

**RANCHO SANTIAGO  
COMMUNITY COLLEGE DISTRICT**

**Annual Financial Report and Single Audit Reports - Restated**

**For the Fiscal Year Ended June 30, 2006**

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
ORGANIZATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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 will (SCC will one), 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 Centennial Education Center, the Marketplace Education Center, and the Orange Education Center.

**Board of Trustees**

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Mr. Alfredo Amezcua	President	2008
Mr. John R. Hanna	Vice President	2006
Mr. Phillip E. Yarbrough	Clerk	2006
Dr. R. David Chapel	Member	2008
Mr. Brian E. Conley	Member	2008
Mr. Lawrence R. Labrado	Member	2006
Ms. Lisa Woolery	Member	2008
Mr. Erik Santacruz	Student Trustee	2006

**District Administrators**

<u>Name</u>	<u>Title</u>
Dr. Edward Hernandez, Jr.	Chancellor
Dr. Erlinda Martinez	President of Santa Ana College
Mr. Juan Vazquez	President of Santiago Canyon College
Mr. John Didion	Executive Vice Chancellor of Human Resources/Educational Services
Ms. Ann-Marie Gabel	Interim Vice Chancellor, Business Operations & Fiscal Services*

\*Effective July 17, 2006, Peter Hardash became the Vice Chancellor, Business Operations & Fiscal Services.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
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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 year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Rancho Santiago Community College District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 - 16 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 inquiries 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.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

October 20, 2006

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

**INTRODUCTION**

The following discussion and analysis provides an overview of the financial position and activities of the Rancho Santiago Community College District (the "District") for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is reporting according to the standards of Governmental Accounting Standards Board Statements No. 34 and 35 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office, through its Fiscal Accountability Standards Committee, recommended that all community college districts use the reporting standards under the BTA model.

Rancho Santiago Community College District includes two comprehensive community colleges, including a large continuing education program. The mission of the District is to respond to the educational needs of an ever-changing community and to provide programs and services that reflect academic excellence. The District's two colleges promote open access and celebrate the diversity of both its students and staff, as well as the community. Santa Ana College and Santiago Canyon College offer associate degrees, vocational certificates and transfer education, as well as developmental instruction and a broad array of specialized training. The continuing education programs offer non-college credit programs including high school diploma completion, basic skills, vocational certificates and self-development courses. Specific activities in both the colleges and continuing education will be directed toward economic development within the community.

**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 (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, 2006 and 2005. 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. Component unit activity for the District consists of the three related foundations: (1) the Santa Ana College Foundation, (2) the Santiago Canyon College Foundation and (3) the Rancho Santiago Community College District Foundation.

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

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

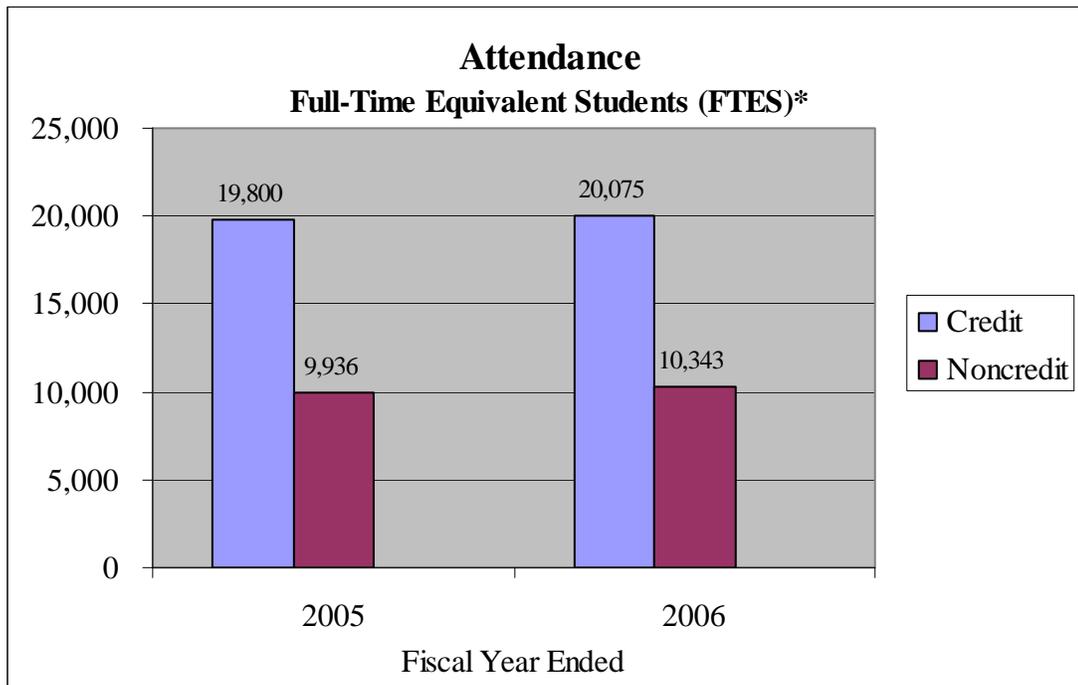
Each one of these statements will be discussed.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

**Attendance Highlights**

*Fiscal year ended 2006 compared to 2005*

- Total attendance at Santa Ana College and Santiago Canyon College increased by 2.3%. The increase came from noncredit attendance, which increased by 4.1%. Credit attendance increased by 1.4%.



\* -- Full-time equivalent students is based on the District's annual Apportionment Attendance Report, form CCFS-320 filed with the state system. Credit and noncredit represent factored FTES.

