiduciary funds	538,492
Deferred revenue	6,068,524
Compensated absences payable - current portion	962,555
Bonds payable - current portion	6,150,000
Total Current Liabilities	30,751,291
Noncurrent Liabilities	
Claims liability	400,000
Compensated absences payable - noncurrent portion	3,774,098
Bonds payable - noncurrent portion	348,209,876
Other long-term liabilities - noncurrent portion	50,754,042
Total Noncurrent Liabilities	403,138,016
TOTAL LIABILITIES	433,889,307
NET ASSETS	
Invested in capital assets, net of related debt	90,983,290
Restricted for:	
Debt service	7,440,052
Capital projects	19,851,477
Educational programs	2,383,482
Other activities	172,412
Unrestricted	41,588,206
TOTAL NET ASSETS	$ 162,418,919

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2012

OPERATING REVENUES	
Student Tuition and Fees	$ 21,107,370
Less: Scholarship discount and allowance	(9,758,739)
Net tuition and fees	11,348,631
Auxiliary Enterprise Sales and Charges	
Other Operating Revenues	664,463
TOTAL OPERATING REVENUES	12,013,094
OPERATING EXPENSES	
Salaries	100,107,761
Employee benefits	39,892,963
Supplies, materials, and other operating expenses and services	41,900,355
Student financial aid	23,143,690
Equipment, maintenance, and repairs	723,943
Depreciation	11,872,533
TOTAL OPERATING EXPENSES	217,641,245
OPERATING LOSS	(205,628,151)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	83,912,007
Local property taxes, levied for general purposes	37,368,294
Federal grants	36,441,396
State grants	17,426,039
State taxes and other revenues	5,354,377
Investment income	1,126,230
Interest expense on capital related debt	(23,091,239)
Investment income on capital asset-related debt, net	54,958
Transfer out to fiduciary fund	(150,694)
Loss on disposal of capital assets	(908,770)
Other nonoperating revenue	9,722,430
TOTAL NONOPERATING REVENUES (EXPENSES)	167,255,028
LOSS BEFORE OTHER REVENUES AND EXPENSES	(38,373,123)
OTHER REVENUES	
State revenues, capital	40,968
Local revenues, capital	18,235,063
TOTAL OTHER REVENUES	18,276,031
CHANGE IN NET ASSETS	(20,097,092)
NET ASSETS, BEGINNING OF YEAR	182,516,011
NET ASSETS, END OF YEAR	$ 162,418,919

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 9,723,431
Auxiliary sales	664,463
Payments to or on behalf of employees	(140,796,112)
Payments to vendors for supplies and services	(42,578,583)
Payments to students for scholarships and grants	(23,143,690)
Net Cash Flows From Operating Activities	(196,130,491)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	83,912,007
Property taxes	37,368,294
Grant and contracts	50,822,393
State taxes and other revenue	3,533,436
Other nonoperating	10,908,601
Net Cash Flows From Noncapital Financing Activities	186,544,731
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(32,521,715)
State revenue, capital projects	40,968
Local revenue, capital projects	18,235,063
Proceeds from capital debt	97,346,980
Principal paid on capital debt	(82,580,173)
Interest paid on capital debt	(18,517,388)
Interest received on capital asset-related debt	54,958
Net Cash Flows From Capital Financing Activities	(17,941,307)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	1,126,230
NET CHANGE IN CASH AND CASH EQUIVALENTS	(26,400,837)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	202,210,453
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 175,809,616

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
FOR THE YEAR ENDED JUNE 30, 2012

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (205,628,151)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	11,872,533
Changes in Assets and Liabilities:	
Receivables	(210,444)
Stores inventories	407,474
Prepaid expenses	(803,609)
Accounts payable and accrued liabilities	(4,736,572)
Deferred revenue	441,850
Claims payable	(284,502)
OPEB obligation	(5,275,036)
Compensated absences	8,085,966
Total Adjustments	9,497,660
Net Cash Flows From Operating Activities	$ (196,130,491)

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 4,470,864
Cash in county treasury	171,189,068
Cash in Local Agency Investment Fund (LAIF)	149,684
Total Cash and Cash Equivalents	$ 175,809,616

NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 2,787,067

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

	Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 1,457,594	$ 1,276,431
Investments	5	-
Accounts receivable	53,201	-
Due from primary government	538,492	-
Total Assets	2,049,292	$ 1,276,431
LIABILITIES		
Accounts payable	$ 74,062	$ -
Due to primary government	544,210	-
Due to student groups	-	1,276,431
Total Liabilities	618,272	$ 1,276,431
NET ASSETS		
Reserved	94,265	
Unreserved	1,336,755	
Total Net Assets	$ 1,431,020	

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Trust
ADDITIONS	
Local revenues	$ 1,969,140
DEDUCTIONS	
Classified salaries	520,269
Employee benefits	146,697
Services and operating expenditures	950,378
Capital outlay	216,565
Total Deductions	1,833,909
OTHER FINANCING SOURCES	
Transfer in from governmental funds	150,694
Change in Net Assets	285,925
Net Assets - Beginning	1,145,095
Net Assets - Ending	$ 1,431,020

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents - unrestricted	$ 564,243
Cash and cash equivalents - restricted	750,160
Investments, at fair value - restricted	349,734
Accounts receivable	39,613
Prepaid expenses	473
Total Current Assets	1,704,223
NONCURRENT ASSETS	
Investments, at fair value - unrestricted	3,254,661
Investments, at fair value - restricted	2,959,839
Equipment, net	27,000
Total Noncurrent Assets	6,241,500
TOTAL ASSETS	$ 7,945,723
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 22,861
Intergovernmental payables	33,653
Deferred revenue	8,932
TOTAL LIABILITIES	65,446
NET ASSETS	
Unrestricted	3,841,608
Temporarily restricted	3,903,202
Permanently restricted	135,467
Total Net Assets	7,880,277
Total Liabilities and Net Assets	$ 7,945,723

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	$ 137,305	$ 802,379	$ 1,154	$ 940,838
Fundraising	87,835	-	-	87,835
Donated facilities	17,150	-	-	17,150
Donated salaries	416,377	-	-	416,377
Special events	25,586	38,090	-	63,676
Federal revenues	-	136,672	-	136,672
Administrative fee	28,158		-	28,158
Miscellaneous revenue	9,885	-	-	9,885
Assets released from restrictions	1,041,488	(1,041,488)	-	-
Total Revenues	1,763,784	(64,347)	1,154	1,700,591
EXPENSES				
Operating expenses	636,208	-	-	636,208
Program expenses	938,095	-	-	938,095
Fundraising expenses	186,795	-	-	186,795
Total Expenses	1,761,098	-	-	1,761,098
OTHER INCOME (EXPENSE)				
Realized gain on sale of investments	11,406	33,326	-	44,732
Unrealized gain (loss)	10,149	(240,008)	-	(229,859)
Interest and dividends	22,043	163,970	-	186,013
Miscellaneous income	13,621	-	-	13,621
Transfers	2,995,987	(3,036,962)	40,975	-
Total Other Income (Expense)	3,053,206	(3,079,674)	40,975	14,507
CHANGE IN NET ASSETS	3,055,892	(3,144,021)	42,129	(46,000)
NET ASSETS, BEGINNING OF YEAR	785,716	7,047,223	93,338	7,926,277
NET ASSETS, END OF YEAR	$ 3,841,608	$ 3,903,202	$ 135,467	$ 7,880,277

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (46,000)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities	
Unrealized loss	229,859
Depreciation	3,549
Contributions restricted for long-term purposes	(803,533)
Changes in Assets and Liabilities	
Decrease in accounts receivable and prepaid accounts	34,285
Increase in accounts payable	11,167
Decrease in due to Rancho Santiago Community College District	(46,324)
Decrease in deferred revenue	(19,068)
Net Cash Flows From Operating Activities	(636,065)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	2,082,118
Purchase of investments	(2,112,164)
Purchase of capital assets	(29,945)
Increase in restricted cash and cash equivalents	(10,738)
Net Cash Flows From Investing Activities	(70,729)
CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of contributions restricted for long-term purposes	803,533
NET CHANGE IN CASH AND CASH EQUIVALENTS	96,739
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	467,504
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 564,243

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

NOTE 1 - ORGANIZATION

Rancho Santiago Community College District (the District) was established in 1971 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates two colleges located within Orange County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District, and the following component units:

- **Rancho Santiago Community College District Foundation**

  Rancho Santiago Community College District Foundation is a nonprofit organization organized in 1998, which operates as an auxiliary organization of Rancho Santiago Community College District. The primary functions of the foundation are community and institutional development and administration of the Endowment Challenge Grant.

