

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT**

Annual Financial Report and Single Audit Report

For the Fiscal Years Ended June 30, 2004 and 2003

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
ORGANIZATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

The Rancho Santiago Community College District was established in 1971 and is comprised of an area of approximately 193 square miles located in Orange County. The District currently operates two community colleges, Santa Ana College (SAC), established in 1915, and Santiago Canyon College (SCC), established in 1997. The college credit programs are housed primarily at SAC and SCC. The District also provides comprehensive college and continuing education programs at the Garden Grove Center, the Centennial Education Center, the Marketplace Education Center, and SCC's Continuing Education - Orange Center.

Board of Trustees

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
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Mr. Brian E. Conley	Vice President	2004
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Ms. Terri Chase	Student Trustee	2004

District Administrators

<u>Name</u>	<u>Title</u>
Dr. Edward Hernandez, Jr.	Chancellor
Mr. John Didion	Interim President of Santa Ana College
Mr. Juan Vazquez	President of Santiago Canyon College
Mr. John Didion	Executive Vice Chancellor of Human Resources/Educational Services
Dr. Mark Zacovic	Vice Chancellor, Business Operations

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal years ended June 30, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Rancho Santiago Community College District as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004, on our consideration of the District's internal control over financial reporting and 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 should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 - 18 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Marcus Fine & Company LLP

Certified Public Accountants

Los Angeles, California
November 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Rancho Santiago Community College District's (District) Financial Report presents a narrative overview and analysis of the District's financial activities for the fiscal years that ended June 30, 2004 and 2003. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements.

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

This Annual Report consists of four components: (1) Management's Discussion and Analysis; (2) Basic Financial Statements; (3) Notes to the Basic Financial Statements and an optional section (4) Supplementary Information, which among other things, includes supplemental combining statements for the District's discretely presented component units and federal and state schedules.

The following condensed financial information provides an overview of the District's financial activities as of and for the fiscal years ended June 30, 2004 and 2003. The District's component unit activity is presented in discrete format in the Supplementary Information section of the annual financial report and is not included in this management's discussion and analysis section.

The annual report consists of three basic financial statements that provide information on the District as a whole:

- The Statements of Net Assets
- The Statements of Revenues, Expenses and Changes in Net Assets
- The Statements of Cash Flow

Each one of these statements will be discussed.

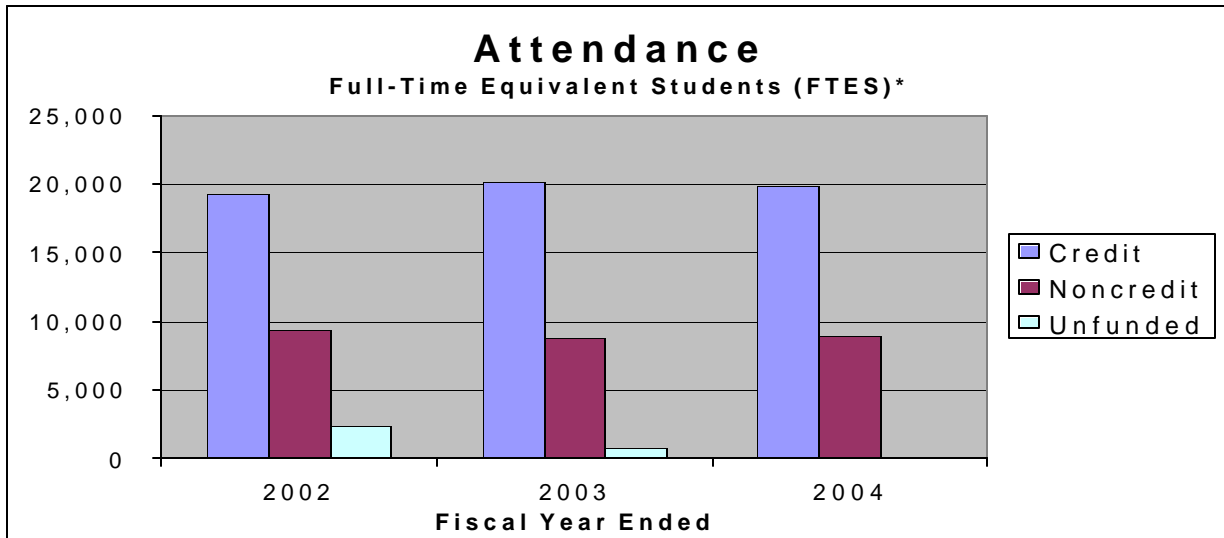
Financial and Attendance Highlights

Fiscal year ended 2003/2004

- Total attendance at Santa Ana College and Santiago Canyon College decreased by 2.8%. This resulted in attendance of 313 Full-time Equivalent Student (FTES) under the funded base enrollment. The decrease was partially due to a second year of class section reductions necessitated by budget constraints at the state level.

Fiscal year ended 2002/2003

- Attendance at Santa Ana College and Santiago Canyon College decreased by 4.3%. The decrease was partially due to class section reductions necessitated by limited revenues at the state level. Even with this decrease, 2.6% of the colleges' attendance remained unfunded. (See attendance graph below)



* - Full-time equivalent students is based on the District's annual apportionment attendance report, form 320 filed with the state chancellor's office. Credit and noncredit represent funded FTES. Unfunded FTES is total unfunded, there is no designation (credit or noncredit) for unfunded FTES.

Statements of Net Assets

The Statements of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District over a period of time.

Statements of Net Assets

	(in thousands)			03/04	02/03
ASSETS	2004	2003	2002	Change	Change
Current Assets:					
Cash and cash equivalents	\$ 97,249	\$ 114,647	\$ 39,012	-15%	194%
Receivables	7,559	5,617	12,061	35%	-53%
Inventory & other assets	1,228	1,949	1,493	-37%	31%
Total current assets	<u>106,036</u>	<u>122,213</u>	<u>52,566</u>	<u>-13%</u>	<u>132%</u>
Noncurrent Assets:					
Other assets	2,044	2,060	458	-1%	350%
Capital assets, net	152,596	114,774	82,138	33%	40%
Total noncurrent assets	<u>154,640</u>	<u>116,834</u>	<u>82,596</u>	<u>32%</u>	<u>41%</u>
Total assets	<u><u>260,676</u></u>	<u><u>239,047</u></u>	<u><u>135,162</u></u>	<u><u>9%</u></u>	<u><u>77%</u></u>
LIABILITIES					
Current Liabilities:					
Accounts payables & accrued liabilities	16,365	14,258	11,937	15%	19%
Deferred revenue	3,432	2,853	2,406	20%	19%
Long-term liabilities-current portion	1,000	1,090	973	-8%	12%
Bonds payable	3,420	-	-	100%	0%
Amounts held in trust for others	853	987	819	-14%	21%
Total current liabilities	<u>25,070</u>	<u>19,188</u>	<u>16,135</u>	<u>31%</u>	<u>19%</u>
Noncurrent Liabilities:					
Long-term liabilities, noncurrent portion	20,351	14,882	11,343	37%	31%
Bonds payable	95,519	99,047	-	-4%	100%
Total noncurrent liabilities	<u>115,870</u>	<u>113,929</u>	<u>11,343</u>	<u>2%</u>	<u>904%</u>
Total Liabilities	<u>140,940</u>	<u>133,117</u>	<u>27,478</u>	<u>6%</u>	<u>384%</u>
NET ASSETS					
Invested in capital assets, net of related debt	94,345	81,256	80,466	16%	1%
Restricted	10,291	8,956	6,437	15%	39%
Unrestricted	15,100	15,718	20,781	-4%	-24%
Total net assets	<u>119,736</u>	<u>105,930</u>	<u>107,684</u>	<u>13%</u>	<u>-2%</u>
Total liabilities and net assets	<u><u>\$ 260,676</u></u>	<u><u>\$ 239,047</u></u>	<u><u>\$ 135,162</u></u>	<u><u>9%</u></u>	<u><u>77%</u></u>

Fiscal year ended 2003/2004

- Cash and cash equivalents consists mainly of cash in the county treasury (\$78.0 million) and local agency investment fund (LAIF, \$11.1 million). Cash decreased by \$17.4 million from the prior year due mainly to cash outflows on series A bond construction projects. At June 30, 2004, cash in the county treasury related to bond activities was \$40.1 million. In addition, the county treasury has collected \$4.6 million as of June 30, 2004, which is restricted for bond payments.
- Receivables consist mainly of receivables from state and federal grants and general apportionment in which the District has earned funds that were not yet received as of the fiscal year end. Receivables increased by \$1.9 million due mainly to state apportionment receivable.
- Inventory and other assets is mainly bookstore inventory, which was reduced due to an increased effort to return textbooks that were not needed for the upcoming semester.

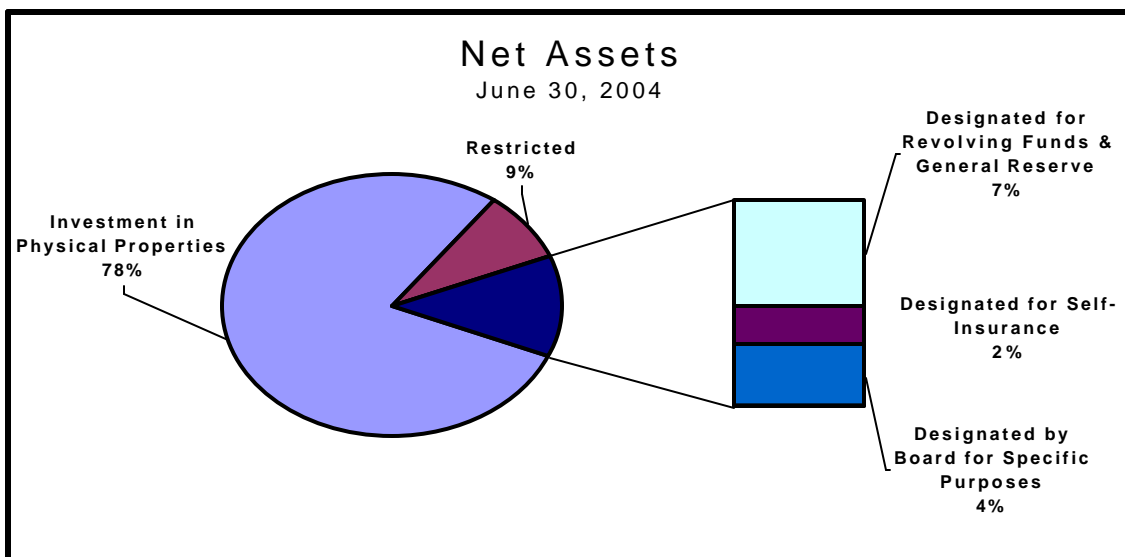
- Net capital assets is the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation. The breakdown of this total net value can be found in the notes to the financial statements and later in this section. Net capital assets increased by \$37.8 million. Investments in capital assets in 2003/04 were mainly related to purchases of land and buildings and construction projects financed by bond, state and local sources.
- Accounts payable and accrued liabilities consists mainly of payables to vendors (\$4.8 million), bond interest payable (\$1.4 million) and accrued payroll (\$6.0 million). The increase of \$2.1 million is spread fairly evenly through these accounts.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are considered earned when spent, up to the award amount.
- Bonds payable, current portion consists of the first bond principal payment, due September 2004.
- Long-term liabilities, noncurrent portion is all of the long-term debt that is due to be paid in one year or later. It consists of capital leases payable (\$0.2 million), accrued vacation payable (\$2.8 million), post-employment benefits payable (\$16.4 million) and notes payable (\$0.2 million). The increase consists mainly of the \$5.8 million increase to post-employment benefits. This relates to funding the District's retiree health benefit obligation based on a recent actuarial study.
- The \$95.5 million bonds payable consists of the noncurrent portions of the bond principal payable (\$92.7 million) and bond premium (\$2.8 million).

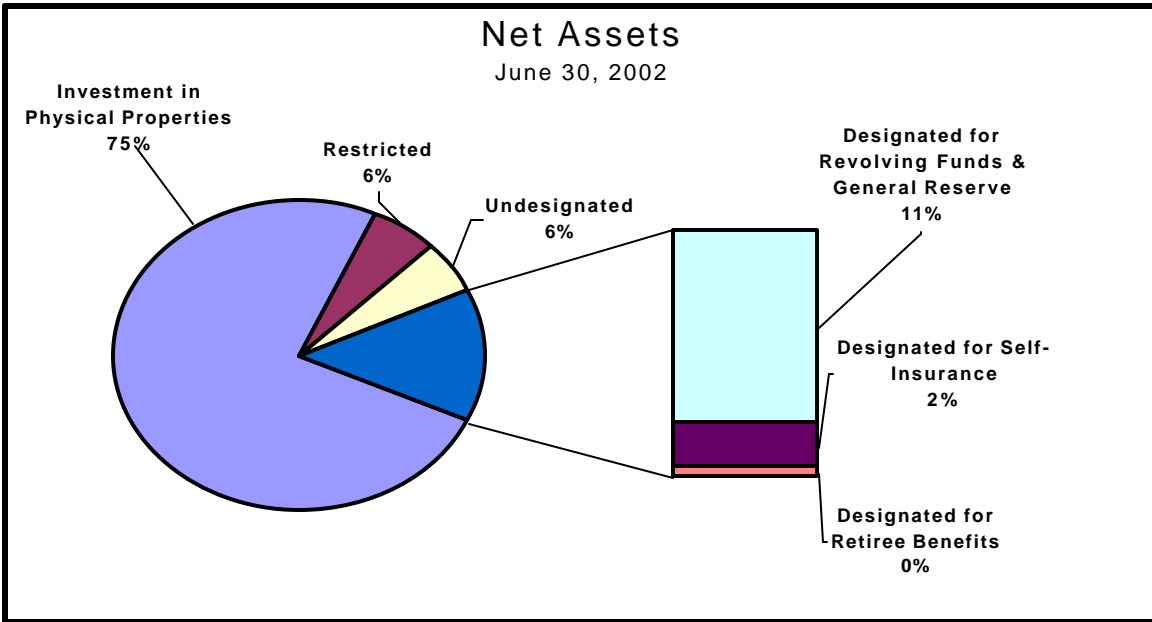
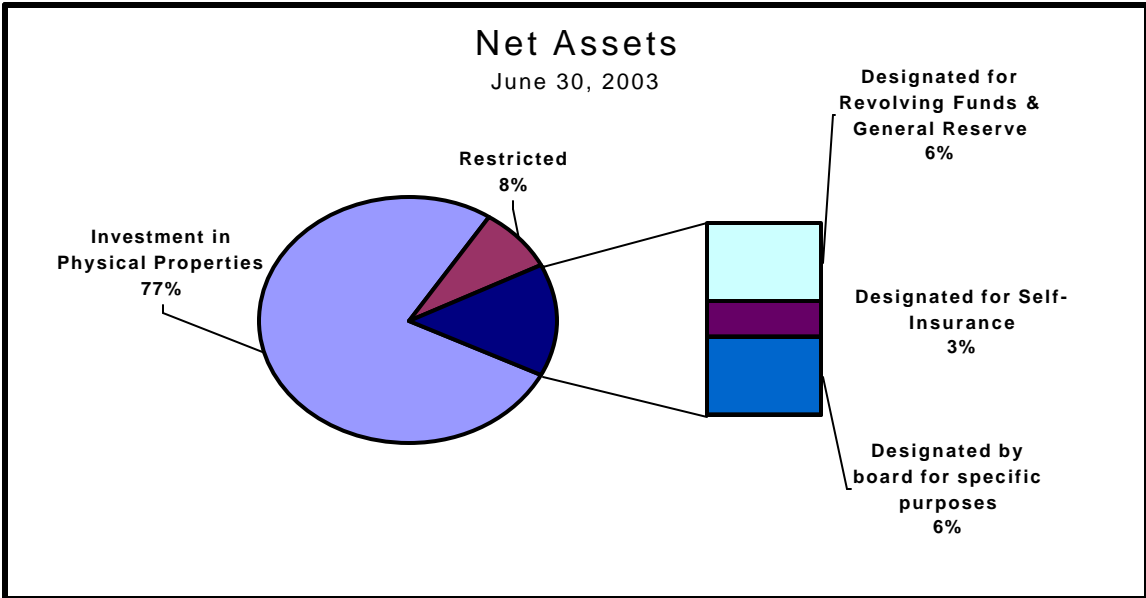
Fiscal year ended 2002/2003