**Financial Highlights**

**Statement of Net Assets**

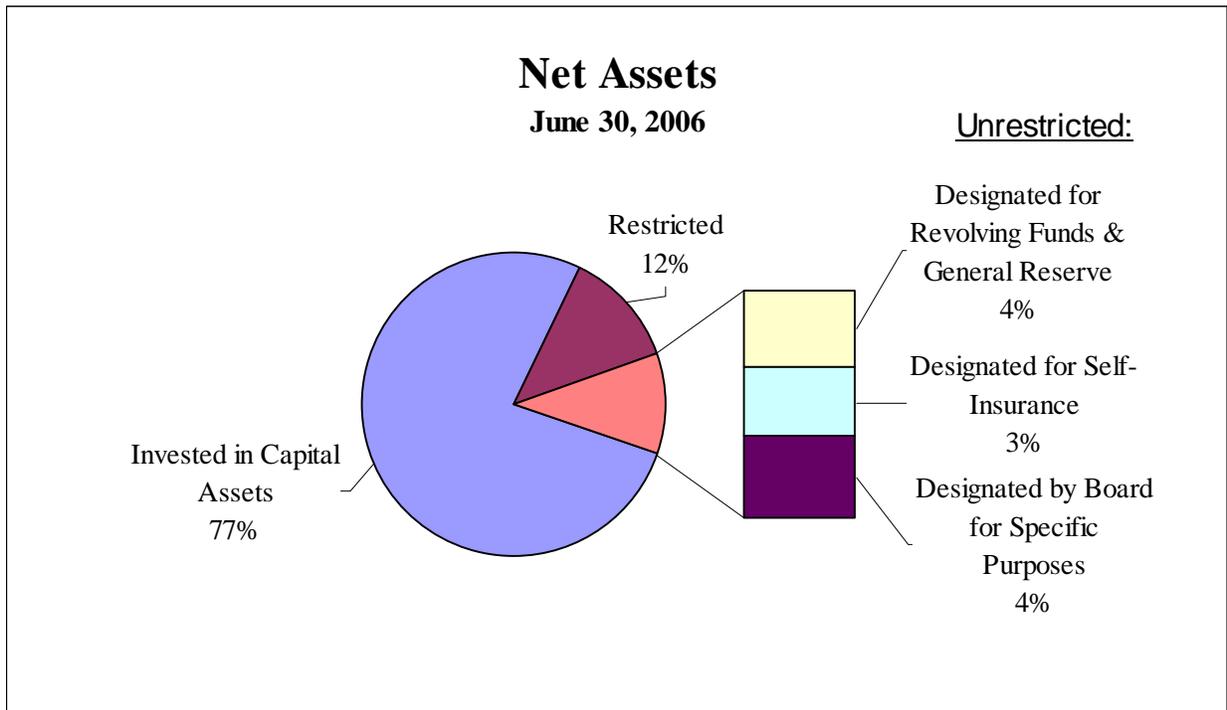
The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statement of Net Assets is a point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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

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

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

The Net Assets (formerly called fund balance) are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the equity amount in property, plant and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District. The following chart depicts these three major categories.



**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

**The Statement of Net Assets as of June 30, 2006 and 2005 is summarized below:**

	(in thousands)		2005 to 2006
<b>ASSETS</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 175,656	\$ 199,861	-12.11%
Receivables	13,680	15,839	-13.63%
Inventory & other assets	2,106	1,917	9.86%
Total current assets	<u>191,442</u>	<u>217,617</u>	-12.03%
<b>Noncurrent Assets:</b>			
Other assets	3,360	3,675	-8.57%
Capital assets, net	228,468	182,444	25.23%
Total noncurrent assets	<u>231,828</u>	<u>186,119</u>	24.56%
Total assets	<u>\$ 423,270</u>	<u>\$ 403,736</u>	4.84%
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payables & accrued liabilities	\$ 25,050	\$ 18,749	33.61%
Deferred revenue	3,445	2,792	23.39%
Long-term liabilities-current portion	646	883	-26.84%
Bonds payable	7,496	6,916	8.39%
Amounts held in trust for others	915	765	19.61%
Total current liabilities	<u>37,552</u>	<u>30,105</u>	24.74%
<b>Noncurrent Liabilities:</b>			
Long-term liabilities, noncurrent portion	30,106	25,167	19.62%
Bonds payable	215,451	218,137	-1.23%
Total noncurrent liabilities	<u>245,557</u>	<u>243,304</u>	0.93%
Total Liabilities	<u>283,109</u>	<u>273,409</u>	3.55%
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	108,034	91,939	17.51%
Restricted	17,474	21,912	-20.25%
Unrestricted	14,653	16,476	-11.06%
Total net assets	<u>140,161</u>	<u>130,327</u>	7.55%
Total liabilities and net assets	<u>\$ 423,270</u>	<u>\$ 403,736</u>	4.84%

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

*Fiscal year ended 2006 compared to 2005*

- Cash and cash equivalents consists mainly of cash in the County Treasury (\$159.8 million) and Local Agency Investment Fund (LAIF, \$11.7 million). Cash decreased by \$24.2 million from the prior year mainly due to cash outflows on bond construction projects. At June 30, 2006, cash in the County Treasury related to bond activities was \$106.9 million.
- Receivables consist mainly of receivables from state and federal grants in which the District has earned funds that were not yet received as of the fiscal year end. Receivables decreased by \$2.2 million, due to a change in apportionment and only the final quarter for lottery revenue since the State paid lottery more timely this year.
- Inventory and other assets is mainly bookstore inventory; it increased \$0.2 million due to textbook price increases and additional class sections offered.
- Other assets, noncurrent portion consists mainly of deferred bond issuance costs, which increased \$0.3 million due to the additional issuance cost from the Series B bonds and the refunding of Series A bonds.
- Capital assets, net are the 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. Capital assets, net increased by \$46.0 million primarily due to the construction in progress of the Digital Media Center, the Learning Resource Center and the Public Safety Institute.
- Accounts payable and accrued liabilities consists mainly of payables to vendors (\$11.3 million), bond interest payable (\$3.1 million), and accrued payroll (\$6.8 million). The increase of \$6.4 million is predominantly due to payables to vendors related to construction activities.
- 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. The District must spend a dollar to earn a dollar. This balance will fluctuate yearly depending on our ability to accomplish the various grant goals throughout the year.
- Bonds payable, current portion consists of the second principal payment for the Series A bond, due September 2006 (\$6.9 million) and the current portion of the bond premium (\$0.8 million).
- Long-term liabilities, noncurrent portion is all of the long-term debt that is due to be paid in one year or later. It currently consists of accrued vacation payable (\$3.2 million), post-employment benefits payable (\$26.2 million) and notes payable (\$0.1 million). The increase of \$4.9 million consists mainly of the \$5.0 million increase to post-employment benefits. This relates to funding the District's retiree health benefit obligation based on a recent actuarial study in accordance with GASB Statement 45.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

- Bonds payable consists of the noncurrent portions of the bond principal payable (\$83.8 million, Series A and \$120.0 million, Series B) and bond premium (\$6.0 million, Series A and \$8.8 million, Series B). The decrease of \$2.6 million relates to the deferred amount on refunding of Series A bonds in August 2005, which is the difference between the reacquisition price and the net carrying amount of the old debt.