- **Santa Ana College Foundation**

  Santa Ana College Foundation is a nonprofit organization organized in 1968 to assist in the achievement and maintenance of a superior program of public education and community participation with Rancho Santiago Community College District by receiving contributions from the public, by raising funds and making contributions to educational and community programs of Santa Ana College, and by developing, conducting, and financing programs and projects designed to benefit the students enrolled in the educational and community programs of the District.

- **Santiago Canyon College Foundation**

  Santiago Canyon College Foundation is a nonprofit organization organized in July 1998, which operates as an auxiliary organization of Rancho Santiago Community College District. The primary functions of the foundation are to enhance and augment the mission of Santiago Canyon College. Its purpose is to seek, receive, and secure donations and gifts to assist the college in meeting its short and long-range goals and objectives.

The Foundations are legally separate, tax-exempt component units of the District. The Foundations acts primarily as a fundraising organization to provide grants and scholarships to students and support to employees, programs, and departments of the District. The Board members of the Foundations consist of community members, alumni, and other supporters of the Foundations. Although the District does not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon that the Foundations hold and invest is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the District, the Foundations are considered component units of the District with the inclusion of the statements as discretely presented component units. The Foundations are reported in separate financial statements because of the differences in their reporting models as further described below.

The Foundations are not-for-profit organizations under Internal Revenue Code (IRC) Section 501(c)(3) that report their financial results in accordance with Financial Accounting Standards Codifications. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the District's financial reporting entity for these differences; however, significant note disclosures to the Foundations' financial statements have been incorporated into the District's notes to the financial statements.

Complete financial statements for the Foundations can be obtained from their respective offices.

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. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. 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, operating revenues consist primarily of student fees.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

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, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

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 Assets - Primary Government
  - Statements of Revenues, Expenses, and Changes in Net Assets - Primary Government
  - Statements of Cash Flows - Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statements of Fiduciary Net Assets
    - Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include unrestricted cash with county treasury balances for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets represent investments required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. All material receivables are considered fully collectible.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2012.

Inventories

Inventories consist of bookstore merchandise and supplies held for resale to the students and faculty of the colleges. Inventories are stated at the lower of cost or market on an average basis. The cost is recorded as an expense as the inventory is consumed.

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 $1,000 and an estimated useful life greater than one year. 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 to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded utilizing the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 50 years; improvements, 10 to 15 years; equipment, 3 to 8 years; vehicles, 3 years.

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.

Deferred Amount on Refunding

Deferred amount on refunding is amortized using the straight line method over the remaining life of the new debt.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee based upon negotiated contracts. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, retirement credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

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.

Noncurrent Liabilities

Noncurrent liabilities include bonds and notes payable, compensated absences, claims payable, load banking, and OPEB obligations with maturities greater than one year.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets" and represent the difference between assets and liabilities. Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

Restricted - Expendable: Net assets 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. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets 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 $29,847,423 of restricted net assets.

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. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Orange bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

The voters of the District passed a General Obligation Bond in November 2002 for the acquisition, construction, and remodeling of certain District property. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected as noted above and remitted to the District when collected.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Changes in Net Assets. 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 payments on the students' behalf. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2012, the District distributed $2,578,836 in direct lending through the U.S. Department of Education.

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 California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California.

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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds financial statements, respectively.

Foundation Financial Statement Presentation

The Rancho Santiago Community College District Foundation, the Santa Ana College Foundation, and the Santiago Canyon College Foundation present their financial statements in accordance with Statement of Financial Accounting Codifications. Under these reporting requirements, the Foundations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the codification, the Foundations do not use fund accounting.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Unrestricted Net Assets: Net assets not subject to donor-imposed restrictions.

Revenues and expenses are recorded when incurred in accordance with the accrual basis of accounting. Revenues are reported as increases in the unrestricted net assets classification unless use of the related assets is limited by donor-imposed restrictions. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met. Contributions for in-kind gifts from outside sources are recorded at their fair market value on the date of the donation.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Investments are reported at fair value in accordance with FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*.

New Accounting Pronouncements

From time to time, the Governmental Accounting Standards Board will issue additional guidance on the accounting and reporting for financial transactions affecting governmental entities. The following is a summary of the most recent pronouncements which will impact future reporting or accounting requirements for the District. The full text of the following statements, along with implementation guides, may be found on the GASB website: www.gasb.org.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*.

This Statement modifies and amends certain requirements for inclusion and reporting of component units in the financial reporting entity. Guidance is provided for both blended and discretely presented component units. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District or related component units for the June 30, 2013, financial statements.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included within other pronouncements issued on or before November 30, 1989, which does not conflict or contradict the GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented. Management is in the process of determining the impact to the District reporting for the June 30, 2013, financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

This Statement provides financial reporting guidance for 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, 2011. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2013, financial statements.

In March 2012, 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014, financial statements.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*.

The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged. Management does not believe the implementation of this Statement will materially impact the reporting of the District for the June 30, 2014, financial statements.

In June 2012, GASB issued Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions - an amendment of Statement No. 27*.

The primary objective of these Statements 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 and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged. Management is in the process of determining the impact of both GASB Statements No. 67 and No. 68 on the June 30, 2015, financial statements.

NOTE 3 - DEPOSITS 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, 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 (ECS) 41001). The fair 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 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.

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair 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 value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

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	25%	10%
Negotiable Certificates of Deposit	5 years	30%	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.

Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2012, consist of the following:

Primary government	$ 175,809,616
Fiduciary funds	2,734,030
Total Deposits and Investments	$ 178,543,646

Deposits and investments of the Fiduciary Funds as of June 30, 2012, consist of the following:

Cash on hand and in banks	$ 7,001,539
Cash in revolving	203,350
Investments	171,338,757
Total Deposits and Investments	$ 178,543,646

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County pool and LAIF investment pools.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Carrying Value	Fair Value	Maturity Date
Orange County Treasury Investment Pool	$ 171,189,073	$ 171,396,393	347*
Local Agency Investment Fund (LAIF)	149,684	149,867	268*
Total	$ 171,338,757	$ 171,546,260	

* Weighted average days to maturity

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 investments in the County pool and LAIF are not required to be rated. The investment in LAIF has not been rated as of June 30, 2012. The District's investment in the Orange County Treasury Investment Pool was rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, 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 agency. 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, 2012, the District's bank balance of $6,666,961 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	$ 4,219,196	$ -
State Government		
Apportionment	27,883,513	-
Categorical aid	531,299	-
Lottery	2,314,837	-
Other State sources	110,738	-
Local Sources		
Interest	60,050	-
Other local sources	625,455	53,201
Total	$ 35,745,088	$ 53,201
Student receivables	$ 210,444	$ -

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2012, the amount owed between the government and the fiduciary funds were $544,210 and $538,492, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2012 fiscal year, there was no transfer made to the primary government from the fiduciary funds. The amount transferred to the fiduciary funds from the primary government was $150,694.