- Cash and cash equivalents consists mainly of cash in the county treasury (\$103.3 million) and local agency investment fund (LAIF, \$7.9 million). Cash increased by \$75.6 million from the prior year due to cash inflows from the series A bond issuance offset by cash outflows from investment in capital assets. At June 30, 2003, cash in the county treasury related to bond activities was \$63.0 million. \$1.4 million of the cash in the county treasury is restricted for bond payments.
- Receivables consist mainly of receivables from state and federal grants and general apportionment in which the District has earned funds that were not yet received as of the fiscal year end. Receivables were high in the prior year mainly because the governor deferred the June 2002 apportionment payment to Districts until July 2002. Consequently, there was a \$2.5 million apportionment receivable in the prior year and none in the current year. State and federal receivables also decreased substantially due to reduction to programs like Vocational and Technical Education Act (VATEA), reduced receivables at year-end for Adult Basic Education and no new awards for certain programs like Workforce Investment Act. Additionally, the state allowed Districts a three month extension for spending most state program funds to reduce the impact of the state budget crisis which delayed program spending resulting in less revenue earned as of the year-end.
- Other assets, noncurrent consist of \$1.5 million in deferred bond issuance costs and \$0.5 million in restricted student loans receivable.
- Net capital assets is the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation. The breakdown of this total net value can be found in

the notes to the financial statements. Net capital assets increased by about \$32.6 million. Investments in capital assets in fiscal year 2002/03 were mainly related to purchases of land and buildings related to bond projects.

- Accounts payable and accrued liabilities consists mainly of payables to vendors (\$3.6 million) and accrued payroll (\$5.3 million). The increase of about \$2.3 million over prior year is due mainly to a payable for overpayment of state apportionment and payables for two major seismic retrofit projects.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are considered earned when spent, up to the award amount. Deferred revenue increased by about \$0.4 million due mainly to the three-month extension for spending state program funds as noted in the accounts receivable bullet.
- Long-term liabilities, noncurrent portion is all long-term debt that is due to be paid in one year or later. It currently consists of capital leases payable (\$0.6 million), accrued vacation payable (\$2.7 million), post-employment benefits payable (\$10.5 million) and notes payable (\$0.2 million). The increase from the prior year consists mainly of the \$4 million increase to post-employment benefits. This relates to funding the District’s retiree health benefit obligation based on a recent actuarial study.
- The \$99 million bonds payable represents the first issuance of the Districts general obligation bonds. On November 5, 2002 voters of the District approved Measure E, a proposition 39, facilities bond. This authorized the District to issue \$337 million of general obligation (G.O.) bonds. The District received the following credit ratings: Aa3 from Moodys and AA- from Standard and Poors. Series A of these bonds were issued in March 2003 in the amount of \$96,125,000 (funds received April 2003). The District is scheduled to repay the bond liability over the next 25 years beginning with the first repayment September 2004. The citizens who comprise the Districts bond oversight committee review bond activities periodically.





Statements of Revenues, Expenses and Changes in Net Assets

The Statements of Revenues, Expenses and Changes in Net Assets presents the operating results of the District, as well as the non-operating revenues and expenses. State general apportionment, while budgeted for operations, is considered non-operating revenue according to generally accepted accounting principles.

Statements of Revenues, Expenses and Changes in Net Assets

	(in thousands)			03/04	02/03
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Change</u>	<u>Change</u>
Operating revenues:					
Net tuition and fees	\$ 8,685	\$ 7,288	\$ 7,702	19%	-5%
Grants and contracts, non-capital	29,580	29,464	31,319	0%	-6%
Auxiliary enterprise sales and charges	6,976	6,984	6,694	0%	4%
Interest on student loans	5	4	6	25%	-33%
Total operating revenues	<u>45,246</u>	<u>43,740</u>	<u>45,721</u>	3%	-4%
Total operating expenses	<u>155,792</u>	<u>156,055</u>	<u>154,544</u>	0%	1%
Operating loss	<u>(110,546)</u>	<u>(112,315)</u>	<u>(108,823)</u>	-2%	3%
Non-Operating Revenues (Expenses)					
State apportionments, non-capital	36,034	44,203	47,510	-18%	-7%
Local property taxes	62,492	57,599	53,469	8%	8%
State taxes and other revenues	4,129	4,524	4,946	-9%	-9%
Investment income	1,439	1,250	1,584	15%	-21%
Other non-operating revenues (expenses), net	<u>(4,319)</u>	<u>(893)</u>	<u>77</u>	384%	-1260%
Total non-operating revenues, net	<u>99,775</u>	<u>106,683</u>	<u>107,586</u>	-6%	-1%
Loss before capital revenues	<u>(10,771)</u>	<u>(5,632)</u>	<u>(1,237)</u>	91%	355%
Apportionments & property taxes, capital	8,993	1,761	1,766	411%	0%
Grant and gifts, capital	<u>15,586</u>	<u>2,116</u>	<u>-</u>	637%	100%
Total capital revenues	<u>24,579</u>	<u>3,877</u>	<u>1,766</u>	534%	120%
Increase (decrease) in net assets	13,808	(1,755)	529	-887%	-432%
Net assets-beginning of year	<u>105,929</u>	<u>107,684</u>	<u>107,155</u>	-2%	0%
Net assets-end of year	<u>\$ 119,737</u>	<u>\$ 105,929</u>	<u>\$ 107,684</u>	13%	-2%

Fiscal year ended 2003/2004

- Net tuition and fees consists of enrollment fees (\$7.4 million), non-resident tuition, non-capital portion (\$1.8 million), and all other fees (\$2.3 million) less scholarships discounts and allowances (\$2.8 million). Regular enrollment fees increased to \$18 per unit in 2003/04 from \$11 per unit. This rate is set by the state for all community colleges. Regular enrollment fees are included in the calculation of general apportionment. The nonresident tuition fee increased to \$149 per unit from \$141. The net increase in this item is due to these rate increases offset by the decline in attendance.

- Auxiliary enterprise, net is primarily bookstore sales less allowances.
- State apportionments, non-capital consists of apprenticeship (\$1.9 million), state apportionment (\$26.7 million) and other apportionments (\$7.4 million, mainly partnership for excellence). State apportionment represents total general apportionment earned less regular enrollment fees and property taxes. The decrease of \$8.2 million is due to local property taxes accounting for a much larger portion of total apportionment.
- Local property taxes increased \$4.9 million due to increasing property values in Orange County. As noted above, increases in property tax revenue reduce the District's state apportionment revenue.
- State taxes and other revenues consists primarily of state lottery revenue (\$3.7 million).
- Other non-operating expenses over revenues is mainly bond interest (\$4.2 million).
- Apportionment & property taxes, capital consists mainly of state community college construction act, scheduled maintenance funding and property taxes. The majority of the increase is due to property taxes collected for the repayment of bonds.
- Gift, capital is the \$16.3 million appraised value of the land at the former Tustin Marine Corps Air Station, offset by the decrease in the appraised value of the land at the future site of the Digital Media Center in Santa Ana. The Tustin land acquisition completed years of negotiations between the District and various parties involved.

Fiscal year ended 2002/2003

- Net tuition and fees consists of enrollment fees (\$4.9 million) non-resident tuition, non-capital portion (\$1.9 million) and all other fees (\$2.3 million) less scholarships discounts and allowances (\$1.8 million). Regular enrollment fees (\$11 per unit) are set by the state for all community colleges and have not changed in several years. However, the state increased enrollment fees to \$18 per unit for 2003/04. Regular enrollment fees are included in the calculation of general apportionment.
- Auxiliary enterprise, net is primarily bookstore sales less allowances. Increases are due mainly to higher textbooks sales prices.
- State apportionments, non-capital consists of apprenticeship (\$2.0 million), state apportionment (\$33.9 million), other apportionments (\$8.3 million, mainly partnership for excellence) and child development apportionment (\$1.9 million). State apportionment represents total general apportionment earned less regular enrollment fees and property taxes.
- Local property taxes increased due to increasing property values. As noted above, increases in property tax revenue reduce the District's state apportionment revenue.
- State taxes and other revenues consists primarily of state lottery revenue (\$4.2 million).
- Investment income is down due to reduced interest rates at the county treasury and local banks. This is consistent with most interest rates during this fiscal year.

- Apportionment & property taxes, capital consists mainly of state community college construction act and scheduled maintenances funding.
- Gift, capital is the \$2.1 million land donation from the city of Santa Ana for the Digital Media Incubator project.

Operating Expenses (by natural classification)

	(in thousands)			03/04	02/03
	2004	2003	2002	Change	Change
Compensation	\$ 89,116	\$ 90,611	\$ 91,226	-2%	-1%
Employee benefits	27,214	22,545	20,189	21%	12%
Supplies, materials, other operating expenses and services	31,325	32,493	34,756	-4%	-7%
Utilities	2,867	3,317	3,221	-14%	3%
Depreciation	5,270	7,089	5,152	-26%	38%
Total operating expenses	\$155,792	\$156,055	\$154,544	0%	1%

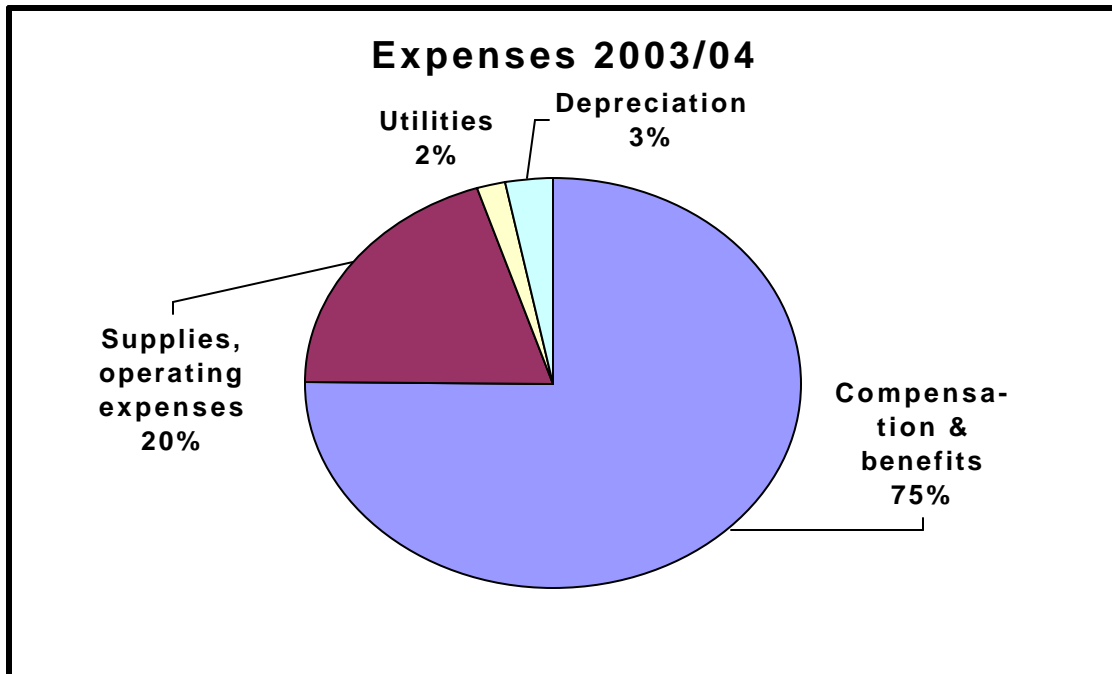
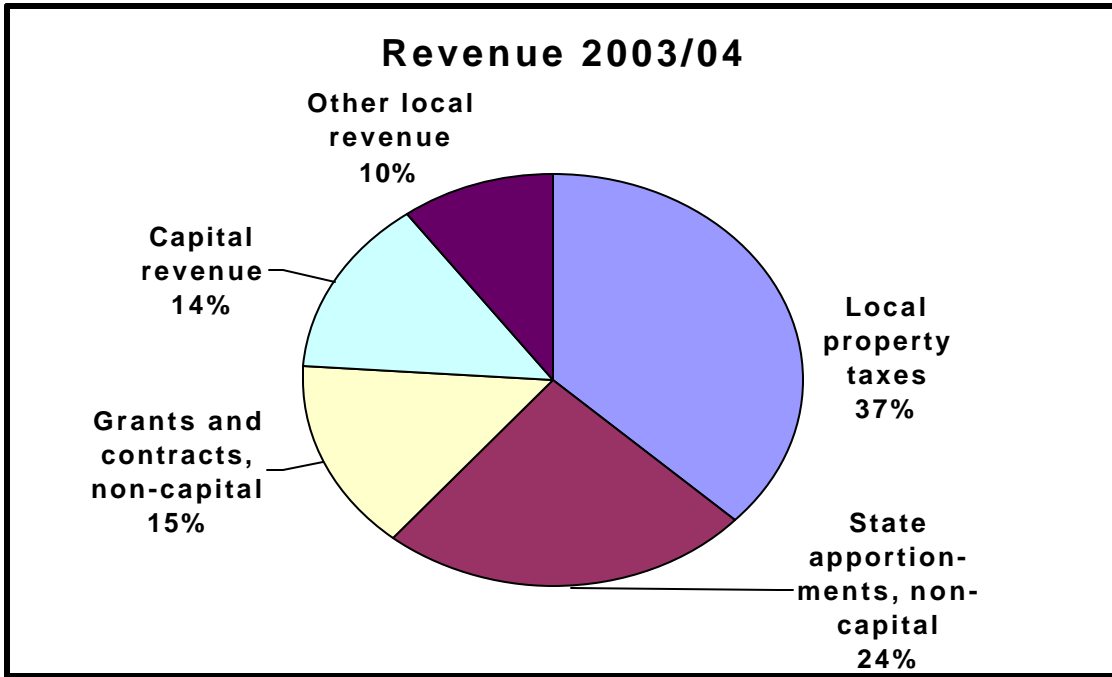
Fiscal year ended 2003/2004