**Statement of Revenues, Expenses and Changes in Net Assets**

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present the operating and nonoperating expenses incurred whether paid or not, by the District. Thus, this Statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Nonoperating revenues are those received or pledged for which goods and services are not provided; for example, state appropriations while budgeted for operations, are considered nonoperating revenue according to generally accepted accounting principles because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

**The Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2006 and 2005 is summarized below:**

	(in thousands)		2005 to 2006
<b>REVENUES</b>	<b>2006</b>	<b>2005</b>	<b>Change</b>
Operating revenues:			
Net tuition and fees	\$ 11,071	\$ 10,518	5.26%
Grants and contracts, non-capital	34,130	32,974	3.51%
Auxiliary enterprise sales and charges	7,311	7,020	4.15%
Interest on student loans	6	4	50.00%
Total operating revenues	<u>52,518</u>	<u>50,516</u>	3.96%
 <b>EXPENSES</b>			
Operating expenses:			
Salaries	100,790	92,764	8.65%
Employee benefits	30,425	28,644	6.22%
Supplies, materials, other operating expenses and services	39,891	36,199	10.20%
Utilities	3,509	3,206	9.45%
Depreciation	7,555	5,850	29.15%
Total operating expenses	<u>182,170</u>	<u>166,663</u>	9.30%
Operating loss	<u>(129,652)</u>	<u>(116,147)</u>	11.63%
 <b>NONOPERATING REVENUES (EXPENSES)</b>			
State apportionments, noncapital	62,767	58,300	7.66%
Local property taxes	50,804	47,023	8.04%
State taxes and other revenues	5,244	4,660	12.53%
Interest income, noncapital	7,818	3,390	130.62%
Other nonoperating revenues (expenses), net	<u>(8,282)</u>	<u>(4,780)</u>	73.26%
Total nonoperating revenues (expenses)	<u>118,351</u>	<u>108,593</u>	8.99%
Loss before capital revenues	<u>(11,301)</u>	<u>(7,554)</u>	49.60%
State grants, contracts, taxes and local property taxes, capital	20,118	17,989	11.84%
Federal grant and contract, capital	<u>1,017</u>	<u>156</u>	551.92%
Increase in net assets	9,834	10,591	-7.15%
 <b>NET ASSETS</b>			
Net assets-beginning of year	<u>130,327</u>	<u>119,736</u>	8.85%
Net assets-end of year	<u>\$ 140,161</u>	<u>\$ 130,327</u>	7.55%

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

*Fiscal year ended 2006 compared to 2005*

- Net tuition and fees consists of enrollment fees (\$11.7 million), nonresident tuition (\$2.0 million), and all other fees (\$1.7 million) less scholarships discounts and allowances (\$4.3 million). Enrollment fees charged remained constant for the previous two years as shown below:

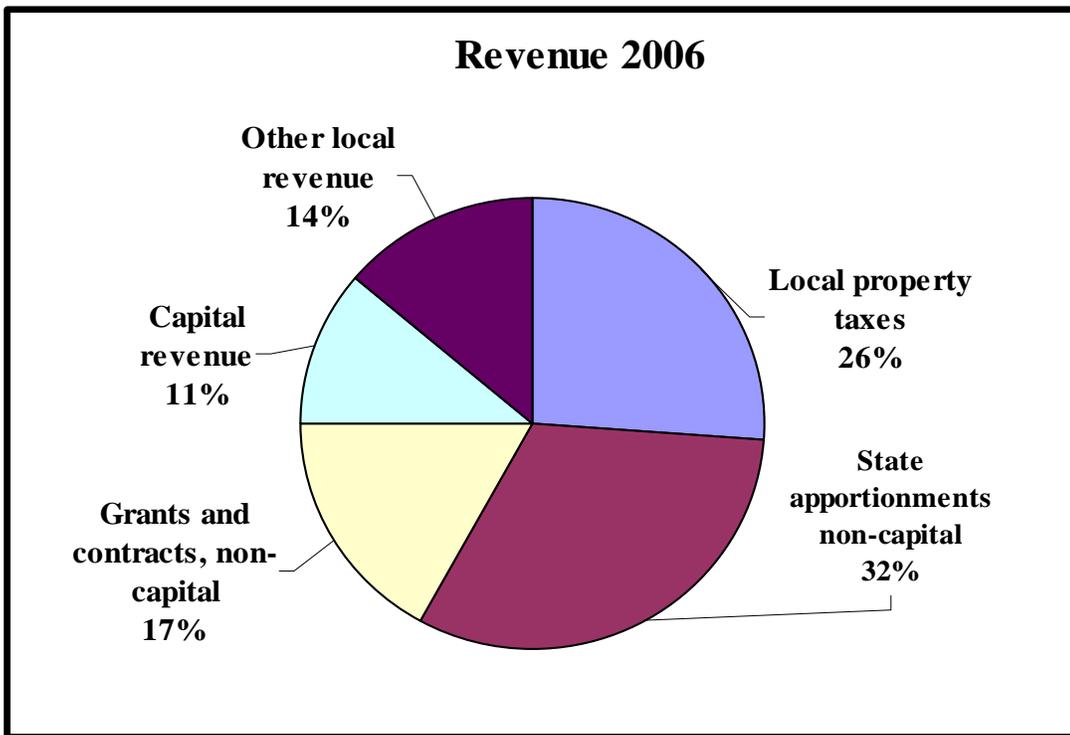
<u>Fiscal Year</u>	<u>Statewide Enrollment Fees</u>	<u>Percentage Increase</u>
2003-04	\$18.00/unit	
2004-05	26.00/unit	44%
2005-06	26.00/unit	0%

This rate is annually set by the state for all California community colleges. Enrollment fees are included in the calculation of general apportionment. The nonresident tuition fee increased from \$149 per unit to \$151 per unit. Capital outlay fee remained constant at \$8 per unit, amounting to \$159 per unit total.