NOTE 6 - CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 84,875,123	$ -	$ -	$ 84,875,123
Construction in progress	53,072,380	26,220,232	12,151,017	67,141,595
Total Capital Assets Not Being Depreciated	137,947,503	26,220,232	12,151,017	152,016,718
Capital Assets Being Depreciated				
Buildings and improvements	261,085,786	14,988,362	1,091,707	274,982,441
Furniture and equipment	58,480,432	4,848,390	1,649,093	61,679,729
Total Capital Assets Being Depreciated	319,566,218	19,836,752	2,740,800	336,662,170
Total Capital Assets	457,513,721	46,056,984	14,891,817	488,678,888
Less Accumulated Depreciation				
Buildings and improvements	55,414,050	7,857,039	192,346	63,078,743
Furniture and equipment	47,350,482	4,015,494	1,639,684	49,726,292
Total Accumulated Depreciation	102,764,532	11,872,533	1,832,030	112,805,035
Net Capital Assets	$ 354,749,189	$ 34,184,451	$ 13,059,787	$ 375,873,853

Depreciation expense for the year was $11,872,533.

NOTE 7 - ACCOUNTS PAYABLE

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

	Primary Government	Fiduciary Funds
Accrued payroll	$ 5,266,507	$ 39,860
Construction	3,649,589	-
Other	2,850,247	34,202
Total	$ 11,766,343	$ 74,062

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consisted of the following:

	Primary Government
Federal financial assistance	$ 127,525
State categorical aid	3,784,272
Enrollment fees	1,714,877
Other local	441,850
Total	$ 6,068,524

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2012 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General Obligation - 2003, Series A	$ 23,290,000	$ -	$ 18,480,000	$ 4,810,000	$ 2,310,000
General Obligation - 2005, Series B	117,655,904	1,521,117	61,125,000	58,052,021	1,970,000
General Obligation - 2006, Series C	126,878,816	8,820,057	255,000	135,443,873	660,000
2005 General Obligation Refunding Bonds	53,649,906	147,356	1,130,000	52,667,262	1,210,000
2011 General Obligation Refunding Bonds	-	10,300,000	-	10,300,000	-
2012 General Obligation Refunding Bonds	-	62,985,000	-	62,985,000	-
Unamortized bond premium	18,103,442	13,573,450	1,575,172	30,101,720	-
Notes payable	15,001	-	15,001	-	-
Total Bonds and Notes Payable	339,593,069	97,346,980	82,580,173	354,359,876	6,150,000
Other Liabilities					
Claims payable	684,502	-	284,502	400,000	-
Compensated absences	5,391,479	-	654,826	4,736,653	962,555
Load banking	3,104,273	389,000	-	3,493,273	-
Net OPEB obligation	44,184,013	8,740,792	5,664,036	47,260,769	-
Total Other Liabilities	53,364,267	9,129,792	6,603,364	55,890,695	962,555
Total Long-Term Obligations	$392,957,336	$106,476,772	$ 89,183,537	$410,250,571	$ 7,112,555

Description of Debt

Payments on the general obligation bonds are to be made by the Bond Interest and Redemption Fund with local property tax collections. The notes payable obligation payments are made by the Child Development Fund. The compensated absences, load banking, and net OPEB obligation will be paid by the fund for which the employee worked. The claims liability will be paid by the Internal Service Fund.

On November 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling $337,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities. On March 12, 2003, the District issued General Obligation Bonds, Election of 2002, Series 2003A of $96,125,000 of current interest bonds. Interest ranges from 2.0 percent to 5.25 percent, payable semi-annually on March 1 and September 1.

On February 23, 2005, the District issued General Obligation Bonds, Election of 2002, Series B of $111,175,000 of current interest and $8,824,867 of capital appreciation bonds. Interest ranges from 3.0 percent to 5.13 percent payable semi-annually on March 1 and September 1.

On September 21, 2006, the District issued General Obligation Bonds, Election 2002, Series C of $86,255,000 of current interest bonds and $34,619,329 of capital appreciation bonds. Interest ranges from 3.38 percent to 5.0 percent payable semi-annually on March 1 and September 1.

On August 4, 2005, the District issued 2005 General Obligation Refunding Bonds of $49,925,000 of current interest bonds and $3,634,299 of capital appreciation bonds. Interest rates range from 3.57 percent to 5.25 percent payable semi-annually on March 1 and September 1.

The refunding proceeds were issued to pay off a portion of the Series A General Obligation Bonds. The refunding proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased. The amount of refunded debt to be paid from the escrow account at June 30, 2012, for Series A is $49,170,000.

On November 30, 2011, the District issued $10,300,000 2011 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $10,495,000 of the 2003 Series A bonds.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013. As of June 30, 2012, the balance in the escrow account amounted to $11,116,088.

Because the transaction qualifies as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings is approximately $360,000.

On March 1, 2012, the District issued $62,985,000 2012 General Obligation Refunding Bonds. Interest rates range from 2.0 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $5,860,000 of the 2003 Series A bonds and $59,495,000 of the 2005 Series B bonds.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013, and the Series B bonds on September 15, 2015. As of June 30, 2012, the balance in the escrow account amounted to $74,957,420.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2012
3/12/2003	9/1/2013	2.00-5.25%	$96,125,000	$ 23,290,000	$ -	$ -	$18,480,000	$ 4,810,000
2/23/2005	9/1/2029	3.00-5.13%	119,999,867	117,655,904	-	1,521,117	61,125,000	58,052,021
8/4/2005	9/1/2023	3.57-5.25%	53,559,299	53,649,906	-	147,356	1,130,000	52,667,262
9/21/2006	9/1/2031	3.38-5.00%	120,874,329	126,878,816	-	8,820,057	255,000	135,443,873
11/30/2011	9/1/2022	2.00-5.00%	10,300,000	-	10,300,000	-	-	10,300,000
3/1/2012	9/1/2027	2.00-5.00%	62,985,000	-	62,985,000	-	-	62,985,000
				$ 321,474,626	$73,285,000	$10,488,530	$80,990,000	$ 324,258,156

Annual requirements for all bonds payable are as follows:

Series A

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ 2,310,000	$ 174,600	$ 2,484,600
2014	2,500,000	93,750	2,593,750
Total	$ 4,810,000	$ 268,350	$ 5,078,350

Series B

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2013	$ 1,951,947	$ 18,053	$ 2,272,525	$ 4,242,525
2014	2,295,710	44,290	2,213,525	4,553,525
2015	2,651,080	78,920	2,143,525	4,873,525
2016	3,026,400	123,600	2,061,925	5,211,925
2017	3,705,353	254,647	1,967,925	5,927,925
2018-2022	4,289,482	2,010,518	9,235,250	15,535,250
2023-2027	4,092,049	3,542,952	9,235,250	16,870,251
2028-2030	36,040,000	-	4,654,781	40,694,781
Total	$ 58,052,021	$ 6,072,980	$ 33,784,706	$ 97,909,707

Series C

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2013	$ 660,000	$ -	$ 3,797,881	$ 4,457,881
2014	700,000	-	3,774,781	4,474,781
2015	760,000	-	3,739,781	4,499,781
2016	615,000	-	3,712,231	4,327,231
2017	1,155,000	-	3,689,938	4,844,938
2018-2022	17,435,000	-	17,049,000	34,484,000
2023-2027	64,119,227	1,165,773	9,764,613	75,049,613
2028-2032	49,999,646	67,010,354	-	117,010,000
Total	$ 135,443,873	$ 68,176,127	$ 45,528,225	$ 249,148,225

2005 Refunding Bond

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2013	$ 1,164,039	$ 45,961	$ 2,552,712	$ 3,762,712
2014	1,578,223	131,777	2,552,712	4,262,712
2015	2,235,000	-	2,552,712	4,787,712
2016	2,865,000	-	2,440,962	5,305,962
2017	5,670,000	-	2,297,712	7,967,712
2018-2022	31,070,000	-	7,029,325	38,099,325
2023-2024	8,085,000	-	565,425	8,650,425
Total	$ 52,667,262	$ 177,738	$ 19,991,560	$ 72,836,560