- Compensation decreased 2% due mainly to hiring freezes and slow-downs imposed by the District and class offering reductions in response to the continuing state budget crisis. Prior year raises (3.75% for fulltime faculty and 3.35% for classified and management) were delayed until February 2003 and July 2003 respectively, so their impact effected the 2003/04 fiscal year. There was also a 0.5% raise for faculty effective July 2003.
- Employee benefits increased \$4.7 million due to the increased PERS rate from 2.89% to 10.42%, increase in health and welfare benefits, and a \$2 million increase to the retiree benefits accrual.
- Supplies, materials, other operating expenses and services decreased \$1.1 million due to planned cuts to District budgets in response to the state budget crisis.
- The decrease in depreciation expense is due mainly to one-time adjustments in 2003 to prior periods to properly state accumulated depreciation.

Fiscal year ended 2002/2003

- Compensation decreased slightly due mainly to a hiring freeze imposed by the District and class offering reductions in Spring 2003 in response to the state budget crisis and midyear budget cuts. Raises (3.75% for fulltime faculty and 3.35% for classified and management) were delayed until February 2003 and July 2003 respectively.
- Employee benefits increased \$2 million due to AB2700 increased STRS, the restoration of the employer PERS contribution at 2.89%, and approximately a 12% increase to health and welfare benefits, including retiree benefits and workers' compensation increases.

- Supplies, materials, other operating expenses and services decreased nearly \$2 million due to severe cuts to District budgets in response to the state budget crisis.



Statements of Cash Flow

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

	(in thousands)		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash Provided By (Used By):			
Operating activities	\$ (95,924)	\$ (98,749)	\$ (103,334)
Noncapital financing activities	99,822	111,875	106,648
Capital financing activities	(22,750)	61,284	(9,806)
Investing activities	<u>1,454</u>	<u>1,225</u>	<u>1,785</u>
Net increase (decrease) in cash	(17,398)	75,635	(4,707)
Cash and Cash Equivalents - Beginning of Year	<u>114,647</u>	<u>39,012</u>	<u>43,719</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 97,249</u></u>	<u><u>\$ 114,647</u></u>	<u><u>\$ 39,012</u></u>

The primary cash receipts from operating activities consist of grants and contracts. The primary cash outlays include payment of wages, benefits, supplies and contracts.

- General apportionment is the primary source of non-capital financing. The two main components of general apportionment are state apportionment and property taxes.
- The main capital financing activities are purchases of capital assets (land, buildings and equipment).
- Cash from investing activities is interest on investments.

Capital Assets and Debt Administration

Capital Assets

Fiscal year ended 2003/2004

As of June 30, 2004, the District had \$213.6 million in capital assets, less \$61.0 million accumulated depreciation for net capital assets of \$152.6 million. The District continues to work on the facilities projects that are part of the \$337 million bond master plan. The District received series A bond proceeds of \$96 million in March 2003. The District has spent approximately \$24 and \$33 million of those proceeds in 2003/04 and 2002/03, respectively. Depreciation charges totaled \$7.1 million in 2002/03 and \$5.3 million in 2003/04.

Details of capital asset activity is included in the footnotes of the financial statements and below in condensed format:

	(in thousands)			
	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Land	\$ 52,768	\$ 27,244	\$ -	\$ 80,012
Buildings & improvements	75,930	2,515	259	78,186
Construction in progress	5,412	11,166	2,420	14,158
Equipment	37,753	5,246	1,690	41,309
Capital assets, gross	171,863	46,171	4,369	213,665
Less: accumulated depreciation	57,089	5,270	1,290	61,069
Capital assets, net	<u>\$ 114,774</u>	<u>\$ 40,901</u>	<u>\$ 3,079</u>	<u>\$ 152,596</u>

The major capital additions during the 2003/04 fiscal year included:

	(in thousands)
1. Building, seismic and interior rehabilitation, Neally Library, Santa Ana College	\$ 803
2. Land and apartment buildings at Martha Lane and College Avenue adjacent to Santa Ana College	3,095
3. Land and construction in progress at Orange Educations Center, 1465 Batavia Street site	9,817
4. Land and construction in progress at former Tustin Marine Base site (future site of the Public Safety Institute)	17,581
5. Construction in progress, Student Services and other buildings at Santiago Canyon College	6,590

Fiscal year ended 2002/2003

As of June 30, 2003, the District had \$171.9 million in capital assets, less \$57.1 million accumulated depreciation for net capital assets of \$114.8 million. The District immediately began working on the facilities projects that are part of the \$337 million bond master plan when the bond was passed by the voters in November 2003. The District received series A bond proceeds of \$96 million in March 2003. Through June 30, 2003 approximately \$33 million of those proceeds have been spent on bond projects. Depreciation charges totaled \$7.1 million in 2002/03 compared to \$5.2 million in 2001/02.

Details of capital asset activity is included in the footnotes of the financial statements and below in condensed format:

	(in thousands)			
	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
Land	\$ 19,926	\$ 32,842	\$ -	\$ 52,768
Buildings & improvements	77,034	6,297	1,989	81,342
Equipment	\$ 37,361	\$ 2,578	2,186	37,753
Capital assets, gross	134,321	41,717	4,175	171,863
Less: accumulated depreciation	52,182	7,089	2,182	57,089
Capital assets, net	<u>\$ 82,139</u>	<u>\$ 34,628</u>	<u>\$ 1,993</u>	<u>\$ 114,774</u>

The major capital acquisitions during the 2002/03 fiscal year and the source of the resources that funded their acquisition included:

	(in thousands)
1. Land, site of the future Digital Media Center, donated by the city of Santa Ana	\$2,116
2. Land at 1720 West 17 th Street adjacent to Santa Ana College, from bond proceeds	5,431
3. Land and apartment building at Martha Lane and College Avenue adjacent to Santa Ana College, from bond proceeds	715
4. Land, 18.77 acres adjacent to Santiago Canyon College, from bond proceeds	24,793

Debt Administration

Long-Term Debt

Fiscal year ended 2003/2004

At June 30, 2004, the District had \$125.9 million in outstanding long-term debt compared to \$120.0 million at June 30, 2003. The majority of the increase was due to net increases in retiree benefit obligations.

The amounts of debt by type are summarized in the footnotes to the financial statements and in condensed format below:

	(in thousands)			Balance June 30, 2004
	Balance July 1, 2003	Additions	Reductions	
Notes payable	\$ 292	\$ -	\$ 30	\$ 262
Bonds payable and premium	99,047	-	108	98,939
Deferred revenue	3,678	3,432	2,945	4,165
Compensated balances	3,305	2,957	2,912	3,350
Capital leases	1,033	-	391	642
Claims liability	12,610	7,757	1,843	18,524
Total	<u>\$ 119,965</u>	<u>\$ 14,146</u>	<u>\$ 8,229</u>	<u>125,882</u>
Less: due within one year				10,012
Total long-term liabilities				<u>\$ 115,870</u>

Series 2003A of the general obligation bonds were issued in March 2003 in the amount of \$96,125,000 (funds received April 2003). The District is scheduled to repay the bond liability over the next 25 years beginning with the first repayment September 2004.

The District received the following credit ratings: Aa3 from Moodys and AA- from Standard and Poors.

Fiscal year ended 2002/2003

At June 30, 2003, the District had \$119,965 million in outstanding long-term debt compared to \$16,667 at June 30, 2002. The majority of the increase was due to the issuance of \$96 million in general obligation bonds. The amounts of debt by type are summarized in the footnotes to the financial statements and below:

	(in thousands)			Balance June 30, 2003
	Balance July 1, 2002	Additions	Reductions	
Notes payable	\$ 244	\$ 150	\$ 102	\$ 292
Bonds payable and premium	-	99,091	44	99,047
Deferred revenue	3,323	2,847	2,492	3,678
Compensated balances	3,061	2,990	2,746	3,305
Capital leases	1,428	-	395	1,033
Claim payable	8,611	5,760	1,761	12,610
Total	<u>\$ 16,667</u>	<u>\$ 110,838</u>	<u>\$ 7,540</u>	<u>119,965</u>
Less: due within one year				6,036
Total long-term liabilities				<u>\$ 113,929</u>

Economic Factors That May Affect the Future

Fiscal year ended 2003/2004

State Economy

- The economic position of Rancho Santiago Community College District is closely tied to that of the State of California. The District received 24% of its funding through state apportionments and 37% from local property taxes. These two sources with enrollment fees essentially make up the District's general apportionment, the main support for California community colleges.
- For the first time in ten years the state increased enrollment fees to \$18 per unit, from \$11 per unit for California community colleges. "Even with this increase the California community colleges remain the most affordable higher education system in the nation" (California State Budget 2003/04). This increase reduced the state's burden of total apportionment, but it did not directly increase revenue for districts.

RSCCD Budget

- The governor's 2004/05 budget for community colleges contains a 2.41% cost of living increase.
- The 2004/05 adopted budget includes resources to enable the District to meet its FTES goal of base apportionment plus 3.0 % growth.
- The District has budgeted the employer's share of the PERS contribution at 9.95% for 2004/05.
- The effects of salary negotiations for 2004/05 are unknown at this point.

Significant Future Events

Economy:

- The nation's appears to be recovering slowly from recession, and California continues to operate under multibillion dollar deficits. This has resulted in limited budgets for community colleges in 2004/05. Also, lag time is expected between general economic recovery and increased state revenue. This is due mainly to the natural lag between private sector earnings and the collection of taxes from those earnings by the state.
- The state has increased enrollment fees for the second time in two years:

<u>Fiscal Year</u>	<u>Statewide Enrollment Fees</u>
2002/03	\$11.00
2003/04	18.00
2004/05	26.00

Capital Improvements:

- The District acquired the final land parcels on College Avenue, adjacent to Santa Ana College in November 2004, as a part of the college's master plan expansion.
- Construction of the Student Services and classroom building (building E) at Santiago Canyon College was completed in time for the fall 2004 semester.

- Construction is scheduled to be completed on the Orange Learning Center (Batavia site) and open for operations in January 2005.
- Additional parking facilities were constructed at Santiago Canyon College in the fall of 2004.
- The District continues to replace its aging telephone and computer network.
- Construction on the Digital Media Center in Santa Ana is scheduled to begin in the winter of 2004.
- Construction of the Learning Resource Center at Santiago Canyon College is scheduled to begin January 2005 funded by the state.
- Construction of the Public Safety Institute (Tustin Marine Corps Air Station site) is scheduled to begin January 2005.

Finance:

- The District made its first scheduled bond principal payment in September 2004.
- The District plans to issue its second bond series in the amount of \$101.9 million in March 2005.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Vice Chancellor, Business Operations, 2323 N. Broadway, #404-2, Santa Ana, CA 92706.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET ASSETS JUNE 30, 2004 AND 2003**

Assets	2004	2003
Current assets		
Cash and cash equivalents	\$ 91,847,702	\$ 113,026,106
Restricted cash and cash equivalents	5,401,759	1,620,897
Receivables	7,460,569	5,510,781
Restricted student loans receivable	98,775	105,700
Inventory	1,193,024	1,932,590
Other assets	34,216	16,750
Total current assets	106,036,045	122,212,824
Noncurrent assets		
Restricted student loans receivable	557,081	515,948
Bond issuance costs	1,487,015	1,544,202
Capital assets, net:		
Non-depreciable	94,169,492	58,179,349
Depreciable	58,426,507	56,595,122
Total noncurrent assets	154,640,095	116,834,621
Total Assets	\$ 260,676,140	\$ 239,047,445
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 6,883,293	\$ 5,880,730
Interest payable	1,354,754	939,910
Accrued salaries	5,966,413	5,344,715
Deferred revenue	3,431,729	2,852,876
Compensated balances	523,065	632,728
Bonds payable	3,420,000	-
Capital leases	410,836	391,112
Claims liability	2,160,353	2,092,992
Notes payable	65,889	65,889
Amounts held for others	852,615	987,113
Total current liabilities	25,068,947	19,188,065
Noncurrent liabilities		
Deferred revenue	733,332	824,999
Compensated balances	2,827,374	2,672,223
Capital leases	231,564	642,400
Claims liability	16,362,505	10,516,222
Notes payable	196,333	226,555
Bonds payable	95,519,039	99,047,260
Total noncurrent liabilities	115,870,147	113,929,659
Total liabilities	140,939,094	133,117,724
Net Assets		
Invested in capital assets, net of related debt	94,345,176	81,255,690
Restricted		
Expendable		
Scholarships and loans	1,236,887	1,142,601
Capital projects	4,814,305	5,976,498
Debt service	3,258,137	1,398,626
Other special purposes	982,356	437,849
Total restricted net assets	10,291,685	8,955,574
Unrestricted	15,100,185	15,718,457
Total net assets	119,737,046	105,929,721
Total Liabilities and Net Assets	\$ 260,676,140	\$ 239,047,445