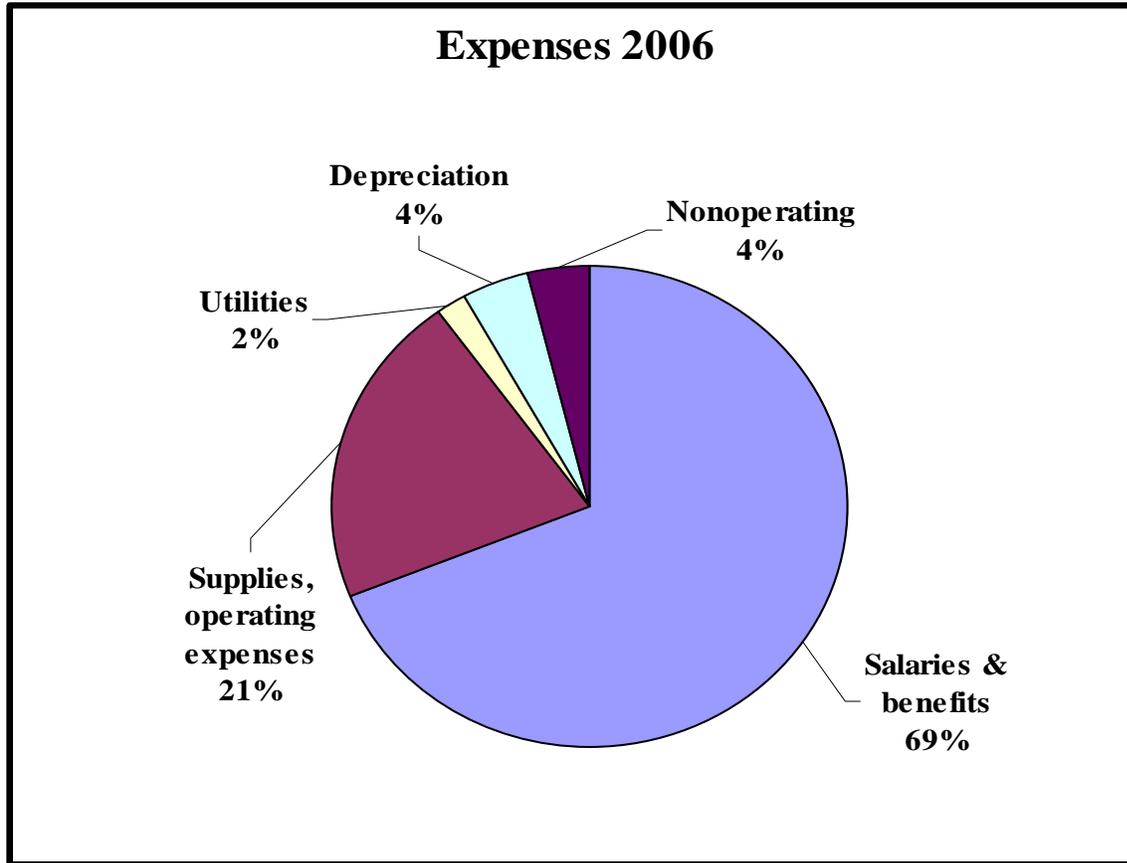
- Grants and contracts, noncapital increased \$1.2 million mainly due to \$0.9 million increase for the Digital Media Incubator grant and \$0.2 million increase in Nursing Workforce Diversity revenue.
- Salaries increased 9% mainly due to annual step increases as well as hiring 31 newly created positions.
- Employee benefit costs have increased 6%, primarily due to significant increases to health insurance premiums with an off-setting decrease in the PERS rate from 9.952% to 9.116%.
- Supplies, materials, other operating expenses and services increased \$3.7 million due to the Cost of Living Allowance (COLA) increase and increases in grant revenues.
- The increase in depreciation expense is due to increasing capital assets from bond projects.
- State apportionments, noncapital consists of apprenticeship (\$2.1 million), state apportionment (\$59.2 million) and other general apportionments (\$1.5 million). State apportionment represents total apportionment earned less enrollment fees and property taxes. The increase of \$4.5 million is due to the 4.23% COLA provided on apportionment and our increase in FTES generated.
- Local property taxes increased \$3.8 million due to increases in assessed valuations.
- State taxes and other revenues consist primarily of state lottery revenue (\$4.8 million).
- Interest income, noncapital increased by \$4.4 million mainly due to the \$3.5 million increase in bond funds interest due to increased cash balances.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

- Other nonoperating expenses over revenues is mainly bond interest expense (\$8.8 million), offset by other revenue.
- State grants, contracts, taxes and local property taxes, capital consist mainly of State appropriations for capital outlay projects, scheduled maintenance funding and property taxes collected for the general obligation bonds. The majority of the increase is due to property taxes collected for the repayment of bonds and revenues received for capital outlay projects.
- Federal grant and contract, capital are related to the federal funds spent and received on the Digital Media Center.



**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**



**Statement of Cash Flows**

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

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

**Statement of Cash Flows**

	(in thousands)	
	<u>2006</u>	<u>2005</u>
Cash Provided By (Used In):		
Operating activities	\$ (116,808)	\$ (108,889)
Noncapital financing activities	122,525	108,284
Capital financing activities	(37,270)	100,347
Investing activities	<u>7,348</u>	<u>2,870</u>
Net increase (decrease) in cash	(24,205)	102,612
Cash - Beginning of year	<u>199,861</u>	<u>97,249</u>
Cash - End of year	<u>\$ 175,656</u>	<u>\$ 199,861</u>

- Operating activities consist of cash receipts from enrollment fees, grants and contracts and cash payments for salaries, benefits, supplies, utilities and other items related to the instructional program.
- Noncapital financing activities are primarily state apportionment and property taxes.
- Capital financing activities consist of purchases of capital assets (land, buildings and equipment) and bond interest payments and receipts from federal and state grants for capital purposes as well as property tax revenue for bond repayments.
- Cash from investing activities is interest earned on investments through the Orange County Investment Pool and the Local Agency Investment Fund (LAIF).

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

	(in thousands)	
	Balances for fiscal year ended June 30,	
	<u>2006</u>	<u>2005</u>
Land	\$ 84,838	\$ 84,044
Buildings & improvements	105,299	86,642
Construction in progress	55,029	32,390
Equipment	<u>52,739</u>	<u>43,503</u>
Capital assets, gross	297,905	246,579
Less: Accumulated depreciation	69,437	64,135
Capital assets, net	<u>\$ 228,468</u>	<u>\$ 182,444</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

*Fiscal year ended 2006 compared to 2005*

As of June 30, 2006, the District had \$297.9 million in capital assets, less \$69.4 million accumulated depreciation for net capital assets of \$228.5 million. The District continues to work on the facilities projects that are part of the \$337 million bond master plan. The District spent approximately \$42 million of Series A and Series B proceeds in 2005-06. Depreciation charges totaled \$7.6 million in 2005-06.

Some of the major capital additions during the 2005-06 fiscal year included:

	(in thousands)
1. Construction in progress, Digital Media Center	\$ 8,083
2. Various athletics related projects at Santa Ana College	7,720
3. Construction in progress at Orange Education Center	501
4. Construction in progress, Public Safety Institute	6,657
5. Construction in progress, Learning Resource Center, Santiago Canyon College	7,784
6. Land purchase and relocation of tenants, College Avenue properties adjacent to Santa Ana College	795
7. Mass grading & relocation of portables, Santiago Canyon College	6,066
8. Technology Equipment Purchases	10,030

**Debt Administration**

**Long-Term Debt**

	(in thousands)	
	Balances for fiscal year ended June 30,	
	<b>2006</b>	<b>2005</b>
Notes payable	\$ 166	\$ 196
Bond obligations	222,947	225,052
Deferred revenue	3,995	3,434
Compensated balances	3,836	3,561
Capital leases	-	231
Other accrued liabilities	29,168	24,073
<b>Total</b>	<b>260,112</b>	<b>256,547</b>
Less: due within one year	14,555	13,242
<b>Total long-term liabilities</b>	<b>\$ 245,557</b>	<b>\$ 243,305</b>

*Fiscal year ended 2006 compared to 2005*

At June 30, 2006, the District had \$245.6 million in outstanding long-term debt compared to \$243.3 million at June 30, 2005. The majority of the increase was due to net increases in retiree benefit obligations.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

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

**ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE**

**State Economy**

- The financial position of The Rancho Santiago Community College District is closely tied to that of the State of California. The District received 32% of its funding through state apportionments and 26% from local property taxes. These two sources with student paid enrollment fees essentially make up the District's general apportionment, the main funding support for California community colleges.
- The State budget for fiscal year 2006-07 provides an on-going increase in Proposition 98 base funding for community colleges of 13%.
- According to the 2006-07 State budget, student enrollment fees will decrease from \$26 to \$20 per unit, effective for any term commencing after January 1, 2007.