2011 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ -	$ 285,547	$ 285,547
2014	40,000	401,550	441,550
2015	45,000	400,750	445,750
2016	2,970,000	399,850	3,369,850
2017	25,000	310,750	335,750
2018-2022	2,550,000	1,319,750	3,869,750
2023	4,670,000	233,500	4,903,500
Total	$ 10,300,000	$ 3,351,697	$ 13,651,697

2012 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2013	$ -	$ 1,319,555	$ 1,319,555
2014	-	2,844,550	2,844,550
2015	2,660,000	2,844,550	5,504,550
2016	-	2,791,350	2,791,350
2017	-	2,791,350	2,791,350
2018-2022	17,865,000	12,659,550	30,524,550
2023-2027	31,765,000	8,001,000	39,766,000
2028	10,695,000	534,750	11,229,750
Total	$ 62,985,000	$ 33,786,655	$ 96,771,655

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2012, was $8,743,003, and contributions made by the District during the year were $5,664,036. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,209,201 and $(2,211,412), respectively, which resulted in an increase to the net OPEB obligation of $3,076,756. As of June 30, 2012, the net OPEB obligation was $47,260,769. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than 10 years, but less than 15 years, of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with 15 years or more service are eligible to receive medical benefits up to $26,884 for 2012. (The maximum for most employees is $22,736 for fiscal year 2012.) Currently, 381 employees meet those eligibility requirements.

For employees whose first paid date of contract services is on or after May 31, 1986, and who subsequently qualify for the foregoing 15 year retiree service benefit, the District will pay its portion of the insurance premium until the retiree reaches age 70. After age 70, such retirees may continue coverage at their own expense.

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2011-2012, the District contributed $8,743,003, consisting of $5,664,036 for premiums and $3,078,967 to set aside for the future liability.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 8,743,003
Interest on net OPEB obligation	2,209,201
Adjustment to annual required contribution	(2,211,412)
Annual OPEB cost (expense)	8,740,792
Contributions made	(5,664,036)
Increase in net OPEB obligation	3,076,756
Net OPEB obligation, July 1, 2011	44,184,013
Net OPEB obligation, June 30, 2012	$ 47,260,769

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2010	$ 8,106,542	$ 4,455,194	55%	$ 41,122,684
2011	8,127,380	5,066,051	62%	44,184,013
2012	8,740,792	5,664,036	65%	47,260,769

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2012, is as follows:

Actuarial Accrued Liability (AAL)	$ 92,397,836
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 92,397,836
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	100,628,030
UAAL as Percentage of Covered Payroll	91.82%

The above noted actuarial accrued liability was based on the July 17, 2012, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of 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. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the 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 the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the July 17, 2012, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a five percent investment rate of return. Healthcare cost trend rate was four percent. The UAAL is being amortized using the level percentage of payroll method. The remaining amortization period at June 30, 2012, was 20 years.

NOTE 11 - LEASE REVENUES

The District entered into a twelve-year operating lease contract with Santa Ana Unified School District in fiscal year 2001 to lease a building at Santa Ana College with annual lease payments of $91,667 through 2013. The entire lease payment of $1,100,000 was received in fiscal year 2001. This amount was recorded as deferred revenue and is being amortized to revenue over the twelve-year period. The balance of deferred revenue at June 30, 2012, is $91,663.

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical claims. During the fiscal year, the District maintained an Internal Service Fund to account for and finance its uninsured risks of loss. The District is insured through ASCIP for workers' compensation and property and liability claims. The Self-Insurance Fund provides coverage for up to a maximum of $25,000 for each general liability claim and $10,000 for each property damage claim. Workers' compensation is 100 percent insured coverage. The Self-Insurance Fund is subject to assessments from the SAWCXII JPA for workers' compensation claims for prior years (early 1990s) when the District was a member. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level for workers' compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior year claims and current year premiums. Workers' compensation premiums are charged to the respective funds which are covered by the current year policy. Property and liability premiums are paid by the General Fund.

At June 30, 2012, the District accrued the claims liability in accordance with GASB Statement No. 10 for claims that occurred when the District was self-insured. The present value of the liability is estimated at $400,000. Changes in the reported liability are shown below:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2010	$ 434,671	$ 297,141
Claims and changes in estimates	(5,029)	-
Claims payments	42,281	-
Liability Balance, June 30, 2011	387,361	297,141
Claims and changes in estimates	12,639	(253,558)
Claims payments	-	(43,583)
Liability Balance, June 30, 2012	$ 400,000	$ -
Assets Available to Pay Claims at June 30, 2012	$ 5,671,658	$ 1,558,669

Joint Powers Authority Risk Pools

The District participates in two Joint Powers Agreement (JPA) entities: the Alliance of Schools for Cooperative Insurance Programs (ASCIP) and the Schools Excess Liability Fund (SELF).

ASCIP arranges for and provides property, liability, and workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested.

SELF arranges for and provides a self-funded or additional insurance for excess liability for approximately 1,100 public educational agencies. SELF is governed by a board of 16 elected voting members, elected alternates, and two ex-officio members. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

ASCIP is governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPA, independent of any influence by Rancho Santiago Community College District beyond the District's representation on the governing boards.

Each JPA is independently accountable for its fiscal matters. Budgets are not subject to any approval other than that of the respective governing boards. Member districts share surpluses and deficits proportionately to their participation in the JPA.

The relationships between Rancho Santiago Community College District and the JPAs are such that none of the JPAs is a component unit of the District for financial reporting purposes.

Separate financial statements for each JPA may be obtained from the respective entity.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer 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).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California, 95826.

Funding Policy

Active members are required to contribute 8.0 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 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2012, 2011, and 2010, were $4,665,310, $4,684,526, and $4,736,399, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7.0 percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2011-2012 was 10.923 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2012, 2011, and 2010, were $3,915,682, $3,762,543, and $3,576,260, respectively, and equaled 100 percent of the required contributions for each year.

Public Agency Retirement System (PARS)

Plan Description

The Public Agency Retirement System is a defined contribution plan qualifying under §401(a) and §501 of the Internal Revenue Code. The plan covers part-time, seasonal and temporary employees, and employees not covered by §3121(b)(7)(F) of the Internal Revenue Code. The benefit provisions and contribution requirements of plan members and the District are established and may be amended by the PARS Board of Trustees.

Funding Policy

Contributions of 7.5 percent of covered compensation of eligible employees are made by the employer and employee. Total contributions, employer and employee combined, were made in the amount of $523,132 during the fiscal year. The total amount of covered compensation was $6,975,094. Total contributions made are 100 percent of the amount of contributions required for fiscal year 2011-2012.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to $2,787,067 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 14 - 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 is 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 at June 30, 2012.

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, 2012.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payment
2013	$ 354,349
2014	340,125
2015	334,641
2016	288,570
2017	113,038
Total	$ 1,430,723

Rental expenditures for the year ended June 30, 2012, amounted to $353,878.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

	Spent to Date	Remaining Construction Commitment	Expected Date of Completion
Santa Ana College			
Renovation of Buildings	$ 8,682,970	$ 2,290,747	2015
Renovate Campus Infrastructure	23,208,339	7,010,537	2015
Renovate and Expand Athletic Fields	3,406,752	9,457,248	2013
Improvements/Enhancements	1,307,333	10,692,667	2015
Santiago Canyon College			
Infrastructure	35,211,541	3,247,060	2015
Design/Construct Arts, Humanities, and Social Science Building	20,778,655	13,350,295	2013
Design/Construct Gymnasium Building/Pool Complex	16,013,122	6,248,878	2012
	$108,608,712	$ 52,297,432	

The projects are funded through general obligation bonds.