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
Operating revenues		
Tuition and fees	\$ 11,477,898	\$ 9,125,138
Less: Scholarship discounts and allowances	(2,793,205)	(1,837,244)
Net tuition and fees	8,684,693	7,287,894
Grants and contracts, noncapital:		
Federal	14,903,998	14,932,100
State	12,556,001	12,767,408
Local	2,120,266	1,764,666
Auxiliary enterprise sales and charges	6,975,963	6,983,910
Interest on student loans	4,834	4,101
Total operating revenues	45,245,755	43,740,079
 Operating expenses		
Salaries	89,116,386	90,611,577
Employee benefits	27,214,293	22,544,914
Supplies, materials and other operating expenses and services	31,325,103	32,493,112
Utilities	2,866,579	3,316,943
Depreciation	5,269,467	7,089,244
Total operating expenses	155,791,828	156,055,790
Operating loss	(110,546,073)	(112,315,711)
 Nonoperating revenues (expenses)		
State apportionments, noncapital	36,033,618	44,202,799
Local property taxes	62,492,221	57,599,475
State taxes and other revenues	4,129,095	4,523,919
Interest income, noncapital	1,439,466	1,249,757
Interest expense on capital asset-related debt	(4,202,994)	(1,003,885)
Other nonoperating revenues (expenses), net	(116,599)	110,865
Total nonoperating revenues, net	99,774,807	106,682,930
Loss before capital revenues	(10,771,266)	(5,632,781)
 Capital revenues		
State apportionments	1,568,142	1,016,234
State taxes and other revenues	88,179	-
Local property taxes and revenues	7,336,157	746,166
Grants and gifts	15,586,113	2,116,000
Total capital revenues	24,578,591	3,878,400
Increase (decrease) in net assets	13,807,325	(1,754,381)
Net assets - beginning of year	105,929,721	107,684,102
Net assets - end of year	\$ 119,737,046	\$ 105,929,721

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
	Cash In/(Out)	Cash In/(Out)
Cash Flows From Operating Activities		
Tuition and fees	\$ 8,721,863	\$ 7,290,553
Federal grants and contracts	14,189,166	16,932,603
State grants and contracts	13,363,769	13,097,682
Local grants and contracts	3,014,392	1,038,531
Payments to employees for salaries	(88,802,184)	(91,851,069)
Payments for employee benefits	(21,199,090)	(18,491,542)
Payments to suppliers	(28,947,852)	(30,262,504)
Payments to utilities	(2,923,368)	(3,347,474)
Loans issued to students	(98,775)	(105,700)
Collection of loans	64,567	59,891
Interest on student loans	4,834	4,101
Auxiliary enterprise sales and charges	6,688,635	6,885,966
Net cash used by operating activities	<u>(95,924,043)</u>	<u>(98,748,962)</u>
Cash Flows From Noncapital Financing Activities		
State apportionments	33,446,168	47,970,575
Local property taxes	62,513,038	57,535,756
State taxes and other revenues	4,114,247	5,960,609
Other nonoperating revenues	(116,559)	263,596
Student organization agency receipts	1,539,164	1,579,590
Student organization agency disbursements	(1,673,627)	(1,411,286)
Interest paid on noncapital debt	-	(24,735)
Net cash provided by noncapital financing activities	<u>99,822,431</u>	<u>111,874,105</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from bond obligation	-	97,523,626
Proceeds from capital debt	-	150,000
State apportionments for capital purposes	2,075,192	1,172,713
Local property tax for capital purposes	7,300,490	561,196
Non-resident tuition	92,864	184,970
Purchase of capital assets	(26,668,066)	(37,749,555)
Proceeds from sales of capital assets	14,231	1,800
Principal paid on capital lease and notes payable	(421,334)	(496,388)
Interest paid on long-term liabilities	(5,142,904)	(63,975)
Net cash (used)/provided by capital and related financing activities	<u>(22,749,527)</u>	<u>61,284,387</u>
Cash Flows From Investing Activities		
Investment income - noncapital	1,372,825	1,063,878
Interest on tax revenue	80,772	161,145
Net cash provided by investing activities	<u>1,453,597</u>	<u>1,225,023</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(17,397,542)</u>	<u>75,634,553</u>
Cash and Cash Equivalents - Beginning of Year	<u>114,647,003</u>	<u>39,012,450</u>
Cash and Cash Equivalents - End of Year	<u>\$ 97,249,461</u>	<u>\$ 114,647,003</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
	<u>Cash In/(Out)</u>	<u>Cash In/(Out)</u>
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:		
Operating loss	\$ (110,546,073)	\$ (112,315,711)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	5,269,467	7,089,244
Changes in operating assets and liabilities:		
Receivables	3,512,571	2,197,642
Inventory	739,566	(447,810)
Other assets	(17,466)	(9,011)
Student loans receivable	(34,208)	18,203
Accounts payable	(533,195)	1,126,256
Accrued salaries	(621,697)	(1,032,601)
Deferred revenue	347,860	383,003
Compensated balances	45,488	243,588
Claims payable	5,913,644	3,998,235
Net cash used by operating activities	<u><u>\$ (95,924,043)</u></u>	<u><u>\$ (98,748,962)</u></u>

Noncash financing activities:

Land acquired from donation for the fiscal year ended June 30, 2004 amounted to \$16,335,000.

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT DISCRETELY PRESENTED COMPONENT
UNITS STATEMENTS OF FINANCIAL POSITION JUNE 30, 2004 AND 2003**

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 1,570,864	\$ 1,844,668
Accounts receivable	4,505	17,768
Pledges receivable	2,242	2,944
Investments	4,428,647	3,421,797
Prepaid expenses	4,598	2,373
Total current assets	6,010,856	5,289,550
Fixed assets, net	318	2,921
Total Assets	\$ 6,011,174	\$ 5,292,471
 Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,592	\$ 9,375
Due to organizations	101,402	95,374
Total liabilities	110,994	104,749
 Net Assets		
Unrestricted	569,656	527,351
Temporarily restricted:		
Programmatic support	1,041,542	854,646
Scholarships	984,323	996,616
Endowment	3,304,659	2,809,109
Total temporarily restricted	5,330,524	4,660,371
 Total net assets	5,900,180	5,187,722
Total Liabilities and Net Assets	\$ 6,011,174	\$ 5,292,471

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED PRESENTED COMPONENT UNITS STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

	2004			2003		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Support:						
Contributions	\$ 39,674	\$ 433,178	\$ 472,852	\$ 176,305	\$ 756,440	\$ 932,745
Special event (net of expenses of \$109,823 for 2004 and \$144,729 for 2003)	86,045	66,497	152,542	29,236	26,955	56,191
Contributions from affiliated foundation	21,690	3,900	25,590	-	3,000	3,000
Donated services	371,926	-	371,926	345,912	-	345,912
Donated facilities	11,862	-	11,862	11,862	-	11,862
Total support	<u>531,197</u>	<u>503,575</u>	<u>1,034,772</u>	<u>563,315</u>	<u>786,395</u>	<u>1,349,710</u>
Revenue:						
Interest and dividends	21,430	29,325	50,755	26,087	31,998	58,085
Unrealized gain (loss) on investments	73,924	8,938	82,862	(19,704)	11,732	(7,972)
Realized loss on investments	(2,891)	545	(2,346)	(8,768)	(12,756)	(21,524)
Management fees	1,644	-	1,644	1,444	-	1,444
Other revenue	15,838	-	15,838	1,852	-	1,852
Total revenue	<u>109,945</u>	<u>38,808</u>	<u>148,753</u>	<u>911</u>	<u>30,974</u>	<u>31,885</u>
Total support and revenue before net assets released from restrictions	641,142	542,383	1,183,525	564,226	817,369	1,381,595
Net assets released from restrictions	<u>351,564</u>	<u>(351,564)</u>	<u>-</u>	<u>299,622</u>	<u>(299,622)</u>	<u>-</u>
Total support and revenue after net assets released from restrictions	992,706	190,819	1,183,525	863,848	517,747	1,381,595
Expenses						
Program services	628,046	-	628,046	626,297	-	626,297
Supporting services:						
Management and general	192,288	-	192,288	133,974	-	133,974
Fundraising	130,067	-	130,067	134,693	-	134,693
Total expenses	<u>950,401</u>	<u>-</u>	<u>950,401</u>	<u>894,964</u>	<u>-</u>	<u>894,964</u>
Excess (deficit) of support and revenue over expenses	42,305	190,819	233,124	(31,116)	517,747	486,631
Capital reductions on endowment grant						
Interest and dividends	-	58,068	58,068	-	53,604	53,604
Realized (loss) gain on investments	-	115,972	115,972	-	(95,237)	(95,237)
Unrealized gain on investments	-	305,294	305,294	-	39,257	39,257
Total capital reductions	<u>-</u>	<u>479,334</u>	<u>479,334</u>	<u>-</u>	<u>(2,376)</u>	<u>(2,376)</u>
Total support and revenue (under) over expenses after capital additions (reductions)	42,305	670,153	712,458	(31,116)	515,371	484,255
Net assets - beginning of year	527,351	4,660,371	5,187,722	558,467	4,145,000	4,703,467
Net assets - end of year	<u>\$ 569,656</u>	<u>\$ 5,330,524</u>	<u>\$ 5,900,180</u>	<u>\$ 527,351</u>	<u>\$ 4,660,371</u>	<u>\$ 5,187,722</u>

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 1 - REPORTING ENTITY

The Rancho Santiago Community College District (District) provides higher education in the County of Orange in the State of California and is governed by an elected Board of Trustees. The District's factored annual full-time equivalent students (FTES) for 2003/04 and 2002/03 were 28,804 and 29,640 respectively. State funding for 2003/04 and 2002/03 were based on 28,804 and 29,161 FTES, respectively, leaving the District with 0 and 479 in unfunded FTES. Total student enrollment is approximately 51,000 students (30,000 credit and 21,000 non-credit).

The District has two college campuses, Santa Ana College (SAC), one of the state's oldest community colleges, located in Santa Ana, Santiago Canyon College (SCC), one of State's newest community colleges, located in Orange, the District office, and vocational and adult centers, such as the Garden Grove Center, the Centennial Education Center, the Marketplace Education Center and SCC's Continuing Education Orange Center. While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criterion for including a potential component unit is whether the District's governing board is financially accountable for the other entity. The District identified three potential component units: the Santa Ana College Foundation (SACF), the Santiago Canyon College Foundation (SCCF) and the Rancho Santiago Community College District Foundation (RSCCDF).

The three Foundations are separate not-for-profit corporations. The Board of Directors for the Foundations is selected independent of any Board of Trustee input. The Foundations Board is responsible for approving its own budget, accounting and finance related activities. However, the District's governing board has fiscal responsibility over each Foundation. Therefore, the Foundations are included in the financial statements in separate financial statements to emphasize that they are legally separate from the District. Each Foundation issues a stand-alone report, which can be obtained from the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

District

A. Basis of Presentation

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, issued in 1999, and as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus an Amendment of GASB Statements No. 21 and No. 34*, No. 38, *Certain Financial Statement Note Disclosures* and No. 39, *Determining Whether Certain Organizations are Component Units*.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the California Community College's Budget and Accounting Manual.

B. Measurement Focus and Basis of Accounting

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. Under this model, the District's basic financial statements provide a comprehensive look at its financial activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue when all eligibility requirements imposed by the grantor have been met.

All intra-district transactions have been eliminated.

The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The District has elected not to apply FASB pronouncements issued after that date.

C. Cash and Investments

For purposes of reporting cash flows, all cash and pooled investments are considered to be cash and cash equivalents.

Investments for the District are reported at fair value based on quoted market values.

D. Receivables

Receivables consist of amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenses based on a contract or agreement between the District and the funding source. The District does not record an allowance for uncollectible accounts because collectibility of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded.

E. Inventories

Inventories, primarily bookstore merchandise, are carried at the lower of cost or market using the first-in, first-out ("FIFO") method. The cost is recognized as expense as the inventory is consumed.

F. Bond Issuance Costs

Bond issuance costs are amortized over the term of the debt using the straight-line method.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District’s capitalization policy includes all items with a unit cost of \$1,000 (for equipment) and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred.

Depreciation of equipment and vehicles, facilities and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Expenditures for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Buildings and improvements	50 years
Portable buildings	15 years
Land improvements	10 years
Equipment and vehicles	8 years
Technology equipment	3 years

H. Property Taxes

Property taxes are assessed and levied by the County of Orange on the fourth Monday of September of each year and they become an enforceable lien on real property on January 1 of the same year. Secured taxes are payable to the District in two installments, on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Tax remittances are paid net of a County administrative charge.

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the Orange County Teeter Plan and is paid all current year taxes in the year levied and, therefore, property tax receivables accrued at year-end represent remaining unpaid taxes for the current year levy which will be received shortly after year-end.

I. Deferred Revenue

Deferred revenue is recorded to the extent that cash received from federal programs, state special projects, other programs and fees have not been earned.

J. Noncurrent Liabilities

Noncurrent liabilities include principal amounts on compensated balances, capital lease obligations, accrued claim liabilities, other liabilities, bonds payable and premiums with maturities greater than one year. Bond premiums are amortized over the life of the bonds using the straight-line method.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Compensated Balances

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

The District also participates in and accrues “load banking” with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District’s policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

L. Amounts Held for Others

Amounts held for others represents funds held by the District for the associated diversified and student revolving funds.

M. Tuition and Fees

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statements of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between the tuition and fee charged by the District and the amount that is waived by the Board of Governor’s Grant (BOGG) on the student’s behalf.

N. Net Assets

The District’s net assets are classified as follows:

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.

Restricted: Nonexpendable – Net assets subject to externally imposed stipulations that they are maintained permanently by the District. The District currently does not have any net assets in this category. Expendable – Net assets whose use by the District is subject to externally imposed restrictions.

Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District’s policy is to first apply the expense toward the restricted resources, and then towards unrestricted resources.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Operating and Nonoperating Transactions

The District has classified its revenues and expenses as either operating or nonoperating. Revenues and expenses are classified according to the following criteria:

Operating – these revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarships discounts and allowances, sales and services of auxiliary enterprises, most federal, state, local grants and contracts, federal appropriations and interest on institutional student loans. Operating expenses include salaries, employee benefits, supplies, materials, services, utilities and depreciation.