**RSCCD Budget**

**Assumptions:**

- The 2006-07 State budget for community colleges contains a 5.92% Cost of Living Allowance (COLA) increase.
- The 2006-07 RSCCD adopted budget includes resources to enable the District to meet its FTES goal of base apportionment plus 2.56 % (blended) growth.
- The District has budgeted the employer's share of the PERS contribution at 9.124% for 2006-07, an increase from 9.116%.
- Salary negotiations for 2006-07 have substantially settled. The District and almost all Bargaining Units have agreed to waive retroactivity for the 2005-06 salary adjustment in exchange for a four percent (4%) on schedule increase effective July 1, 2006. This applies to all classified, faculty (except continuing education) and management employees, which is included in the District's 2006-07 adopted budget. The Continuing Education Faculty Association has not settled for 2006-07 yet.

**Capital Improvements:**

- The District plans to begin construction on the science building at Santiago Canyon College during 2006-07.
- The District continues to replace its aging computer network and will embark on implementation of the Datatel software system. It is anticipated that full implementation will take several years.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2006**

- The District completed construction on the Digital Media Center in the summer of 2006-07.
- The District plans to begin construction on the Child Development Center at Santa Ana College during 2006-07.
- The District completed construction on the Learning Resource Center at Santiago Canyon College in the summer of 2006-07.
- The District plans to begin construction on the classroom building at Santa Ana College during 2006-07.
- The District plans to complete construction of the Public Safety Institute in 2006-07.
- The District plans to complete construction on the men's and women's locker room facilities at Santa Ana College in 2006-07.

**Finance:**

- The District issued its final series of Measure E bond proceeds in the amount of \$120.9 million on October 3, 2006.
- The District has placed a bond measure (Measure O) on the August 7, 2006 ballot totaling \$393 million. If passed, we will be able to complete the Master Plans at both campuses.

**Requests for Information**

This 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 & Fiscal Services, 2323 North Broadway, Santa Ana, CA 92706.

## **BASIC FINANCIAL STATEMENTS**

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

**Assets**

Current assets	
Cash and cash equivalents	\$ 162,374,661
Restricted cash and cash equivalents	13,281,520
Receivables	13,658,119
Restricted student loans receivable	21,500
Inventory	1,933,827
Other assets	172,682
Total current assets	<u>191,442,309</u>
Noncurrent assets	
Restricted student loans receivable	564,422
Bond issuance cost	2,795,332
Capital assets, net:	
Non-depreciable	139,866,630
Depreciable	88,601,290
Total noncurrent assets	<u>231,827,674</u>

**Total Assets** \$ 423,269,983

**Liabilities and Net Assets**

**Liabilities**

Current liabilities	
Accounts payable	\$ 12,165,536
Interest payable	3,082,551
Accrued salaries	6,833,901
Deferred revenue	3,444,517
Compensated balances	615,788
Bonds payable	7,496,571
Claims liability	2,967,829
Notes payable	30,222
Amounts held for others	915,501
Total current liabilities	<u>37,552,416</u>
Noncurrent liabilities	
Deferred revenue	549,998
Compensated balances	3,220,445
Claims liability	26,199,971
Notes payable	135,889
Bonds payable	215,450,688
Total noncurrent liabilities	<u>245,556,991</u>
Total liabilities	<u>283,109,407</u>

**Net Assets**

Invested in capital assets, net of related debt	108,034,220
Restricted	
Expendable	
Scholarships and loans	1,236,887
Capital projects	5,179,208
Debt service	10,101,312
Other special purposes	955,968
Total restricted net assets	<u>17,473,375</u>
Unrestricted	<u>14,652,981</u>
Total net assets	<u>140,160,576</u>

**Total Liabilities and Net Assets** \$ 423,269,983

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<b>Operating revenues</b>	
Tuition and fees	\$ 15,393,652
Less: Scholarship discounts and allowances	(4,322,341)
Net tuition and fees	<u>11,071,311</u>
Grants and contracts, noncapital:	
Federal	16,159,054
State	15,120,421
Local	2,850,257
Auxiliary enterprise sales and charges	7,310,713
Interest on student loans	5,855
Total operating revenues	<u>52,517,611</u>
<b>Operating expenses</b>	
Salaries	100,789,840
Employee benefits	30,425,385
Supplies, materials and other operating expenses and services	39,891,337
Utilities	3,508,533
Depreciation	7,555,091
Total operating expenses	<u>182,170,186</u>
Operating loss	(129,652,575)
<b>Nonoperating revenues (expenses)</b>	
State apportionments, noncapital	62,766,698
Local property taxes	50,804,193
State taxes and other revenues	5,244,184
Interest income, noncapital	7,818,145
Interest expense on capital asset-related debt	(8,837,939)
Other nonoperating revenues, net	555,781
Total nonoperating revenues, net	<u>118,351,062</u>
Loss before capital revenues	<u>(11,301,513)</u>
<b>Capital revenues</b>	
State grants and contracts	10,265,857
Federal grant and contract	1,016,987
State taxes and other revenues	84,530
Local property taxes and revenues	9,768,097
Total capital revenues	<u>21,135,471</u>
<b>Increase in net assets</b>	<u><b>9,833,958</b></u>
<b>Net assets - beginning of year</b>	<u><b>130,326,618</b></u>
<b>Net assets - end of year</b>	<u><u><b>\$ 140,160,576</b></u></u>