Fiscal Issues Relating to State-Wide Funding Reductions

The State of California economy is continuing through a recessionary economy. The California Community College system is reliant on the State of California to appropriate the funding necessary to provide for the educational services and student support programs that are mandated for the colleges. Current year appropriations have been deferred to a subsequent period, creating significant cash flow management issues for California community colleges in addition to requiring substantial budget reductions.

Deferral of State Apportionments

Due to the State's budget situation, certain general apportionments owed to the District for the 2011-2012 fiscal year have been deferred to the 2012-2013 fiscal year. The District's total amount of funding deferred into the 2012-2013 fiscal year was $28,900,000. These deferrals of apportionment are considered permanent with future funding also being subject to deferral into future years. As of the audit report date, the District had received all of the above deferral owed to them by the State.

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method Used (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
2/1/2008	$ -	$ 80,643,026	$ 80,643,026	0%	$ 122,846,428	66%
2/1/2010	-	81,480,837	81,480,837	0%	104,537,352	78%
7/17/2012	-	92,397,836	92,397,836	0%	100,628,030	92%

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2012

Rancho Santiago Community College District was established in 1971 and is comprised of an area of approximately 193 square miles located in Orange County. There were no changes in the boundaries of the District during the current year. The District currently operates two colleges: Santa Ana College and Santiago Canyon College, as well as the Orange County Regional Sheriff's Training Academy, the Digital Media Center, and two continuing education centers: Orange Education Center and Centennial Education Center. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Phillip E. Yarbrough	President	2014
Mark McLoughlin	Vice President	2012
Arianna P. Barrios	Clerk	2012
R. David Chapel, Ed.D.	Member	2012
Brian E. Conley	Member	2012
John R. Hanna	Member	2014
Lawrence R. "Larry" Labrado	Member	2014
Ryan Ahari	Student Trustee	2013

DISTRICT EXECUTIVE OFFICERS

Raúl Rodríguez, Ph.D.	Chancellor
Erlinda Martinez, Ed.D.	President of Santa Ana College
Juan Vázquez	President of Santiago Canyon College
John Didion	Executive Vice Chancellor of Human Resources/ Educational Services
Peter Hardash	Vice Chancellor, Business Operations and Fiscal Services

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Directly Funded:			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		$ 19,049,280
Federal Pell Administrative Allowance	84.063		12,535
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		322,000
Federal Work-Study Program	84.033		282,434
Federal Perkins Loans	84.038		42,968
Federal Academic Competitiveness Grant	84.375		4,306
Federal Direct Loan	84.268		2,578,836
Total Student Financial Assistance Cluster			22,292,359
TRIO Cluster			
Student Support Services	84.042		305,847
Talent Search	84.044		299,182
Upward Bound	84.047		236,351
Total TRIO Cluster			841,380
HIGHER EDUCATION ACT			
Migrant Education - College Assistance Migrant Program	84.149A		418,557
Title V - Strengthening Hispanic Serving Institutions	84.031S		690,204
Title V - CCRA	84.031C		37,944
Title III - Hispanic Serving Institution - STEM	84.031C		511,076
Gear Up III Program	84.334A		492,997
Gear Up IV Program	84.334A		962,426
Passed through from California State University, Fullerton			
Title III - Hispanic Serving Institution - STEM	84.031C	S-5261-RSCCD	62,638
Passed through from RTI International			
GEAR UP Planning/Evaluation	84.334	0209234.002.016-15	24,000
GEAR UP Implementation	84.334	28-312-0209234	84,610

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through from California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002	[1]	$ 285,324
English Literacy and Civics Education Grant (EL Civics)	84.002	[1]	1,523,533
English as a Second Language	84.002	[1]	1,676,540
Secondary Education	84.002	[1]	314,640
CAREER AND TECHNICAL EDUCATION (CTE) ACT			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
CTE - CTE Transitions	84.048	11-112-870	82,407
Title I, Part C	84.048	11-CO1-042	1,303,936
Passed through Program from Department of Rehabilitation			
Rehabilitation Services - Vocational Rehabilitation Grants to State	84.126A	27343	429,370
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES			
Head Start Cluster			
Early Head Start	93.600		1,340,270
Early Head Start - ARRA Expansion	93.709		488,831
Early Learning Mentor Coaches - ARRA	93.709		160,747
Total Head Start Cluster			1,989,848
EMT/Nursing Continuing Ed	93.887		14,991
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	107,115
Passed through from San Francisco Community College District			
California Early Childhood Mentor Program	93.558	CN110123	1,000
Passed through from Yosemite Community College District			
Child Development Training Consortium	93.575	11-12	17,975
Passed through from Foundation for California Community Colleges (FCCC)			
YESS - Youth Empowerment Strategies for Success	93.674	[1]	22,500

[1] - Pass-Through Entity Identifying Number is Unavailable

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR			
WIA Cluster			
Passed through from California Community College Chancellor's Office (CCCCO)			
Workforce Investment Act (WIA) - Nursing Grant	17.258	10-109-011	$ 249,147
Passed through from California State University, Fullerton			
CALGRIP - SCC	17.259	K182090	162,549
Passed through from City of Santa Ana			
Technology Access Center - Job Tech Lab	17.258	[1]	9,295
WIA Youth Activities (Seeds to Trees)	17.258	[1]	88,463
Total WIA Cluster			509,454
U.S. DEPARTMENT OF AGRICULTURE			
Partnership for Transfer Success in USDA Career Majors	10.223		94,426
Forest Reserve	10.665		9,215
Passed through from Orange County Superintendent of Schools			
Network for a Healthy California Coalition	10.551	08-85143	108,408
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	[1]	319,618
NATIONAL SCIENCE FOUNDATION**			
Passed through from California State University, Fullerton			
NSF - TESTUP	47.076	S-4388-SAC	132,109
NSF- TASEL-M 2	47.076	S-5012-RSCCD	11,328
NSF - FULL-MT2	47.082	S-4707-SACC	19,482

[1] - Pass-Through Entity Identifying Number is Unavailable
** - Research and Development Grants

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. SMALL BUSINESS ADMINISTRATION			
Women's Business Center	59.043		$ 136,672
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
CITD STEP Global Trade Summit	59.061	F11-0071	15,000
CITD STEP	59.061	F11-0071	12,775
Passed through from California State University, Fullerton			
California Small Business Development Center (SBDC)	59.037	S-5133-RSCCD	761,140
SBA Jobs Acts - (SBDC)	59.037	[1]	120,168
SBA Jobs Acts - Center for International Trade (CITD)	59.037	[1]	47,199
Total Federal Program Expenditures			$ 36,484,364

Student Financial Aid Loan Programs

Loans Outstanding

Rancho Santiago Community College District had the following loan balance outstanding as of June 30, 2012:

Perkins Program	$ 185,765

[1] - Pass-Through Entity Identifying Number is Unavailable

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program	Program Entitlements Current Year	Prior Year	Total Entitlement
GENERAL FUND			
AB1725 - Faculty and Staff Diversity	$ 12,786	$ -	$ 12,786
AB77 - Handicapped	1,521,236	3,408	1,524,644
Basic Skills	683,675	1,187,449	1,871,124
CA Math Diagnostic Testing	25,388	-	25,388
Cal Grant	1,078,595	49,272	1,127,867
CalWorks - Childcare	42,435	-	42,435
CalWorks	286,420	-	286,420
Care Program	79,143	11,933	91,076
Career Technical Education Community Collaborative II	411,350	797,013	1,208,363
Child Development Center	3,362,604	-	3,362,604
Child Development - Facilities Renovation Repair	20,646	-	20,646
Digital Media Center	2,500	-	2,500
Econ Dev Program: BEC Statewide, BEC, and YEP	1,386,731	315,380	1,702,111
Econ Dev Program: BEC Statewide, BEC HUBS, and CITD	477,500	146,107	623,607
Econ Dev Program: Enrollment Growth	293,871	-	293,871
Extended Opportunity Program and Services (EOPS)	1,268,430	38,540	1,306,970
Matriculation - Non Credit	1,307,150	3,123	1,310,273
Matriculation - Credit	1,275,583	2,512	1,278,095
Santa Ana Middle College High School	99,454	-	99,454
Santiago Canyon College MESA CCP (S/B Santa Ana College)	50,500	-	50,500
Scheduled Maintenance and Hazardous Substances Program	-	1,209,740	1,209,740
Song Brown Family Physician Training Act	-	73,858	73,858
Student Financial Aid Administration	938,617	199,287	1,137,904
Telecommunication Technology Infrastructure Program (TTIP)	-	120,314	120,314
Subtotal			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
$ 12,786	$ -	$ 11,127	$ 1,659	$ 1,659
1,524,644	-	-	1,524,644	1,524,644
1,871,124	-	1,192,219	678,905	678,905
25,388	-	-	25,388	25,388
1,126,224	1,743	3,584	1,124,383	1,124,383
42,435	-	1,201	41,234	41,234
286,420	-	16,078	270,342	270,342
91,076	-	9,449	81,627	81,627
1,169,080	-	867,837	301,243	301,243
3,312,439	47,998	-	3,360,437	3,360,437
15,580	4,822	-	20,402	20,402
2,441	-	-	2,441	2,441
1,196,764	105,610	426,696	875,678	875,678
300,571	228,475	5,335	523,711	523,711
87,765	48,953	-	136,718	136,718
1,306,970	-	5,726	1,301,244	1,301,244
1,310,273	-	-	1,310,273	1,310,273
1,278,095	-	4,932	1,273,163	1,273,163
78,764	20,690	-	99,454	99,454
37,875	12,625	-	50,500	50,500
1,209,741	-	1,168,772	40,969	40,969
13,475	60,383	-	73,858	73,858
1,137,904	-	-	1,137,904	1,137,904
92,612	-	71,316	21,296	21,296
$ 17,530,446	$ 531,299	$ 3,784,272	$ 14,277,473	$ 14,277,473

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

CATEGORIES	**(Revised)/ Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2011 only)			
1. Noncredit*	838	-	838
2. Credit	1,160	-	1,160
B. Summer Intersession (Summer 2012 - Prior to July 1, 2012)			
1. Noncredit*	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,184	-	14,184
(b) Daily Census Contact Hours	539	-	539
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	6,118	-	6,118
(b) Credit	3,529	-	3,529
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	1,014	-	1,014
(b) Daily Census Contact Hours	329	-	329
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	27,711	-	27,711
SUPPLEMENTAL INFORMATION			
In-Service Training Courses (FTES)	2,023	-	2,023
Basic Skills Courses and Immigrant Education			
1. Noncredit*	5,150	-	5,150
2. Credit	743	-	743

* Including Career Development and College Preparation (CDCP) FTES.
** Annual report revised as of November 14, 2012.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 23,042,653	$ -	$ 23,042,653	$ 23,042,653	$ -	$ 23,042,653
Other	1300	18,397,589	-	18,397,589	18,397,589	-	18,397,589
Total Instructional Salaries		41,440,242	-	41,440,242	41,440,242	-	41,440,242
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	12,502,046	-	12,502,046
Other	1400	-	-	-	864,390	-	864,390
Total Noninstructional Salaries		-	-	-	13,366,436	-	13,366,436
Total Academic Salaries		41,440,242	-	41,440,242	54,806,678	-	54,806,678
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	22,380,362	-	22,380,362
Other	2300	-	-	-	1,051,652	-	1,051,652
Total Noninstructional Salaries		-	-	-	23,432,014	-	23,432,014
Instructional Aides							
Regular Status	2200	871,035	-	871,035	871,035	-	871,035
Other	2400	1,372,832	-	1,372,832	1,372,832	-	1,372,832
Total Instructional Aides		2,243,867	-	2,243,867	2,243,867	-	2,243,867
Total Classified Salaries		2,243,867	-	2,243,867	25,675,881	-	25,675,881
Employee Benefits	3000	16,056,720	-	16,056,720	34,796,801	-	34,796,801
Supplies and Material	4000	-	-	-	879,980	-	879,980
Other Operating Expenses	5000	3,334,411	-	3,334,411	14,766,462	-	14,766,462
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		63,075,240	-	63,075,240	130,925,802	-	130,925,802

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ 2,870,092	$ -	$ 2,870,092	$ 2,870,092	$ -	$ 2,870,092
Student Health Services Above Amount Collected	6441	-	-	-	19,412	-	19,412
Student Transportation	6491	-	-	-	1,116	-	1,116
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	2,793,944	-	2,793,944
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,437,720	-	1,437,720
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2012

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ 3,833,379	$ -	$ 3,833,379
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		2,870,092	-	2,870,092	10,955,663	-	10,955,663
Total for ECS 84362, 50 Percent Law		$ 60,205,148	$ -	$ 60,205,148	$119,970,139	$ -	$119,970,139
Percent of CEE (Instructional Salary Cost/Total CEE)		50.18%		50.18%	100.00%		100.00%
50% of Current Expense of Education					$ 59,985,070		$ 59,985,070

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balance, Retained Earnings, and Due to Student Groups		
General Funds	$ 44,752,635	
Special Revenue Funds	3,745,828	
Capital Project Funds	89,320,790	
Debt Service Funds	12,705,429	
Internal Service Funds	(7,753,440)	
Fiduciary Funds	3,946,724	
Total Fund Balance, Retained Earnings, and Due to Student Groups		**$ 146,717,966**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	488,678,888	
Accumulated depreciation is	(112,805,035)	375,873,853
Amounts held in trust on behalf of others (Trust and Agency Funds)		(2,707,451)
Expenditures relating to the issuance of debt were recognized on the modified accrual basis and are amortized over the life of the debt on the accrual basis.		5,931,691
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(5,265,377)
Long-term liabilities at year end consist of:		
Bonds payable	354,359,876	
Claims payable	400,000	
Net OPEB obligation	47,260,769	
Load banking	3,493,273	
Compensated absences	4,736,653	
Less load banking already recorded in funds	(3,493,273)	
Less compensated absences already recorded in funds	(962,555)	
Less claims payable already recorded in funds	(400,000)	
Less net OPEB obligation already recorded in funds	(47,262,980)	(358,131,763)
Total Net Assets		**$ 162,418,919**

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balances:		$ 36,441,396
Federal Perkins Loans	84.038	42,968
Total Expenditures of Federal Awards		$ 36,484,364

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Title III Hispanic Serving Institution - STEM	84.031C	$ 301,204
Early Head Start	93.600	233,362
Early Head Start - ARRA Expansion	93.709	107,326
Gear Up III Program	84.334A	360,357
Gear Up IV Program	84.334A	532,282
		$ 1,534,531

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. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

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, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Reconciliation of Annual Financial and Budget Report (CCFS-311) 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 District's internal fund financial statements.

Reconciliation of Governmental Funds to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITORS' REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

We have audited the basic financial statements of Rancho Santiago Community College District (the District) and its discretely presented component units for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

As discussed in Note 14 to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding formula of Rancho Santiago Community College District.

Internal Control Over Financial Reporting

Management of Rancho Santiago Community College District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rancho Santiago Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rancho Santiago Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rancho Santiago Community College District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rancho Santiago 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 audits 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*.

We noted certain matters that we reported to management of Rancho Santiago Community College District in a separate letter dated November 26, 2012.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' 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

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

Compliance

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

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

In our opinion, Rancho Santiago Community College District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 through 2012-4.

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Internal Control Over Compliance

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

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 that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-1 through 2012-4. A *significant deficiency in internal control over compliance* is a deficiency, or 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.