Nonoperating – these revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income. Nonoperating expense includes interest on capital asset-related debt.

P. Use of Estimates

The preparation of the basic 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 reported amounts in the basic financial statements and accompanying notes. Actual results could differ from the estimates.

Q. Employee Retirement Plans

Qualified employees are covered under defined benefit retirement plans (State Teachers' Retirement System or Public Employees' Retirement System) maintained by agencies of the State of California. District contributions to these plans are paid or accrued currently based upon a statutorily required percentage of qualified employees' salaries.

R. Reclassifications

Certain reclassifications have been made to fiscal year 2003 amounts in order to conform to the fiscal year 2004 presentation.

Discretely Presented Component Units – Foundations

S. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Classification of Net Assets

The Foundations report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 any related investments for general or specific purposes. The Foundations have no permanently restricted net assets.

U. Contributions

Contributions, including unconditional promises to give, are recorded when made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

V. Recognition of Donor-Restricted Contributions

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

W. Investments

Investments are recorded at fair value based on quoted market values.

X. Donated Assets, Services and Facilities

The Foundations record the value of services and facilities when there is an objective basis available to measure their value. Donated facilities are reflected as support in the financial statements at fair market value. Donated services are recorded at fair value when a specialized skill is provided that would have otherwise been purchased or paid. Donated assets are not reflected in the accompanying statements since all donated assets are accepted by the Foundations on behalf of the District's colleges.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Reclassifications

Certain reclassifications have been made to fiscal year 2003 amounts in order to conform to the fiscal year 2004 presentation.

NOTE 3 – CASH AND POOLED FUNDS

Cash and Pool Funds

A significant portion of the District's cash balances is deposited with the Orange County Treasury as required by state law. At June 30, 2004 and 2003, the District had \$82,480,000 and \$103,323,828 respectively, deposited with the County Treasury. Interest earned on such pooled cash balances is distributed to the District based upon the average cash balance during the distribution period. The County Treasury is sponsored and administered by the County of Orange and oversight is conducted by the County Treasury Oversight Committee. The fair value of the position in the pool is the same as the value of the pool shares.

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. At June 30, 2004 and 2003, cash held by financial institutions for the District of \$1,118,282 and \$3,279,756 respectively was entirely insured and collateralized as described above. The book balance at June 30, 2004 and 2003 for the District was \$3,713,906 and \$3,401,190, respectively.

Local Agency Investment Fund (LAIF)

The District also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting \$11,055,555 and \$7,921,985 as of June 30, 2004 and 2003 respectively. The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board. The total amount invested statewide by all public agencies in LAIF at June 30, 2004 was \$57,600,699,158. Of that amount, 98.4% is invested in non-derivative financial products and 1.6% in structured notes and asset-backed securities.

The component units have cash deposits with two financial institutions in the aggregate of \$1,544,823 and \$1,810,846 for 2004 and 2003 respectively. The National Credit Union Association (NCUA) and Federal Deposit Insurance Corporation (FDIC) limit each foundation to a recovery of \$100,000 for all accounts at each financial institution. Each Foundation maintains a bank account at the financial institution insured by the NCUA and one Foundation maintains an account insured by the FDIC. Therefore, the component units are subject to the risk of loss for amounts in excess of \$400,000. The book balance of the component units cash deposits as of June 30, 2004 and 2003 were \$1,570,864 and \$1,844,668, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 3 – CASH AND POOLED FUNDS (CONTINUED)

Restricted cash represents an amount deposited with the County of Orange Treasurer for debt service payments in the following fiscal year.

NOTE 4 – INVESTMENTS

Investments of the component units are presented in the financial statements at their aggregate fair value.

The fair values of the marketable securities are based on quoted market prices. Investments are categorized to give an indication of the level of custodial credit risk associated with each investment.

The balance at June 30, 2004 is:

<u>Component Units</u>	<u>Category 2</u>	<u>Carrying Value</u>
Certificates of deposit	\$ 770,348	\$ 770,348
Equity securities	3,307,834	3,307,834
Debt securities	350,465	350,465
Total	<u>\$ 4,428,647</u>	<u>\$ 4,428,647</u>

The balance at June 30, 2003 is:

<u>Component Units</u>	<u>Category 2</u>	<u>Carrying Value</u>
Certificates of deposit	\$ 463,532	\$ 463,532
Equity securities	2,585,868	2,585,868
Debt securities	372,397	372,397
Total	<u>\$ 3,421,797</u>	<u>\$ 3,421,797</u>

Level of Custodial Credit Risk

Investments are categorized as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the component units at year-end. Category 1 includes investments that are insured or registered, or securities that are held by the component units or their agent in the component units' name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the component units' name. Category 3 includes uninsured unregistered investments with securities held by the counterparty, or by its trust department or agent, but not in the component units' name.

NOTE 5 – RECEIVABLES

The following is a summary of receivables at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Federal programs	\$ 2,209,084	\$ 1,718,782
State revenues	3,265,139	2,051,685
Property tax	696,779	837,268
Local revenue	1,289,567	903,046
Total	<u>\$ 7,460,569</u>	<u>\$ 5,510,781</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 5 – RECEIVABLES (CONTINUED)

The following is a summary of noncurrent receivables at June 30, 2004 and 2003:

	2004	2003
Student loan	\$ 557,081	\$ 515,948

NOTE 6 – CAPITAL ASSETS

Schedules of changes in capital assets for the fiscal years ended June 30, 2004 and 2003 are shown below:
Activity for the fiscal year ended June 30, 2004 is:

District:	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Capital assets, non-depreciable:				
Land	\$ 52,767,464	\$ 27,243,935	\$ -	\$ 80,011,399
Construction in progress	5,411,885	11,166,465	(2,420,257)	14,158,093
Total capital assets, non-depreciable	58,179,349	38,410,400	(2,420,257)	94,169,492
Building	61,671,500	1,923,805	(259,386)	63,335,919
Portable buildings	6,110,183	-	-	6,110,183
Site improvements	8,148,360	591,066	-	8,739,426
Equipment	15,776,298	2,314,588	(328,015)	17,762,871
Technology equipment	21,977,037	2,931,167	(1,362,202)	23,546,002
Total capital assets, depreciable	113,683,378	7,760,626	(1,949,603)	119,494,401
Less accumulated depreciation for:				
Building	19,144,089	1,224,116	(2,593)	20,365,612
Portable buildings	1,529,642	394,497	-	1,924,139
Site improvements	6,455,517	385,423	-	6,840,940
Equipment	11,050,209	1,191,807	(214,748)	12,027,268
Technology equipment	18,908,799	2,073,624	(1,072,488)	19,909,935
Total accumulated depreciation	57,088,256	5,269,467	(1,289,829)	61,067,894
Total capital assets, depreciable, net	56,595,122	2,491,159	(659,774)	58,426,507
Total capital assets, net	\$ 114,774,471	\$ 40,901,559	\$ (3,080,031)	\$ 152,595,999
Component units:	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004
Equipment	\$ 13,178	\$ -	\$ -	\$ 13,178
Less: accumulated depreciation	10,257	2,603	-	12,860
Capital assets, net	\$ 2,921	\$ (2,603)	\$ -	\$ 318

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 6 -CAPITAL ASSETS (CONTINUED)

Activity for the fiscal year ended June 30, 2003 is:

District:	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003
Capital assets, non-depreciable:				
Land	\$ 19,925,638	\$ 32,841,826	\$ -	\$ 52,767,464
Construction in progress	3,982,503	3,417,930	1,988,548	5,411,885
Total capital assets, non-depreciable	<u>23,908,141</u>	<u>36,259,756</u>	<u>1,988,548</u>	<u>58,179,349</u>
Building	61,237,879	433,621	-	61,671,500
Portable buildings	4,264,136	1,846,047	-	6,110,183
Site improvements	7,548,803	599,557	-	8,148,360
Equipment	15,000,123	1,113,166	336,991	15,776,298
Technology equipment	22,361,430	1,464,940	1,849,333	21,977,037
Total capital assets, depreciable	<u>110,412,371</u>	<u>5,457,331</u>	<u>2,186,324</u>	<u>113,683,378</u>
Less accumulated depreciation for:				
Building	17,931,531	1,212,558	-	19,144,089
Portable buildings	1,196,681	332,961	-	1,529,642
Site improvements	6,120,708	334,809	-	6,455,517
Equipment	9,660,703	1,609,277	219,771	11,050,209
Technology equipment	17,272,727	3,599,639	1,963,567	18,908,799
Total accumulated depreciation	<u>52,182,350</u>	<u>7,089,244</u>	<u>2,183,338</u>	<u>57,088,256</u>
Total capital assets, depreciable, net	<u>58,230,021</u>	<u>(1,631,913)</u>	<u>2,986</u>	<u>56,595,122</u>
Capital assets, net	<u>\$ 82,138,162</u>	<u>\$ 34,627,843</u>	<u>\$ 1,991,534</u>	<u>\$ 114,774,471</u>
Component units:				
Equipment	\$ 13,178	\$ -	\$ -	\$ 13,178
Less: accumulated depreciation	7,460	2,797	-	10,257
Capital assets, net	<u>\$ 5,718</u>	<u>\$ (2,797)</u>	<u>\$ -</u>	<u>\$ 2,921</u>

Land and construction in progress are not depreciated.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 7 – ACCOUNTS PAYABLE

The following is a summary of accounts payable at June 30, 2004 and 2003:

District:

	2004	2003
Amounts due to federal grantors	\$ 1,087	\$ 68,854
Amounts due to state grantors	578	200,453
Amounts due to state	1,892,667	1,076,076
Amounts due to students	157,331	6,533
Amounts due to employees	45,559	19,581
Trade payables	4,769,301	4,472,987
Sales tax payable	16,770	36,246
Total	\$ 6,883,293	\$ 5,880,730

Component units:

Trade payables	\$ 9,592	\$ 9,375
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NOTE 8 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the fiscal years ended June 30, 2004 and 2003:

Activity for the fiscal year ended June 30, 2004 is:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Within One Year
Bonds and notes payable					
Notes payable	\$ 292,444	\$ -	\$ 30,222	\$ 262,222	\$ 65,889
Bonds payable	96,125,000	-	-	96,125,000	3,420,000
	96,417,444	-	30,222	96,387,222	3,485,889
Bond premium	2,922,260	-	108,221	2,814,039	-
Total bond and notes payable	99,339,704	-	138,443	99,201,261	3,485,889
Other liabilities:					
Deferred revenue	3,677,875	3,431,729	2,944,542	4,165,062	3,431,729
Compensated balances	3,304,951	2,957,033	2,911,546	3,350,438	523,065
Capital leases	1,033,512	-	391,112	642,400	410,836
Claims liability (Note 10)	12,609,214	7,756,959	1,843,315	18,522,858	2,160,353
Total other liabilities	20,625,552	14,145,721	8,090,515	26,680,758	6,525,983
Total long term liabilities	\$119,965,256	\$14,145,721	\$8,228,958	125,882,019	\$10,011,872
Due within one year				10,011,872	
Total long term liabilities				\$115,870,147	

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 8 – LONG-TERM LIABILITIES (CONTINUED):

Activity for the fiscal year ended June 30, 2003 is:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Within One Year
Bonds and notes payable					
Notes payable	\$ 244,000	\$ 150,000	\$ 101,556	\$ 292,444	\$ 65,889
Bonds payable	-	96,125,000	-	96,125,000	-
	244,000	96,275,000	101,556	96,417,444	65,889
Bond premium	-	2,965,876	43,616	2,922,260	-
Total bond and notes payable	244,000	99,240,876	145,172	99,339,704	65,889
Other liabilities:					
Deferred revenue	3,322,525	2,847,495	2,492,145	3,677,875	2,852,876
Compensated balances	3,061,363	2,989,352	2,745,764	3,304,951	632,728
Capital leases	1,428,344	-	394,832	1,033,512	391,112
Claims liability (Note 10)	8,610,979	5,760,168	1,761,933	12,609,214	2,092,992
Total other liabilities	16,423,211	11,597,015	7,394,674	20,625,552	5,969,707
Total long term liabilities	<u>\$ 16,667,211</u>	<u>\$ 110,837,891</u>	<u>\$ 7,539,846</u>	119,965,256	<u>\$ 6,035,596</u>
Due within one year				6,035,596	
Total long term liabilities				<u>\$ 113,929,660</u>	

A. Bonds Payable

On November 5, 2002, the voters of the District approved the issuance of \$337,000,000 general obligation bonds to be used to finance the acquisition, construction and modernization of certain property and District facilities. On March 31, 2003, \$96,125,000 of Rancho Santiago Community College District, Election of 2002, Series 2003A Bonds were issued with a final maturity date of September 1, 2027 and interest rates ranging from 2% to 5%, depending on the maturity of the related bonds. Interest accrues from March 31, 2003 and is payable semiannually on March 1 and September 1 of each year commencing on March 1, 2004. The outstanding principal balance of these bonds at June 30, 2004 and 2003 was \$96,125,000.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)

A. Bonds Payable (Continued)

The following table summarizes the annual debt service requirements of the District:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 3,420,000	\$ 5,768,995	\$ 9,188,995
2006	6,395,000	3,995,863	10,390,863
2007	6,935,000	3,767,963	10,702,963
2008	1,500,000	3,589,263	5,089,263
2009	1,655,000	3,539,263	5,194,263
2010-2014	10,695,000	16,867,438	27,562,438
2015-2019	15,915,000	14,472,050	30,387,050
2020-2024	23,575,000	10,016,000	33,591,000
2025-2028	26,035,000	3,320,750	29,355,750
Totals	<u>\$ 96,125,000</u>	<u>\$ 65,337,582</u>	<u>\$ 161,462,582</u>

B. Capital Leases

The District leases equipment with a cost of \$3,486,351 at June 30, 2004 and 2003 under agreements, which provide for title to pass to the District upon expiration of the lease period. Accumulated amortization of the leased assets at June 30, 2004 and 2003 was \$1,538,548 and \$1,226,434, respectively.