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Cash In/(Out)</u>
<b>Cash Flows From Operating Activities</b>	
Tuition and fees	\$ 10,586,608
Federal grants and contracts	14,317,050
State grants and contracts	15,644,131
Local grants and contracts	2,221,776
Payments to employees for salaries	(100,484,343)
Payments for employee benefits	(25,117,440)
Payments to suppliers	(38,107,041)
Payments to utilities	(3,449,766)
Loans issued to students	(21,500)
Collection of loans	76,750
Interest on student loans	5,855
Auxiliary enterprise sales and charges	7,519,783
Net cash used by operating activities	<u>(116,808,137)</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
State apportionments	63,567,760
Local property taxes	51,887,061
State taxes and other revenues	6,284,492
Other nonoperating revenues	635,338
Student organization agency receipts	1,565,914
Student organization agency disbursements	(1,415,243)
Net cash provided by noncapital financing activities	<u>122,525,322</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Proceeds from bond refunding	5,024,518
State Taxes for capital purposes	84,530
State grant and contract for capital purposes	12,408,410
Federal grant and contract for capital purposes	1,016,987
Local property tax for capital purposes	9,815,467
Non-resident tuition	98,959
Purchase of capital assets	(50,690,398)
Proceeds from sales of capital assets	15,617
Principal paid on bond payable	(6,395,000)
Principal paid on capital lease and notes payable	(261,786)
Interest paid on long-term liabilities	(8,387,092)
Net cash used by capital and related financing activities	<u>(37,269,788)</u>
<b>Cash Flows From Investing Activities</b>	
Investment income - noncapital	7,255,914
Interest on tax revenue	91,658
Net cash provided by investing activities	<u>7,347,572</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(24,205,031)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b><u>199,861,212</u></b>
<b>Cash and Cash Equivalents - End of Year</b>	<b><u>\$ 175,656,181</u></b>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATEMENT OF CASH FLOW (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Cash In/(Out)</u>
<b>Reconciliation of Net Operating Loss to Net Cash Used By Operating Activities:</b>	
Operating loss	\$ (129,652,575)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,555,091
Changes in operating assets and liabilities:	
Receivables	(2,708,030)
Inventory	(163,577)
Other assets	(27,091)
Student loans receivable	76,750
Accounts payable	1,741,200
Accrued salaries	426,127
Deferred revenue	572,821
Compensated balances	275,027
Claims payable	5,096,120
<b>Net cash used by operating activities</b>	<b><u>\$ (116,808,137)</u></b>

**Non-cash capital and related financing activities:**

Proceeds from bonds in the amount of \$53,395,323 was deposited directly to an Escrow account to refund bond obligations of \$49,170,000.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2006**

**Assets**

Current assets

Cash and cash equivalents	\$ 1,833,423
Accounts receivable	75,214
Prepaid expenses	4,640
Investments	5,369,539

<b>Total Assets</b>	<b><u><u>\$ 7,282,816</u></u></b>
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**Liabilities and Net Assets**

Liabilities:

Current liabilities:

Accounts payable	\$ 49,289
Due to organizations	88,701
<b>Total liabilities</b>	<b><u>137,990</u></b>

Net Assets

Unrestricted	613,066
Temporarily restricted:	
Programmatic support	1,239,759
Scholarships	1,446,874
Endowment	3,845,127
<b>Total temporarily restricted</b>	<b><u>6,531,760</u></b>

Total net assets	<u>7,144,826</u>
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<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 7,282,816</u></u></b>
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The accompanying notes to the basic financial statements are an integral part of this statement.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and revenue			
Support:			
Contributions	\$ 10,032	\$ 683,142	\$ 693,174
Special event (net of expenses of \$116,993)	119,208	67,305	186,513
Affiliated foundation:			
Contributions	49,878	55,700	105,578
Donated services	276,884	-	276,884
Donated facilities	11,862	-	11,862
Total support	<u>467,864</u>	<u>806,147</u>	<u>1,274,011</u>
Revenue:			
Interest and dividends	42,450	30,627	73,077
Unrealized (loss) gain on investments	(14,112)	23,997	9,885
Realized gain on investments	11,836	5,651	17,487
Management fees	892	-	892
Other revenue	11,541	-	11,541
Total revenue	<u>52,607</u>	<u>60,275</u>	<u>112,882</u>
Total support and revenue before net assets released from restrictions	520,471	866,422	1,386,893
Net assets released from restrictions	<u>434,877</u>	<u>(434,877)</u>	<u>-</u>
Total support and revenue after net assets released from restrictions	955,348	431,545	1,386,893
Expenses			
Program services	710,562	-	710,562
Supporting services:			
Management and general	107,997	-	107,997
Fundraising	127,989	-	127,989
Total expenses	<u>946,548</u>	<u>-</u>	<u>946,548</u>
Excess of support and revenue over expenses	<u>8,800</u>	<u>431,545</u>	<u>440,345</u>
Capital additions on endowment grant			
Interest and dividends	-	81,342	81,342
Realized gain on investments	-	195,421	195,421
Unrealized gain on investments	-	42,704	42,704
Total capital reductions	<u>-</u>	<u>319,467</u>	<u>319,467</u>
Total support and revenue over expenses after capital additions	8,800	751,012	759,812
<b>Net assets - beginning of year</b>	<b><u>604,266</u></b>	<b><u>5,780,748</u></b>	<b><u>6,385,014</u></b>
<b>Net assets - end of year</b>	<b><u>\$ 613,066</u></b>	<b><u>\$ 6,531,760</u></b>	<b><u>\$ 7,144,826</u></b>

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 YEAR ENDED JUNE 30, 2006**

**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 has two college campuses: Santa Ana College (SAC), one of the state's oldest community colleges, located in Santa Ana and Santiago Canyon College (SCC), one of State's newest community colleges, located in Orange. The District also has operations at the District office and various vocational and adult centers, such as the Centennial Education Center, the Marketplace Education Center and the Orange Education Center. The District's factored annual full-time equivalent students (FTES) for 2005-06 was 31,192 (resident and non-resident).

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 criteria for including a potential component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated, with the District. 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 Boards of Directors for the Foundations are selected independent of any Board of Trustees input. The Foundations Boards are responsible for approving their 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 using a discrete presentation with 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 YEAR ENDED JUNE 30, 2006**

**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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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.

G. Deferred Amount on Refunding

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

H. 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	25 - 50 years
Portable buildings	15 years
Land improvements	10 years
Equipment and vehicles	8 years
Technology equipment	3 years

I. 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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

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.

J. 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.

K. 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.

L. 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.

M. Amounts Held for Others

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

N. Tuition and Fees

Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement 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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

O. 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 be 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.

P. 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.

Q. 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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

R. Employee Retirement Plans

Qualified employees are covered under defined benefit retirement plans (State Teachers' Retirement System, Public Employees' Retirement System, or Public Agency Retirement Services) 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.

**Discretely Presented Component Units – Foundations**

A. Basis of Accounting

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

B. Classification of Net Assets

The Foundations report information regarding their 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.