Rancho Santiago Community College District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Rancho Santiago Community College District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community Colleges Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

REPORT ON STATE COMPLIANCE

Board of Trustees
Rancho Santiago Community College District
Santa Ana, California

We have audited the basic financial statements of Rancho Santiago Community College District (the District), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012.

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

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Rancho Santiago Community College District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Rancho Santiago Community College District's compliance with the State laws and regulations in accordance with Section 400 of the Chancellor's Office *California Community Colleges Contracted District Audit Manual (CDAM)* issued in May 2012 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	California Work Opportunity and Responsibility to Kids (CalWORKS)
Section 435	Open Enrollment
Section 437	Student Fee – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fees
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 476	Curriculum and Instruction
Section 479	To Be Arranged (TBA) Hours

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Based on our audit, we found that for the items tested, the Rancho Santiago Community College District complied with the State laws and regulations referred to above, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs as items 2012-5 through 2012-7. Our audit does not provide a legal determination on Rancho Santiago Community College District's compliance with the State laws and regulations referred to above.

Rancho Santiago Community College District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Rancho Santiago Community College District's responses and, accordingly, we express no opinion on the responses.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 26, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.038, 84.063, 84.268, 84.375	Student Financial Assistance Cluster
84.042, 84.044, 84.047	TRIO Cluster
84.149A	Migrant Education - College Assistance Migrant Program
93.600, 93.709 (ARRA)	Head Start Cluster (includes ARRA)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 425,760
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

The following findings represent significant deficiencies and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2012-1 SUSPENSION AND DEBARMENT

Federal Program Affected

U.S. Department of Health and Human Services (HHS), Early Head Start (CFDA #93.600);
U.S. Department of Education, TRIO Cluster (CFDA #84.042, 84.044, 84.047)

Criteria or Specific Requirement

Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Pre-Award Requirements, Section 80.35 Sub-awards to debarred and suspended parties:

- Grantees and sub-grantees must not make any award or permit any award (sub-grant or contract) at any tier to any party, which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

OMB Circular A-102, Grants and Cooperative with State and Local Governments:

- Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and sub-grantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule.

Condition

The District does not have procedures implemented to ensure that the District is not expensing monies to independent parties that have been suspended or debarred by the Federal government within their contracts with vendors, nor by checking the Excluded Parties List System (EPLS) for all vendors over $25,000 as required by the Office of Management and Budget.

Questioned Costs

No questioned costs. See context.

Context

The District did not expend any funds to excluded parties, but controls are not in place to ensure that future Federal funds are not expended to an entity included in the EPLS.

Effect

Future expenditures to excluded parties can result in the District having to return Federal funds.

Cause

The District has not implemented procedures to ensure the compliance with Federal requirements.

Recommendation

We recommend the District modify its procedures to verify all vendors who are providing services to federally funded programs in excess of $25,000 are not suspended, debarred, or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. The District should also update contract templates for all contract types that exceed $25,000 to avoid any noncompliance and possible return of Federal monies.

Management's Response and Corrective Action Plan

The District understands that this must be monitored and will develop a contract review checklist to be used when reviewing and approving contracts. In addition, the District will include appropriate language in all contracts for which a sub-award is made from Federal funds to ensure compliance.

2012-2 SPECIAL TESTS AND PROVISIONS: DIRECT LOAN RECONCILIATION

Federal Program Affected

U.S. Department of Education (DOE), Student Financial Assistance Cluster – Direct Loans (CFDA #84.268)

Criteria or Specific Requirement

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Common Origination and Disbursement (COD) within 30 days of disbursement (OMB No. 1845-0021). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR Sections 685.102(b), 685.301, and 685.303). (Note: The Direct Loan School Guide and yearly training documents describe the reconciliation process.)

Condition

Santa Ana College does not have adequate documentation to show that they were reconciling the SAS data file and the Loan Detail records to the institution's financial records on a monthly basis.

Questioned Costs

No questioned costs.

Context

Santa Ana College was not performing a formal reconciliation of their direct loan dollars.

Effect

The District is not in compliance with the Federal Direct Loan Reconciliations.

Cause

Santa Ana College has not implemented policies and procedures to verify that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records.

Recommendation

It is recommended that the campus implement procedures to ensure that the SAS data file and the Loan Detail records per the COD are reconciled to the institution's financial records at Santa Ana College.

Management's Response and Corrective Action Plan

The Santa Ana College Financial Aid Department will reconcile the Common Origination and Disbursement information with the District general ledger on a monthly basis beginning October 2012.

2012-3 ELIGIBILITY

Federal Program Affected

U.S. Department of Education (DOE), College Assistance Migrant Program (CAMP) (CFDA #84.149)

Criteria or Specific Requirement

Recruitment and Eligibility under Section 418A of the Higher Education Act (HEA) of 1965, as amended Section B(B2):
"Under Section 418A(c)(1) of the HEA and 34 CFR 206.3(a) and (c), an individual is eligible to participate in the CAMP if he or she:
Is enrolled or admitted for enrollment as a full-time student at the participating Institute of Higher Education (34 DFR 206.3(c)(1))."

Recruitment and Eligibility under section 418A of the Higher Education Act of 1965, as amended Section H(H5):
"So long as the individual begins receiving services other than recruitment (e.g., instruction, tutoring, transportation assistance, or stipends) during a period in which he or she is eligible and is not reported as a "withdrawal," that individual may continue to receive services – even across multiple budget periods – until he or she completes the first academic year of a program of study at the Institution of Higher Education."

Condition

The District does not have adequate procedures implemented to ensure that all students meet the unit and/or enrollment requirements.

Questioned Costs

There is an associated question cost of $4,800 relating to eight stipends that were given to students who were ineligible.

Context

The condition was identified as a result of reviewing the District's eligibility determinations for students who received stipends from the CAMP program.

Effect

Without proper monitoring of the eligibility requirements, the site risks noncompliance with the requirements related to the CAMP program.

Cause

Santiago Canyon College was not clear on the eligibility requirements related to the minimum initial enrollment of at least 12 units and the maximum completed units' requirements of 24 units (one academic year). As a result, the site has seven total issues of noncompliance related to the two compliance requirements outlined in the criteria.

Recommendation

It is recommended that eligibility requirements be reviewed by program personnel and procedures implemented to ensure that students who do not meet program eligibility requirements do not receive program services and stipends.

Management's Response and Corrective Action Plan

To address these findings, a number of procedures have been established. The CAMP director will check student schedules/transcripts at the beginning of each semester and on a monthly basis to ensure the student is enrolled full-time. The CAMP counselor will check the student's unit standing at each student's monthly counseling appointment using Datatel to ensure minimum requirement enrollment is intact. Should a student drop below the minimum 12 unit requirement, they will be dropped from receiving program services, but will be guided to other student services to provide them with information and academic support to bring them back to a full-time status. The CAMP director will also revise eligibility requirements to reflect that the student must be a college freshman or have completed less than 24 college credit units. The CAMP director and recruiter will print out students' Santiago Canyon College (SCC) transcripts prior to accepting possible CAMP candidates into the CAMP program to ensure the student has not taken previous classes at SCC or Santa Ana College (SAC) before being admitted into the CAMP program. Lastly, the CAMP director and counselor will review units completed by each student on a semester basis to ensure students are only served until 24 units at SCC are met. Once a student reaches 24 units at SCC, the student's participation in the CAMP program will be completed.

2012-4 REPORTING

Federal Program Affected

U.S. Department of Education (DOE), TRIO Cluster (CFDA #84.042, 84.044, and 84.047)

Criteria or Specific Requirement

The Student Support Services Program, Upward Bound Program, and Talent Search Program, grantees must submit an annual performance report to the U.S. Department of Education each year of the project period. Those reports include such data as the number of participants in the programs.

Condition

It was noted that students who are inactive and no longer eligible to receive services were not properly removed from the program software and were still included in the count of eligible program participants.