The future minimum payments under capital leases at June 30, 2004 is shown below:

Fiscal Year Ending June 30,	Leases
2005	\$ 442,399
2006	242,401
Total	684,800
Less: amount representing interest	(42,400)
Present value of minimum lease payments	<u>\$ 642,400</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)

C. Notes Payable

California Department of Education

In fiscal year 2003, the District entered into a non-interest bearing loan with the California Department of Education (CDE) in the form of an assistance loan in the amount of \$150,000 to be repaid over a ten-year period at \$15,000 per year. The loan was utilized for the Centennial Child Development Center relocatable building project. The loan balance at June 30, 2004 and 2003 is \$120,000 and \$135,000, respectively. In fiscal year 2002, the District entered into a similar loan with the CDE with the same terms, conditions and purpose in the amount of \$150,000. The loan balance at June 30, 2004 and 2003 is \$106,556 and \$121,777, respectively.

State Chancellor’s Office

In fiscal year 2001, the District entered into a non-interest bearing loan with the Chancellor’s Office of California, in the amount of \$107,000 to be repaid in three annual payments of \$35,667. The loan was utilized for a state-of-the-art LED technology message marquee at SAC. The loan balance at both June 30, 2003 and 2004 is \$35,666.

The future minimum payments under notes payable at June 30, 2004 is shown below:

Fiscal Year Ending June 30,	Notes Payable
2005	\$ 65,889
2006	30,222
2007	30,222
2008	30,222
2009	30,222
2010 – 2012	75,445
Total	\$ 262,222

NOTE 9 – SHORT-TERM BORROWING

The District issued \$10,000,000 of TRANS dated July 1, 2003. The notes have an interest rate of 2.00%, with a yield of 0.8% and matured on June 30, 2004. The notes were sold to meet the cash needs of the District until the initial distribution of tax receipts is received. Repayment requirements call for 50% of the notes and accrued interest to be deposited in January 2004 and April 2004, respectively.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property liability, health benefits, errors and omissions and natural disasters. These risks are addressed through a combination of participation in public entity risk pools, commercial insurance and self-insurance. The District is insured for workers’ compensation claims and property and liability claims through commercial insurance. The District is self-insured for workers’ compensation claims prior to July 1, 1999, retiree medical benefit claims and the deductible portion of property and liability claims.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 10 - RISK MANAGEMENT (CONTINUED)

The District is also a member of the Alliance of Schools for Cooperative Insurance (ASCIP) and Schools Excess Liability Fund (SELF). The District is subject to various deductible amounts and pays premiums assessed by the pools. The pools are responsible for claims beyond the deductible amount of commercial insurance and provide for high-level umbrella type coverage above certain limits. The pools are operated separately and are independently accountable for their fiscal matters. The pools are not component units of the District for financial reporting purposes. A copy of the most recent audited financial statements can be obtained from ASCIP and SELF.

Estimates of liabilities for open claims, both reported and unreported, for workers' compensation liability claims are established by the District's external administrator. The estimates are based on the continuous evaluation of the status of each claim. Estimates of liabilities for the property and liability claims are based on an analysis of individual claims. Management believes that the amounts accrued are adequate to cover such costs. Estimation of claims for retiree medical benefits is based on an actuarial estimate of the annual required contributions that provides a stable cash flow for payment of claims (Note 16).

A number of claims and suits are pending against the District. In the opinion of District administration, the related liability, if any, will not materially affect the financial position of the District. No settlements exceeded insurance coverage during the last three years.

As of June 30, 2004 and 2003, liability for claims amounted to \$18,522,858 and \$12,609,214, respectively. Changes in the claims liability amount in the fiscal years 2004 and 2003 were:

<u>2003/04</u>	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
Workers' compensation	\$ 520,250	\$ 125,805	\$ (58,444)	\$ 587,611
Property and liability	65,000	55,154	(55,154)	65,000
Retiree health benefits	12,023,964	7,576,000	(1,729,717)	17,870,247
Total	<u>\$ 12,609,214</u>	<u>\$ 7,756,959</u>	<u>\$ (1,843,315)</u>	<u>\$ 18,522,858</u>

<u>2002/03</u>	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
Workers' compensation	\$ 373,008	\$ 270,647	\$ (123,405)	\$ 520,250
Property and liability	65,000	159,521	(159,521)	65,000
Retiree health benefits	8,172,971	5,330,000	(1,479,007)	12,023,964
Total	<u>\$ 8,610,979</u>	<u>\$ 5,760,168</u>	<u>\$ (1,761,933)</u>	<u>\$ 12,609,214</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 11 – UNRESTRICTED NET ASSETS

The following are Board of Trustees' designations of unrestricted net assets at June 30, 2004 and 2003:

	2004	2003
Retiree benefits	\$ -	\$ 49,795
Self insurance	2,823,128	2,766,084
Diversified trust	657,940	704,142
Community education	364,349	279,551
Bookstore	3,034,250	2,717,239
Associated student body	387,376	298,431
Student ID card fees	150,946	163,494
Personal service	-	2,098,810
Reserve for economic uncertainties	7,682,196	6,640,911
Total designated balances	<u>\$ 15,100,185</u>	<u>\$ 15,718,457</u>

NOTE 12 – RENTAL INCOME

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, 2004 and 2003 is \$824,999 and \$916,666, respectively.

NOTE 13 – DONATION OF LAND

In October 2004, the City of Tustin conveyed 15 acres of land to the District with a fair market value of \$16,335,000. This land will be utilized for construction of the Public Safety Institute.

In November 2003, the District received a parcel of land from the City of Santa Ana with a fair market value of \$1,265,000. This land will be the site of the multi media center. This land was used to meet the match for a federal grant in fiscal year 2004.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 14 –FUNCTIONAL EXPENSES CLASSIFICATIONS

The District’s operating expenses by functional classification for the fiscal years ended June 30, 2004 and 2003 were as follows:

The functional expenses classifications for fiscal year ended 2004 are:

	Salaries and Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
	\$	\$	\$	\$	\$
Instruction	\$ 47,990,223	\$ 5,675,501	-	-	53,665,724
Instructional administration	13,267,714	734,820	-	-	14,002,534
Instructional support services	4,133,403	303,783	-	-	4,437,186
Admissions and records	2,086,586	67,914	-	-	2,154,499
Counseling and guidance	7,080,842	244,604	-	-	7,325,446
Other student services	9,344,686	813,839	-	-	10,158,525
Operations and maintenance	4,200,059	1,151,219	2,866,579	-	8,217,857
Planning and policy making	1,826,316	589,057	-	-	2,415,373
General institutional services	17,587,775	3,506,372	-	-	21,097,752
Community services	2,145,488	742,085	-	-	2,887,573
Ancillary services	6,139,703	6,683,358	-	-	12,823,061
Auxiliary operations	527,884	59,448	-	-	587,332
Property and acquisition	-	2,871,648	-	-	2,871,648
Non-capitalized property items	-	230,000	-	-	230,000
Student payments	-	7,651,455	-	-	7,651,455
Depreciation	-	-	-	5,269,467	5,269,467
				\$	
Total operating expenses	<u>\$ 116,330,679</u>	<u>\$ 31,325,103</u>	<u>\$ 2,866,579</u>	<u>5,269,467</u>	<u>\$ 155,791,828</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 14 –FUNCTIONAL EXPENSES CLASSIFICATIONS (CONTINUED)

The functional expenses classifications for fiscal year ended 2003 are:

	Salaries and Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
	\$	\$	\$	\$	\$
Instruction	49,408,651	7,511,401	-	-	56,920,052
Instructional administration	12,890,740	994,051	-	-	13,884,791
Instructional support services	4,476,603	525,449	-	-	5,002,052
Admissions and records	2,127,417	68,383	-	-	2,195,800
Counseling and guidance	7,240,907	245,319	-	-	7,486,226
Other student services	8,450,788	915,267	-	-	9,366,055
Operations and maintenance	4,030,382	568,529	3,316,943	-	7,915,854
Planning and policy making	1,488,944	858,838	-	-	2,347,782
General institutional services	14,348,738	4,778,798	-	-	19,127,536
Community services	2,194,696	902,470	-	-	3,097,166
Ancillary services	5,887,355	6,908,716	-	-	12,796,071
Auxiliary operations	611,270	75,465	-	-	686,735
Non-capitalized property items	-	549,372	-	-	549,372
Student payments	-	7,591,054	-	-	7,591,054
Depreciation	-	-	-	7,089,244	7,089,244
		\$			
Total operating expenses	<u>\$ 113,156,491</u>	<u>32,493,112</u>	<u>\$ 3,316,943</u>	<u>\$ 7,089,244</u>	<u>\$ 156,055,790</u>

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

A. State Teachers Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer defined benefit public employee retirement plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information for the entire system. Copies of the STRS' annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

A. State Teachers Retirement System (STRS) (Continued)

Funding Policy

Active plan members are required to contribute 8.0% of their salary for both fiscal years 2004 and 2003 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 STRS Retirement Board. The required employer contribution rate for both fiscal years 2004 and 2003 were 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$4,074,732, \$4,056,309, and \$3,253,475, respectively, and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit public employee retirement plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information for the entire system. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office located at 400 P Street, Sacramento, California 92514.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security) and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute. The CalPERS required employer contribution rate for fiscal year 2004 is 10.42%, 2003 is from 2.771% (July 2002 – January 2003) to 2.894% (February 2003 to June 2003) and 0% for the fiscal year ended June 30, 2002. Contributions of \$3,034,389 and \$821,257 were made for the fiscal year ended June 30, 2004 and 2003, respectively. No contributions were made for the fiscal year ended June 30, 2002. Contributions made were 100% of the required contributions for each year.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

C. Public Agency Retirement System (PARS)

Federal law requires that public sector employees who are not members of their employer's existing retirement system be covered by Social Security or an alternate plan. In fiscal years 2003-04 and 2002-03 the defined contribution plan, PARS, required employees to contribute 6.2% of their salary and the District is required to contribute 1.3%. As of June 30, 2004 and 2003, 716 and 951 employees participated in PARS, respectively. The District's contributions to PARS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$79,144, \$116,132 and \$159,078, respectively.

NOTE 16 – RETIREE HEALTH BENEFITS

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than ten years but less than fifteen years of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with fifteen years or more service are eligible to receive medical benefits up to \$15,227 for 2003-04 and \$13,948 for 2002-03. (The maximum for most employees is \$10,828 for fiscal years 2004 and 2003). Currently 253 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 fifteen (15) year retiree service benefit, the District will pay its portion of the insurance premium until the retiree reaches 70. After age 70, such retirees may continue coverage at their own expense.

Retirees' coverage ends the date the plan terminates or the date the retiree terminates coverage. In the instance of self-paid and partial paid retiree benefits, the coverage will be terminated when payment is 45 days past due. Dependent coverage terminates the date he/she ceases to be a dependent.

The following is a schedule of the unfunded future liability for retiree health benefits at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Actuarial computed present value of future benefits	\$ 73,490,000	\$ 50,316,000
Assets held by the District, at fair value	(13,152,556)	(12,074,200)
Present value of unfunded future liability	<u>\$ 60,337,444</u>	<u>\$ 38,241,800</u>

The District's actuarially required contribution for fiscal years 2004 and 2003 was \$7,576,000 and \$5,330,000, respectively, and was expensed during the period. Payments in the amount of \$1,729,717 and \$1,479,007 were made for current retiree obligations in 2004 and 2003 respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 17 - COMMITMENTS AND CONTINGENCIES

A. Sick Leave

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

B. Lawsuits

The District is a defendant in various lawsuits. It is the opinion of the District's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the District.

C. State and Federal Allowances, Awards and Grants

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

D. Operating Leases

The District has operating leases for the rental of school facilities, office space and equipment. The operating lease expense for the fiscal years ended June 30, 2004 and 2003 totaled \$1,945,133 and \$2,057,932, respectively.

The future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Leases
2005	\$ 1,066,324
2006	725,361
2007	355,768
2008	220,815
Total	\$ 2,368,268

E. Construction Contracts

The District has outstanding construction commitments of approximately \$4,178,146 and \$8,843,747 at June 30, 2004 and 2003, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

NOTE 18 – ENDOWMENTS – COMPONENT UNITS

RSCCDF received an Endowment Challenge Grant from the Department of Education in the amount of \$1,000,003 in fiscal year 1992. The corpus of the endowment is to be invested over a period of twenty years and the RSCCDF may not spend more than fifty percent of the aggregate income earned for allowable expenditures. At the end of twenty years, RSCCDF may use the corpus for any educational purpose. At June 30, 2004 and 2003, the fair value of the endowment grant is \$3,159,103 and \$2,681,768, respectively. In addition, the SACF received an endowment grant as part of the Title V, Hispanic Serving Institution Grant received by the District from the Department of Education in fiscal year 2003. At June 30, 2004 and 2003, the fair market value is \$145,556 and 69,305, respectively.

NOTE 19 – RELATED PARTIES

The District provides administrative services to the Foundations. The District pays salaries and benefits of the executive director, secretary and accountant. In addition, working space for employees who perform administrative services for the Foundations are provided by the District at no charge. The donated services for fiscal years 2004 and 2003 were \$371,926 and \$345,912, respectively and \$11,862 for donated facilities for fiscal years 2004 and 2003, and have been reflected in the financial statements as donated services and facilities.

The RSCCDF distributes scholarship funds to the Foundations. The amount of scholarship funds distributed for fiscal years 2004 and 2003 were \$3,900 and \$3,000, respectively. In addition, the RSCCDF distributed in equal shares the net proceeds from a special event in the amount of \$21,690 to SACF and SCCF in fiscal year 2004, no proceeds were distributed in fiscal year 2003.

During the fiscal year 2002, SACF and SCCF loaned the RSCCDF \$50,000 and \$30,000, respectively. The loans were made at a zero percent interest rate and were repaid in full in December 2003. These amounts have been eliminated in the statement of financial position due to consolidation.

NOTE 20 – SUBSEQUENT EVENTS

Tax and Revenue Anticipation Note (TRANS)

The District issued \$5,000,000 of TRANS dated July 1, 2004. The note has an interest rate of 3.00%, with a yield of 1.59% and matures on June 30, 2005. The notes were sold to meet the cash needs of the District until the initial distribution of tax receipts is received. Repayment requirements call for 50% of the notes and accrued interest to be deposited in January 2005 and May 2005, respectively.