C. 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.

D. 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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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

E. Investments

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

F. 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.

**NOTE 3 – CASH AND INVESTMENTS**

Total cash and investments at fair value, as of June 30, 2006 were as follows:

<u>District</u>	
Cash:	
Cash on hand	\$ 4,219,214
Pooled cash	171,436,967
Total Cash	<u>\$ 175,656,181</u>
 <u>Component Units</u>	
Cash on hand	\$ 1,833,423
Investments with trustees	5,369,539
Total cash and investments	<u>\$ 7,202,962</u>

Deposits

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks. The market value of pledged securities must equal 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. California law also allows financial institutions to secure an agency's deposits by pledging first trust deeds or first mortgages having a value of 150 percent of an agency's total deposits. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the District. At June 30, 2006, cash held by financial institutions for the District of \$1,534,145 was entirely insured and collateralized as described above. The book balance at June 30, 2006 for the District was \$4,219,214.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

The component units have cash deposits with two financial institutions in the aggregate of \$1,794,264 at June 30, 2006. 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 the financial institution. At June 30, 2006, the amount of component units' cash deposits subject to the risk of loss was \$1,524,971. The book balance of the component units cash deposits as of June 30, 2006 was \$1,833,423.

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. 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 Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. Interest earned on such pooled cash balances is distributed to the District based upon the average cash balance during the distribution period. At June 30, 2006, the District had \$159,783,589 deposited with the County Treasury. The weighted average maturity of investments in the Orange County Educational Pool (Pool) was 0.31 years at June 30, 2006. The Orange County Pool does not maintain a credit rating.

Local Agency Investment Fund (LAIF)

The District also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting to \$11,653,378 at June 30, 2006. LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of 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 value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool.

The total amount invested by all public agencies in LAIF at June 30, 2006 was \$16,392,047,241. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$63,616,592,927 at June 30, 2006. Of this amount, 2.567% was invested in structures notes and asset-backed securities. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 0.42 years as of June 30, 2006. LAIF does not maintain a credit rating.

Restricted Cash

Restricted cash represents amount deposited with the County of Orange Treasurer for debt service payments in the following fiscal year and student financial aid Perkins loan balance.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

Investments

As of June 30, 2006, the component units had the following investments:

	Fair Value	Interest rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
Investments with Trustee:				
U.S. Government Agencies	\$ 314,165	Variable, 3.79-7.00	5/15/07-8/15/29	4.43
Corporate Bonds	77,211	Variable, 6.75-8.38	2/15/07-6/15/24	7.70
International Bonds	10,130	7.25	9/23/27	21.25
Negotiable Certificates of Deposit	517,213	2.95-5.25	10/23/06-10/8/09	1.46
Preferred Stock	116,535	5.75-8.13	9/17/06-1/15/09	0.03
Common Stock	3,452,275	N/A	N/A	N/A
Money Market Mutual Funds	882,010	Variable, 4.40-7.20	N/A	N/A
Total Investments	<u>\$5,369,539</u>			<u>2.84</u>

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The District and Santiago Canyon College foundations manage exposure to declines in fair value by limiting its weighted average maturity to 15 years, and the Santa Ana College Foundation limits its weighted average maturity to 12 months.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the District's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk

The investment policies of the District's component units set forth the minimum acceptable credit ratings from the two following nationally recognized statistical rating organizations. For an issuer of convertible preferred stock and convertible bonds, the rating must be no less than BBB (S&P), or Baa (Moody's). For an issuer of common stocks purchased by Santa Ana College Foundation, the rating must be no less than B (S&P). As of June 30, 2006, the District's component units are in compliance with its investment policies regarding credit risk.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 3 – CASH AND INVESTMENTS (CONTINUED)**

Concentration of Credit Risk

At June 30, 2006, the District’s component units did not exceed the investment policy limitations that states that no more than 5% of the total market value of investments may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies, or mutual funds. Furthermore, no more than 20% of the total market value of equity securities may be invested in any one industry. Lastly, the District was in compliance with its asset allocation guidelines that set forth the maximum percentage that the component units may invest in any one investment type.

At June 30, 2006, the credit ratings of investments by investment type were as follows (NR means Not Rated):

	<u>Moody’s</u>	<u>% of Portfolio</u>
Investments with Trustee:		
U.S. Government Agencies	Aaa	5.94
Corporate Bonds	CAA1/B-	1.46
International Bonds	A2/A	0.19
Negotiable Certificates of Deposit	NR	9.78
Preferred Stock	A	2.20
Common Stock	NR	63.79
Money Market Mutual Funds	NR	16.64
Total Investments		<u>100.00</u>

**NOTE 4 – RECEIVABLES**

The following is a summary of receivables at June 30, 2006:

Federal programs	\$ 3,592,795
State revenues	7,414,220
Local revenue	<u>2,651,104</u>
Total	<u>\$ 13,658,119</u>

All of the above receivables are expected to be received within one year.

The following is summary of restricted receivables at June 30, 2006:

Student loan	<u>\$ 585,922</u>
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**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 5 – CAPITAL ASSETS**

A schedule of changes in capital assets for the fiscal year ended June 30, 2006 is shown below:

Activity for the fiscal year ended June 30, 2006 is:

District:	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Capital assets, non-depreciable:				
Land	\$ 84,042,930	\$ 794,740	\$ -	\$ 84,837,670
Construction in progress	<u>32,389,928</u>	<u>41,496,637</u>	<u>(18,857,605)</u>	<u>55,028,960</u>
Total capital assets, non-depreciable	<u>116,432,858</u>	<u>42,291,377</u>	<u>(18,857,605)</u>	<u>139,866,630</u>
Capital assets, depreciable:				
Building	71,790,307	17,973,829	(201,313)	89,562,823
Portable buildings	6,110,183	-	-	6,110,183
Site improvements	8,742,392	883,776	-	9,626,168
Equipment	19,494,193	1,393,391	(279,785)	20,607,799
Technology equipment	<u>24,008,756</u>	<u>10,030,299</u>	<u>(1,907,908)</u>	<u>32,131,147</u>
Total capital assets, depreciable	<u>130,145,831</u>	<u>30,281,295</u>	<u>(2,389,006)</u>	<u>158,038,120</u>
Less accumulated depreciation for:				
Building	21,682,483	1,579,952	(104,472)	23,157,963
Portable buildings	2,315,593	388,412	-	2,704,005
Site improvements	7,176,483	351,091	-	7,527,574
Equipment	13,228,464	1,374,089	(263,559)	14,338,994
Technology equipment	<u>19,731,767</u>	<u>3,861,547</u>	<u>(1,885,020)</u>	<u>21,708,294</u>
Total accumulated depreciation	<u>64,134,790</u>	<u>7,555,091</u>	<u>(2,253,051)</u>	<u>69,436,830</u>
Total capital assets, depreciable, net	<u>66,011,041</u>	<u>22,726,204</u>	<u>(135,955)</u>	<u>88,601,290</u>
Total capital assets, net	<u>\$ 182,443,899</u>	<u>\$ 65,017,581</u>	<u>(\$ 18,993,560)</u>	<u>\$ 228,467,920</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 6 – ACCOUNTS PAYABLE**