Questioned Costs

No questioned costs.

Context

Santa Ana College does not have procedures in place to ensure that inactive students are properly removed from the system.

Effect

The District is not in compliance with the reporting requirements of the grant.

Cause

Santa Ana College has not implemented procedures to ensure that inactive participants are removed from the system and no longer counted as eligible.

Recommendation

It is recommended that the campus implement a checklist or other methodology to ensure that when a student is no longer participating, they are adequately removed from the system and no longer counted.

Management's Response and Corrective Action Plan

Santa Ana College has initiated several procedures to ensure compliance. The Academic Talent Search (ATS) program will immediately purchase the online training offered through Heiberg Consulting, the company that developed the Student Access software program used to maintain all electronic records of students, and will have all staff, full- and part-time, trained. This training will be conducted now and as part of the annual staff retreat and training conducted at the beginning of the academic year prior to staff starting their assignments at their schools. An "Inactive Student" card has been created and will be used to clearly identify inactive students in the hard files. This card will be attached to each hard copy file of students that become inactive. Cards must be signed by the director to confirm that a student is being dropped from the program and will note the reason. The director will audit the electronic database to ensure students' "Participant Status" on the database have been properly documented. Staff will review the high school student database to check for students who are no longer attending target high schools at the start of each school year and semester. These procedures will be included in the Santa Ana College ATS Staff Handbook that is used to orient new staff and reviewed during the staff annual retreat and training.

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2012-5 TO BE ARRANGED (TBA) HOURS

Criteria or Specific Requirement

- Second To Be Arranged (TBA) Hours Follow-up Memorandum, June 10, 2009
- To Be Arranged (TBA) Hours Follow-up Memorandum, January 26, 2009
- To Be Arranged (TBA) Hours Compliance Advice (Legal Advisory 08-02), October 1, 2008
- *Education Code* Sections 84040 and 88240
- CCR, Title 5, Sections referred to are 55002, 55002.5, 53415, 58000, 58003.1, 58006, 58020, 58030, 58050, 58051, 58056, 58102, 58104, 58108, 58168, 58170, 58172, 59020, and 59112
- Student Attendance Accounting Manual

http://www.cccco.edu/ChancellorsOffice/Divisions/FinanceFacilities/FiscalServices/AllocationsSection/StudentAttendanceAccountingManual/tabid/833/Default.aspx

Condition

It was noted that Santiago Canyon College could not provide supporting documentation to justify the TBA hours associated with one course. It was noted that the college catalog failed to list that the course had any TBA hours associated with it. The course also claimed hours of attendance for students who had zero hours documented.

Questioned Costs

The total FTES related to the courses for students who had zero TBA hours documented is 0.41.

Recommendation

It is recommended that proper procedures be implemented to closely monitor courses with TBA hours and to ensure that the catalog provides a clear description of the course, including the number of TBA hours required. Procedures should also be implemented to verify that the District tracks TBA hour student participation carefully and makes sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of census point for a particular course.

Management's Response and Corrective Action Plan

The colleges both implemented the appropriate procedures relating to this finding effective Spring of 2012. The course noted in this finding was offered in the Fall of 2011. Due to the condition noted, Santiago Canyon College has backed out the related FTES, and the District will file a recalculated claim with the State Chancellor's Office for 2011-2012.

2012-6 EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS) AND COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE) ADVISORY COMMITTEE

Criteria or Specific Requirement

To ensure that EOPS and CARE funds are spent appropriately, the ***EOPS and CARE Program Guidelines*** were established with guidelines concerning general provisions and requirements of the program. One of those requirements is regarding the need for an advisory committee. The EOPS Advisory Committee shall meet at least once during each academic year, and the CARE Advisory Committee shall meet twice during each academic year.

Condition

Santa Ana College did not have an advisory committee in place. Therefore, there were no meetings held during the academic year. As a result, Santa Ana College is not in compliance with the requirements of the program as noted above.

The Santiago Canyon College CARE Advisory Committee did not hold a second meeting as mandated by the State.

Questioned Costs

There are no questioned costs.

Recommendation

The EOPS and CARE coordinators should form an advisory committee and ensure that the proper number of meetings are held on an annual basis.

Management's Response and Corrective Action Plan

Santa Ana College is currently identifying community members, campus members, and students to serve on the EOPS/CARE Advisory Committee and will ensure two meetings are held each year beginning in the Fall of 2012. Santiago Canyon College will ensure both meetings are held each year.

2012-7 CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CalWORKs)

Criteria or Specific Requirement

To ensure that CalWORKs funds are spent appropriately, the ***CalWORKs Program Guidelines*** were established with guidelines concerning general provisions and requirements of the program. One of those requirements is regarding the eligibility documentation for students served through the program. CalWORKs student files shall have county welfare department eligibility documented.

Condition

Santa Ana College and Santiago Canyon College did not provide verification from the county indicating that two students, one from each college, were eligible for CalWORKs program services. As a result, Santa Ana College and Santiago Canyon College are not in compliance with the requirements of the program as noted above.

Questioned Costs

There are no questioned costs.

Recommendation

The CalWORKs coordinators should ensure that all of the required documentation is retained within each student's files in order to ensure that only eligible students are served.

Management's Response and Corrective Action Plan

Each college CalWORKs office will make certain that all forms 41-05 (Welfare-to-Work Referral for Education) will be kept on file along with appropriate verification and approval by a social worker.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

2011-1 TO BE ARRANGED (TBA) HOURS

Condition

As indicated in the Chancellor's Office Memorandum dated June 10, 2009; "In terms of monitoring, colleges need to track student participation carefully and make sure that they do not claim apportionment for TBA hours for students who have documented zero hours as of the census point for the particular course". Based on our testing performed, it was noted that 73 students of the 111 tested did not have more than zero hours documented as of the census date. This appeared to be a systemic issue with TBA courses with a lecture and lab requirement.

Questioned Costs

Based on the testing performed; the District overstated FTES by 12.3.

Recommendation

The District should contact the Chancellor's Office to determine what, if any, action the District should take to correct the FTES reported. Coordinate with appropriate personnel to verify students with zero hours as of the census date are not counted for apportionment purposes. All attendance rosters for TBA courses that are non-positive attendance need to be obtained to support apportionment. This information should be readily available for Admission and Records to review and verify all students with zero hours as of the census date removed from the attendance report and not claimed for FTE purposes.

Current Status

Not implemented. See current year finding 2012-5.

2011-2 INELIGIBLE EXPENDITURES

Federal Program Affected

Department of Education, College Assistance Migrant Program (CAMP) (CFDA #84.149A)

Compliance Requirement

A. Allowable Activity

Criteria or Specific Requirement

Federal programs should have the proper oversight and segregation of duties to ensure that controls are sound.

Condition

During the 2010-2011 fiscal year, the District became aware of suspect activities and controls that occurred in the College Assistance Migrant Program (CAMP) in previous fiscal years. They launched an internal audit investigation regarding the allegations. This internal audit revealed the following deficiencies:

1. No segregation of duties for the program's operation:
   a. The Director handled student eligibility, stipend request and distribution.
   b. The Director approved stipend requests for relatives.
2. Invoices were approved for ineligible students.
3. No process for verification of eligibility for student stipends.
4. The Director attended an excessive number of conferences and requested for improper conference reimbursement claims.
5. An inventory review was performed and the following items are unaccounted for: 11 laptop computers, two printers and one camera.

Questioned Costs

Total costs in question applicable to fiscal years 2008-2009 and 2009-2010 are $111,978; this amount includes: ineligible stipends and benefits to students of $94,000; unaccounted for equipment of $16,644; ineligible conference expense of $1,334.

Effect

Misappropriation of Federal funds.

Recommendation

The District has taken the appropriate action by contacting the Federal Agency for the program and the Federal Bureau of Investigation.

Current Status

Implemented.