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**INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION**

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

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2004. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information, presented for purposes of additional analysis, is not a required part of the basic financial statements and includes the following supplementary information:

- Schedule of Expenditures of Federal Awards required by OMB Circular A-133
- Schedule of Expenditures of State Awards
- Schedule of Workload Measures for Program Based Funding and Annual Apprenticeship Hours of Instruction
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with the District's Accounting Records
- Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets
- Combining Statement of Financial Position and Statement of Activities
- Note to the Supplementary Information

The information in the supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Marcus Jini & Company LLP

Certified Public Accountants

Los Angeles, California

November 12, 2004

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Awards	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
<u>Federal Agency/Pass-through Entity/Program Name</u>			
U.S. Department of Education (USDE):			
Direct:			
Financial Aid Cluster			
Federal Work-Study	84.033		\$ 342,101
Perkins Loan	84.038		31,189
Pell Grants	84.063		5,982,133
Pell Grants Administrative Allowance	84.063		12,560
Supplemental Education Opportunity Grants (S.E.O.G.)	84.007		239,405
Total Student Financial Aid Cluster			<u>6,607,388</u>
Adult Basic Education (ABE)			
Adult Basic Education	84.002		42,525
ABE - English Literacy/Civics Education	84.002		89,853
ABE - Citizen Participation/Preparation	84.002		103,510
ABE - P1-P3 ESL	84.002		351,059
ABE - ESL	84.002		2,149,783
ABE - ST Literacy RSRC Staff Development	84.002		52,051
ABE - 231 Vocational Literacy	84.002		21,375
ABE - P4 Family Literacy	84.002		379,383
ABE - Secondary Education	84.002		162,000
ABE - 225 Adult Basic Education	84.002		12,575
ABE - 225 County Jail P1-P3	84.002		44,550
ABE - 225 County Jail Program	84.002		88,619
ABE - 225 Jail Program	84.002		31,605
ABE - P1-P3 (Augment)			19,200
Total ABE			<u>3,548,088</u>
Business and International Education Program	84.153	P153A030032	59,361
Upward Bound	84.047	P047A990608	263,210
Talent Search II	84.044	P044A990005	330,448
Student Support Services	84.042	P042A020212	279,623
Title V - Developing Hispanic Serving Institutions	84.031	P031S010038	724,445
Fund For Improvement of Post Secondary Education-BETA	84.116A		11,346
Total direct from U.S. Department of Education			<u>11,823,909</u>
Passed through California Department of Education (CDE):			
Vocational and Technical Education Act (VTEA)			
Tech-Prep VTEA, Education	84.048	99-TP-62	136,328
Title I-C VTEA	84.048	00-C01-042	1,117,769
Total VTEA			<u>1,254,097</u>
Total passed through CDE			<u>1,254,097</u>
Passed through California State Department of Rehabilitation:			
Job Development Training Placement Program - Handicap	84.126		201,208
Total passed through California State Department of Rehabilitation			<u>201,208</u>
Passed through Santa Ana Unified School District (SAUSD):			
Gear Up Program	84.334	P334A990398	207,447
Total passed through SAUSD			<u>\$ 207,447</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Federal Awards	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
<u>Federal Agency/Pass-through Entity/Program Name</u>			
Passed through University of California, Irvine (UCI):			
Gear Up II Program	84.334	P334A020290	\$ 31,284
Total passed through UCI			<u>31,284</u>
Total U.S. Department of Education			<u>13,517,946</u>
U.S. Department of Health and Human Services (HHS):			
Direct:			
Infant and Toddler Playground	93.575		3,758
Infant/Toddler Child Care Res Program II	93.575		3,036
Total direct from HHS			<u>6,794</u>
Passed through CDE:			
Temporary Assistance for Needy Families (TANF)	93.558		179,480
Total U.S. Department of HHS			<u>186,274</u>
U.S. Department of Labor (DOL):			
Workforce Investment Act	17.258		131,028
Total U.S. Department of Labor:			<u>131,028</u>
U.S. Department of Agriculture (USDA):			
Child Care Food Program	10.558		165,181
Total U.S. Department of Agriculture			<u>165,181</u>
Corporation of National and Community Service (CNCS):			
Learn and Serve America	94.005		93,848
Americorps:Foster Youth Mentor	94.006		24,474
Total CNCS			<u>118,322</u>
Economic Development Administration (EDA):			
Digital Media Incubator	11.307		306,260
Total Economic Development Administration			<u>306,260</u>
National Aeronautics and Space Administration (NASA):			
NASA Santa Ana College Planetarium	43.001		219,664
Total NASA			<u>219,664</u>
U.S. Department of Small Business Administration:			
Passed through State of California Trade and Commerce:			
California Small Business Development Center (SBDC)	59.037		256,580
Total U.S. Department of Small Business Administration			<u>256,580</u>
U.S. Department of Veterans Affairs:			
Business Operations	64.120		2,744
Total U.S. Department of Veterans Affairs			<u>2,744</u>
Total Federal Awards			<u>\$ 14,903,998</u>

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

State Financial Assistance

Program Name	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Receivable (Payable)	Deferred Revenue	Total	
AB1725 - Faculty and Staff Diversity	\$ 28,812	\$ 25,607	\$ 54,419	\$ 54,419	\$ -	\$ 2,168	\$ 52,251	\$ 52,251
AB1725 - Staff Development	-	37,131	37,131	37,350	-	22,972	14,378	14,378
Associate Degree Nursing Program	73,651	-	73,651	112,339	11,195	49,882	73,652	73,652
Disabled Student Program and Services (DSPS)	1,797,500	-	1,797,500	1,808,179	-	14,789	1,793,390	1,793,390
California Technology Trade & Commerce	73,133	-	73,133	73,133	-	-	73,133	73,133
California Articulation Number System	10,000	385	10,385	10,385	-	-	10,385	10,385
Cal Grant	1,013,000	15,000	1,028,000	974,650	-	87,695	886,955	886,955
CalWorks	796,300	-	796,300	796,300	-	-	796,300	796,300
Care Program	148,605	-	148,605	147,139	-	4,298	142,841	142,841
Center for International Trade Development	181,898	151	182,049	219,372	-	7,847	211,525	211,525
Chancellors Office Center for Excellence	238,830	-	238,830	256,583	-	51,186	205,397	205,397
Child Development Center	2,533,567	-	2,533,567	2,246,286	75,586	34,827	2,287,045	2,287,045
Economic Development Regional Marketing	-	4,374	4,374	-	4,368	-	4,368	4,368
Economic Development Program Workplace Learning Resource Center	204,086	-	204,086	232,706	-	37,736	194,970	194,970
Extended Opportunity Program and Services (EOPS)	1,819,017	50	1,819,067	1,819,067	-	1,472	1,817,595	1,817,595
Funds for Student Success	9,287	-	9,287	9,287	-	-	9,287	9,287
Harzadous Substance	340,787	-	340,787	141,631	-	-	141,631	141,631
MDTP-California Mathematics Diagnostic Testing Project	31,917	-	31,917	10,553	21,138	-	31,691	31,691
Math, Engineer and Science Achievement Program	37,897	-	37,897	37,897	(578)	-	37,319	37,319
Matriculation	2,905,795	-	2,905,795	2,893,232	-	479,740	2,413,492	2,413,492
O C Small Business Development Center-Economic Development Program	140,550	-	140,550	140,550	-	-	140,550	140,550
Ready Fors	12,022	350	12,372	(263)	9,996	-	9,733	9,733
Return to Title IV Funding	71	-	71	71	-	-	71	71
Santa Ana Middle College High School	247,031	-	247,031	87,888	46,619	-	134,507	134,507
State Fund for Instructional Materials	326,775	-	326,775	455,486	-	100,336	355,150	355,150
Student Financial Aid Administration	939,966	-	939,966	939,966	-	510,181	429,785	429,785
Teacher and Reading Development Partnership	127,479	-	127,479	105,870	20,988	-	126,858	126,858
State Block Grant	18,258	-	18,258	18,258	-	-	18,258	18,258
Transfer and Articulation	57	-	57	57	-	-	57	57
Telecommunication Technology Infrastructure Program (TTIP)	156,338	458,630	614,968	614,968	-	471,541	143,427	143,427
Total	\$ 14,212,629	\$ 541,678	\$ 14,754,307	\$ 14,243,359	\$ 189,312	\$ 1,876,670	\$ 12,556,001	\$ 12,556,001

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM BASED
FUNDING AND ANNUAL APPRENTICESHIP HOURS OF INSTRUCTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

<u>Full Time Equivalent Students</u>	<u>Residents</u>	<u>Non- Residents</u>	<u>Total Reported Annual FTES</u>
A. Credit Full-Time Equivalent Students (FTES)			
1. Weekly census	13,567	483	14,050
2. Daily census	860	27	887
3. Actual hours of attendance	2,903	92	2,995
4. Independent study/work experience			
a. Weekly	536	13	549
b. Daily	124	6	130
5. Summer intersession	1,860	59	1,919
Total	<u>19,850</u>	<u>680</u>	<u>20,530</u>
B. Noncredit FTES			
1. Actual hours of attendance	8,038	2	8,040
2. Summer intersession	915	-	915
Total	<u>8,953</u>	<u>2</u>	<u>8,955</u>
Total FTES	<u><u>28,803</u></u>	<u><u>682</u></u>	<u><u>29,485</u></u>

Gross Square Footage

C. Existing facilities 812,230

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH DISTRICT ACCOUNTING RECORDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	General Fund	Capital Projects Funds
June 30, 2004 Annual Financial and Budget Report (Form CCFS 311) Fund Balances	\$ 17,097,936	\$ 43,712,508
<u>Adjustments and reclassifications</u>		
Adjustment to federal revenue	155,315	-
Adjustment to state revenue	(22,462)	-
Adjustment to capital outlay expenditures	-	(218,640)
Net adjustments and reclassifications	132,853	(218,640)
June 30, 2004 Fund Balances per the District's Accounting Records	\$ 17,230,789	\$ 43,493,868

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
ANNUAL RECONCILIATION WITH THE STATEMENT OF NET ASSETS AND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Description	General Fund	Special Revenue Funds		Bond Interest and Redemption Fund	Capital Projects Funds	Internal Services Funds		Fiduciary Funds			Total
		Child Development Fund	Bookstore Fund			Self-Insurance Fund	Other Internal Services Fund	Associated Students Trust Fund	Student Financial Aid Trust Fund	Other Trust Fund	
REVENUES:											
Federal Revenues	\$ 8,146,336	\$ 171,975	\$ -	\$ -	\$ 306,258	\$ -	\$ -	\$ -	\$ 6,279,427	\$ -	\$ 14,903,996
State Revenues	49,075,800	2,548,039	-	88,179	1,709,772	-	-	-	975,706	-	54,397,496
Local Revenues	72,580,512	322,085	7,244,126	6,866,554	310,684	-	-	141,058	32,680	1,253,853	88,751,552
TOTAL REVENUES	129,802,648	3,042,099	7,244,126	6,954,733	2,326,714	1,703,692	2,812,908	141,058	7,287,813	1,253,853	162,569,644
EXPENDITURES:											
Academic Salaries	53,079,268	1,493,427	-	-	-	-	-	-	-	-	54,572,695
Classified Salaries	32,342,982	754,078	896,825	-	-	-	-	12,198	-	355,516	34,361,599
Employee Benefits	22,772,664	786,815	257,857	-	-	-	7,576,000	283	-	75,779	31,469,398
Supplies and Materials	2,239,821	156,227	5,263,387	-	3,605	7,438	-	-	-	1,520	7,671,998
Other Operating Expenses and Services	14,379,643	41,294	233,153	-	388,926	2,384,777	4,070	64,633	36,385	776,966	18,309,847
Capital Outlay	2,086,756	26,217	75,294	-	25,175,335	36,299	-	-	-	181,076	27,580,977
TOTAL EXPENDITURES	126,901,134	3,258,058	6,726,516	-	25,567,866	2,428,514	7,580,070	77,114	36,385	1,390,857	173,966,514
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,901,514	(215,959)	517,610	6,954,733	(23,241,152)	(724,822)	(4,767,162)	63,944	7,251,428	(137,004)	(11,396,870)
NET OTHER FINANCING SOURCES (USES)	(2,781,648)	(60,536)	(200,600)	(2,756,687)	(844,710)	781,864	-	25,000	(7,186,455)	175,600	(12,848,172)
NET INCREASE (DECREASE) IN FUND BALANCE	119,866	(276,495)	317,010	4,198,046	(24,085,862)	57,042	(4,767,162)	88,944	64,973	38,596	(24,245,042) A
BEGINNING FUND BALANCE:											
Net Beginning Balance, July 1	17,046,924	437,850	2,717,240	-	68,575,370	2,766,085	49,795	298,431	1,669,985	983,693	94,545,373
Prior Years Adjustments	(68,854)	(138,718)	-	(939,911)	(777,000)	-	-	-	-	-	(1,924,483)
Adjusted Beginning Balance	16,978,070	299,132	2,717,240	(939,911)	67,798,370	2,766,085	49,795	298,431	1,669,985	983,693	92,620,890
ENDING FUND BALANCE, JUNE 30, 2004	\$ 17,097,936	\$ 22,637	\$ 3,034,250	\$ 3,258,135	\$ 43,712,508	\$ 2,823,127	\$ (4,717,367)	\$ 387,375	\$ 1,734,958	\$ 1,022,289	68,375,848
RECONCILIATION TO INCREASE IN NET ASSETS											
A Net Decrease in Fund Balance	(24,245,042)										
Capitalized assets	43,528,830										
Depreciation expense	(5,269,467)										
Loss on capital assets disposal	(438,426)										
Increase in compensated balances	(155,151)										
Adjustment of federal revenue	155,315										
Adjustment of state revenue	(22,462)										
Adjustment of local expenditures	(218,640)										
Principal debt payments	421,334										
Bond issuance costs	(57,187)										
Premium from sales of bond	108,221										
INCREASE IN NET ASSETS	\$ 13,807,325										
RECONCILIATION TO NET ASSETS											
Capital assets, net											152,595,999
Compensated balances, long-term											(2,827,374)
Capital lease											(642,400)
Bond payable											(98,939,655)
Bond issuance cost											1,487,015
Adjustment of federal revenue											155,315
Adjustment of state revenue											(22,462)
Adjustment of local revenue											(218,640)
Notes payable balance											(226,600)
NET ASSETS, JUNE 30, 2004											\$ 119,737,046

See accompanying note to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004 (WITH COMPARATIVE TOTALS AS OF JUNE 30, 2003)

	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	
				2004	2003
Assets					
Current assets					
Cash and cash equivalents	\$ 1,257,268	\$ 213,332	\$ 100,264	\$ 1,570,864	\$ 1,844,668
Accounts receivable	500	3,243	762	4,505	17,768
Pledges receivable	-	2,242	-	2,242	2,944
Investments	874,197	439,044	3,115,406	4,428,647	3,421,797
Prepaid expenses	-	-	4,598	4,598	2,373
Total current assets	<u>2,131,965</u>	<u>657,861</u>	<u>3,221,030</u>	<u>6,010,856</u>	<u>5,289,550</u>
Fixed assets, net	-	318	-	318	2,921
Total Assets	<u>\$ 2,131,965</u>	<u>\$ 658,179</u>	<u>\$ 3,221,030</u>	<u>\$ 6,011,174</u>	<u>\$ 5,292,471</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities					
Accounts payable	\$ 2,865	\$ 2,610	\$ 4,117	\$ 9,592	\$ 9,375
Due to organizations	66,113	31,210	4,079	101,402	95,374
Total liabilities	<u>68,978</u>	<u>33,820</u>	<u>8,196</u>	<u>110,994</u>	<u>104,749</u>
Net Assets					
Unrestricted	232,115	283,810	53,731	569,656	527,351
Temporarily restricted					
Programmatic support	988,420	53,122	-	1,041,542	854,646
Scholarships	696,896	287,427	-	984,323	996,616
Endowment	145,556	-	3,159,103	3,304,659	2,809,109
Total temporarily restricted	<u>1,830,872</u>	<u>340,549</u>	<u>3,159,103</u>	<u>5,330,524</u>	<u>4,660,371</u>
Total net assets	<u>2,062,987</u>	<u>624,359</u>	<u>3,212,834</u>	<u>5,900,180</u>	<u>5,187,722</u>
Total Liabilities and Net Assets	<u>\$ 2,131,965</u>	<u>\$ 658,179</u>	<u>\$ 3,221,030</u>	<u>\$ 6,011,174</u>	<u>\$ 5,292,471</u>

See accompanying note to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS COMBINING STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2003)

	UNRESTRICTED FUNDS				TEMPORARILY RESTRICTED FUNDS				Total	
	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	2004	2003
	Support and revenue									
Support:										
Contributions	\$ 37,819	\$ 1,355	\$ 500	\$ 39,674	\$ 346,061	\$ 85,717	\$ 1,400	\$ 433,178	\$ 472,852	\$ 932,745
Special event (net of expenses of \$109,823 for 2004 and \$144,729 for 2003)	-	19,556	66,489	86,045	44,790	21,707	-	66,497	152,542	56,191
Contributions from affiliated foundation	10,845	10,845	-	21,690	2,100	1,800	-	3,900	25,590	3,000
Donated services	208,104	156,617	7,205	371,926	-	-	-	-	371,926	345,912
Donated facilities	5,532	6,330	-	11,862	-	-	-	-	11,862	11,862
Total support	262,300	194,703	74,194	531,197	392,951	109,224	1,400	503,575	1,034,772	1,349,710
Revenue:										
Interest and dividends	17,019	4,001	410	21,430	17,479	11,107	739	29,325	50,755	58,085
Unrealized gain (loss) on investments	33,556	33,985	6,383	73,924	14,636	(5,698)	-	8,938	82,862	(7,972)
Realized gain (loss) on investments	(934)	430	(2,387)	(2,891)	707	(162)	-	545	(2,346)	(21,524)
Management fees	-	1,644	-	1,644	-	-	-	-	1,644	1,444
Other revenue	-	1,010	14,828	15,838	-	-	-	-	15,838	1,852
Total revenue	49,641	41,070	19,234	109,945	32,822	5,247	739	38,808	148,753	31,885
Total support and revenue before net assets released from restrictions	311,941	235,773	93,428	641,142	425,773	114,471	2,139	542,383	1,183,525	1,381,595
Net assets released from restrictions	221,078	72,979	57,507	351,564	(221,078)	(72,979)	(57,507)	(351,564)	-	-
Total support and revenue after net assets released from restrictions	533,019	308,752	150,935	992,706	204,695	41,492	(55,368)	190,819	1,183,525	1,381,595
Expenses										
Program services	465,753	124,355	37,938	628,046	-	-	-	-	628,046	626,297
Supporting services:										
Management and general	81,343	108,344	2,601	192,288	-	-	-	-	192,288	133,974
Fundraising	102,190	25,943	1,934	130,067	-	-	-	-	130,067	134,693
Total expenses	649,286	258,642	42,473	950,401	-	-	-	-	950,401	894,964
Excess (deficit) of support and revenue over expenses	(116,267)	50,110	108,462	42,305	204,695	41,492	(55,368)	190,819	233,124	486,631
Capital additions/(reductions) on Endowment Grant										
Interest and dividends	-	-	-	-	-	-	58,068	58,068	58,068	53,604
Realized (loss) gain on investments	-	-	-	-	-	-	115,972	115,972	115,972	(95,237)
Unrealized gain on investments	-	-	-	-	-	-	305,294	305,294	305,294	39,257
Total capital additions (reductions)	-	-	-	-	-	-	479,334	479,334	479,334	(2,376)
Total support and revenue (under) over expenses after capital additions (reductions)	(116,267)	50,110	108,462	42,305	204,695	41,492	423,966	670,153	712,458	484,255
Net assets - beginning of year	348,382	233,700	(54,731)	527,351	1,626,177	299,057	2,735,137	4,660,371	5,187,722	4,703,467
Net assets - end of year	\$ 232,115	\$ 283,810	\$ 53,731	\$ 569,656	\$ 1,830,872	\$ 340,549	\$ 3,159,103	\$ 5,330,524	\$ 5,900,180	\$ 5,187,722

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2004 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General - The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from Federal agencies as well as federal awards passed through other government agencies are included in the schedule.
- Basis of Accounting - The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.
- Federal Family Education Loans (FFEL) – The District participates in the U.S. Department of Education (DOE) FFEL program where students obtain loans from eligible lenders (e.g. banks, savings, and loan institutions, etc.). These distributions are not included as revenue and expense in the accompanying basic financial statements or the Schedule of Expenditures of Federal Awards and the amount distributed in the fiscal year 2004 is \$1,026,223.
- Federal Perkins Loan Program - The District participates in the DOE federal Perkins loan program and distributed \$98,775 in fiscal year 2004. These distributions are not included as revenue and expense in the accompanying basic financial statements or the Schedule of Expenditures of Federal Awards. The loan receivable at June 30, 2004 was \$655,856.

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements. State awards received directly from State agencies as well as State awards passed through other government agencies are included in the schedule.

Schedule of Workload Measures for Program Based Funding and Annual Apprenticeship Hours of Instruction

The Schedule of Workload Measures for Program Based Funding and Annual Apprenticeship Hours of Instruction represents the basis of the base revenue calculation of the District's annual source of funding.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTE TO THE SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 1 - PURPOSE OF SCHEDULES (CONTINUED)

Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records

This schedule provides the information necessary to reconcile the fund equity of all funds reported on the Form CCFS-311 to the District's accounting records in accordance with the state Budget and Accounting Manual.

Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

This schedule provides financial information to the State Chancellor's Office of the fund equity of all funds of the District. A reconciliation is provided to reconcile the CCFS-311, which is on a modified accrual basis of accounting to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets, which is on the accrual basis of accounting.

Combining Statements for Discretely Presented Component Units

These statements represent the combining statements of financial position, and statement of activities for the Santa Ana College Foundation, the Santiago Canyon College Foundation and the Rancho Santiago Community College District Foundation.



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

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

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information of the District's management, the Board of Trustees, and the District's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marcin Jini & Company LLP

Certified Public Accountants

Los Angeles, California

November 12, 2004



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND 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 the compliance of the Rancho Santiago Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the fiscal year ended June 30, 2004.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the District's management, the Board of Trustees, and the District's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marcus Fine & Company LLP

Certified Public Accountants

Los Angeles, California
November 12, 2004



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**INDEPENDENT AUDITOR'S REPORT ON
STATE COMPLIANCE REQUIREMENTS**

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

We have audited the basic financial statements of the Rancho Santiago Community College District (the District) for the fiscal year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. Our audit was made 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* and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we have examined, with respect to compliance with applicable laws and regulations, those items specified in the Contracted District Audit Manual. The objective of the examination of compliance applicable to the District is to provide reasonable assurance that the following State requirements are met:

Program Area Tested

Compliance Requirement

Required Data Elements

Each District shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment: Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance and Apprenticeship courses, Noncredit FTES in actual hour of attendance courses, Credit Student Headcount Data (both new and continuing) and Gross Square Footage and FTES Growth in New Facilities.

Salaries of Classroom Instructors

Each District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education (CEE) in accordance with Section 84362 of the Education Code.

Concurrent Enrollment

Districts are authorized to claim FTES for concurrent enrollment of K-12 pupils if certain requirements are met.

Residency Determination

Districts internal fiscal controls should ensure the state apportionment for credit courses is only claimed for student attendance allowed by the State statute and regulation.

Program Area Tested

Compliance Requirement

Enrollment Fees

Districts are required to report the total amount the students should have paid for enrollment fees for purposes of determining their share of apportionments annually.

Uses of Matriculation Funds

Districts are required to use local funds to support at least 75 percent of the matriculation activities with the remaining expenditures claimable against the State matriculation allocation. All expenditures related to the allocation, both State and local funded portions, must be consistent with the District's State approved matriculation plan and identifiable within the ten activities claimable against State matriculation funds.

Districts must use the annual State matriculation allocation to expand levels of services that were in place in 1986-87, or to add entirely new services. The State allocation may not be used to supplant District funded services, including personnel costs that existed in 1986-87 or before.

Apportionment for Instructional
Service Agreements/Contracts

The District can claim FTES for classes given through instructional service agreements/contracts provided certain requirements are met. These requirements include a written agreement, instruction of approved programs, publishing of courses, qualification of instructors and control, supervision and responsibility over the educational programs.

Allocation of Costs

Salaries of instructors teaching FTES-generating classes, school counselors providing academic advisement, and financial aid officers conducting needs analyses are not considered supportable charges against either extended opportunity programs and services (EOP&S) or disabled student programs and services (DSP&S) accounts unless their activities require time to perform additional functions for the EOP&S or DSP&S programs which are beyond the scope of services provided to all students in the normal performance of the regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S or DSP&S.

EOP&S Administrator/Director
Requirements

Districts accepting EOP&S funds are required to contribute from non-EOP&S sources the salary of the EOP&S director/administrator at the rate of 100 percent of salary and benefits for formal program activities associated with the implementation and operation of EOP&S specific activities over-and-above general supervision of EOP&S activities.

Gann Limit Calculation

Community college districts shall calculate appropriation limits annually and adopt them in public meetings.

Program Area Tested

Compliance Requirement

Disabled Student Programs
and Services Program (DSP&S)

Districts accepting DSP&S funds shall operate within the program requirements as identified in Sections 56000-56088 of Title 5 of the California Code of Regulations.

Scheduled Maintenance Program

Districts accepting scheduled maintenance funds are required to perform timely repair and maintenance of facilities, to correct and avoid health and safety hazards, to maintain an environment conducive to learning, and to improve long-term cost effectiveness of facility operations.

Open Enrollment

Districts shall adopt by resolution a policy related to open courses, in addition a statement of this policy shall be published in the official catalog, and/or schedule of classes, and addenda to the schedules of classes for which full-time equivalent students is reported for state apportionment. Each District shall file a copy of the statement with the Chancellor.

As described in item 04-1 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding the concurrent enrollment. Compliance with such requirement is necessary, in our opinion, for the District to comply with the requirements specified above.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied in all material respects, with the requirements specified above for the fiscal year ended June 30, 2004.

This report is intended solely for the information of the District's management, the Board of Trustees, and the District's state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Marcus Dini & Company LLP

Certified Public Accountants

Los Angeles, California
November 12, 2004

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Part I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes None reported

Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes No

Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A- 133? _____ Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.002	Adult Basic Education
	Student Financial Aid Cluster:
84.007	Supplementary Educational Opportunity Grants
84.033	Federal Work Study
84.038	Federal Perkins Loan
84.063	Pell Grants
84.032	Federal Family Education Loans

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Dollar threshold used to distinguish between Type A and Type B programs: \$447,120

Auditee qualified as low-risk auditee? Yes No

State Awards

Internal control over state programs:
 Material weakness(es) identified? Yes No
 Reportable condition(s) identified that are not considered to be material weakness(es)? Yes None reported

Type of Auditor's report issued on compliance for state programs: *Qualified*

Part II - Financial Statement Findings Section

No matters were reported.

Part III – Federal Award Findings Section

No matters were reported.

Part IV - State Findings Section

04-1. Concurrent Enrollment – Absence of Parental Consent

Condition

California Education Code 48808(a), states that community colleges should verify the K-12 student's parental consent.

Of the seventy (70) students selected for testing, the following exceptions were noted: a) Career Advanced Placement Program Forms and Application for Admission Forms could not be located for three (3) of the students at Santiago Canyon College; b) Of the remaining sixty-seven (67) students tested, there were no parent signatures on the Career Advanced Placement Program Forms for three (3) K-12 students at Santa Ana College and ten (10) K-12 students at Santiago Canyon College.

Recommendation

The Admission and Records Offices of both colleges should require all K-12 students to submit their Career Advanced Placement Program Forms and Application for Admission Forms upon admission to the college. Career Advanced Placement Program forms should be signed by both the students' parents and their high school principals and maintained at each Admission and Records Office.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

04-1. Concurrent Enrollment – Absence of Parental Consent (Continued)

Responses

Santa Ana College:

The "old" CAP form for 10th grade and higher required only the Principal's signature. The District has reviewed, revised, and updated its CAP form procedures to be in compliance with the ED Code as of January 2004.

Santiago Canyon College:

The "old" CAP form for 10th grade and higher required only the Principal's signature. The District has reviewed, revised, and updated its CAP form procedures to be in compliance with the ED Code as of January 2004. In the mean time, the Admission and Office will enforce the procedure to ensure all students' application forms are properly maintained.