The following is a summary of accounts payable at June 30, 2006:

District:

Amounts due to state	\$ 252,278
Amounts due to students	131,236
Amounts due to employees	42,466
Trade payables	11,336,356
Sales tax payable	41,512
Amounts due to federal agencies	<u>361,688</u>
Total	<u>\$ 12,165,536</u>

Component units:

Trade payables	<u>\$ 49,289</u>
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**NOTE 7 – LONG-TERM LIABILITIES**

Activity for the fiscal year ended June 30, 2006 is:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Within One Year
<b>Bonds and notes payable</b>					
Bonds payable	\$ 212,704,867	\$ 53,559,299	\$ 55,565,000	\$ 210,699,166	\$ 6,935,000
Bonds premiums	12,347,705	5,470,846	2,230,623	15,587,928	756,124
Deferred amount on refunding	<u>-</u>	<u>(3,501,963)</u>	<u>(162,128)</u>	<u>(3,339,835)</u>	<u>(194,553)</u>
Total bonds payable	225,052,572	55,528,182	57,633,495	222,947,259	7,496,571
Notes payable	<u>196,333</u>	<u>-</u>	<u>30,222</u>	<u>166,111</u>	<u>30,222</u>
Total bond and notes payable	\$ 225,248,905	\$ 55,528,182	\$ 57,663,717	\$ 223,113,370	\$ 7,526,793
<b>Other liabilities:</b>					
Deferred revenue	3,433,805	3,434,135	2,873,425	3,994,515	3,444,517
Compensated balances	3,561,206	3,290,375	3,015,348	3,836,233	615,788
Capital leases	231,564	-	231,564	-	-
Claims liability (Note 8)	<u>24,071,680</u>	<u>7,819,044</u>	<u>2,722,924</u>	<u>29,167,800</u>	<u>2,967,829</u>
Total other liabilities	31,298,255	14,543,554	8,843,261	36,998,548	7,028,134
Total long term liabilities	<u>\$ 256,547,160</u>	<u>\$ 70,071,736</u>	<u>\$ 66,506,978</u>	260,111,918	<u>\$ 14,554,927</u>
Due within one year				<u>14,554,927</u>	
Total long term liabilities				<u>\$ 245,556,991</u>	

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

A. Bonds Payable

On November 5, 2002, the voters of the Rancho Santiago Community College District (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.

2003A General Obligation Bonds

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.

2005 General Obligation Refunding Bonds

On August 23, 2005, \$53,559,299 of Rancho Santiago Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the outstanding principal amount of the District's General Obligation Bonds, Election of 2002, Series 2003A. The Refunding Bonds defeased \$49,170,000 of the old debt with a final maturity date of September 1, 2023 and interest rates ranging from 2% to 5%, depending on the maturity of the related bonds. Interest accrues from August 23, 2005 and is payable semiannually on March 1 and September 1 of each year commencing on September 1, 2005.

The advance refunding resulted a difference between the reacquisition price and net carrying amount of the old debt of \$3,501,963. This difference, reported in the accompanying financial statements as a deferred amount on refunding, is being charged to operations through the year 2023 using the straight-line method. The District completed the refunding to reduce its debt service payments over the next 21 years by \$1,924,935 and obtain an economic gain (the difference of the present values of the old and new debt service payments) of \$3,076,296.

The outstanding principal balance of the 2003A General Obligation Bonds and 2005 General Obligation Refunding Bonds at June 30, 2006 was \$90,699,299.

Series B General Obligation Bonds

On March 10, 2005, \$119,999,867 of Rancho Santiago Community College District, Election of 2002, Series B Bonds were issued with a final maturity date of September 1, 2029 and interest rates ranging from 2% to 5%, depending on the maturity of the related bonds. Interest accrues from March 10, 2005 and is payable semiannually on March 1 and September 1 of each year commencing on March 1, 2006. The outstanding principal balance of these bonds at June 30, 2006 was \$119,999,867.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

The following table summarizes the combined annual debt service requirements of the District for the Series 2003A General Obligation Bonds (GOB) and 2005 General Obligation Refunding Bonds:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 6,935,000	\$ 3,769,826	\$ 10,704,826
2008	1,500,000	3,655,476	5,155,476
2009	1,655,000	3,609,788	5,264,788
2010	1,800,000	3,562,100	5,362,100
2011	2,529,283	3,616,418	6,145,701
2012-2016	20,735,016	17,072,998	37,808,014
2017-2021	32,535,000	9,865,571	42,400,571
2022-2026	20,860,000	1,972,632	22,832,632
2027-2028	2,150,000	97,875	2,247,875
<b>Totals</b>	<b>\$ 90,699,299</b>	<b>\$ 47,222,684</b>	<b>\$ 137,921,983</b>

The following table summarizes the annual debt service requirements of the District for the Series B General Obligation Bonds (GOB):

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ -	\$ 5,388,475	\$ 5,388,475
2008	1,359,156	5,418,419	6,777,575
2009	1,709,268	5,417,232	7,126,500
2010	949,324	5,360,602	6,309,926
2011	1,218,440	5,365,310	6,583,750
2012-2016	10,640,109	26,769,708	37,409,817
2017-2021	19,341,780	26,041,847	45,383,627
2022-2026	29,621,790	23,547,953	53,169,743
2027-2029	55,160,000	6,556,056	61,716,056
<b>Totals</b>	<b>\$ 119,999,867</b>	<b>\$ 109,865,602</b>	<b>\$ 229,865,469</b>

Bonds Summary:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2003A GOB & 2005 Refunding	\$ 90,699,299	\$ 47,222,684	\$ 137,921,983
Series B GOB	119,999,867	109,865,602	229,865,469
<b>Totals</b>	<b>\$ 210,699,166</b>	<b>\$ 157,088,286</b>	<b>\$ 367,787,452</b>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

**B. 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, 2006 is \$90,000.

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, 2006 is \$76,111.

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 entire balance has been paid of as of June 30, 2006.

The future minimum payments under notes payable at June 30, 2006 is shown below:

<u>Fiscal Year Ending June 30,</u>	<u>_____</u>
2007	\$ 30,222
2008	30,222
2009	30,222
2010	30,222
2011	30,222
2012	<u>15,001</u>
Total	<u><u>\$ 166,111</u></u>

**NOTE 8 - 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 YEAR ENDED JUNE 30, 2006**

**NOTE 8 - 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.

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, 2006 and 2005, liability for claims amounted to \$29,167,800 and \$24,071,680, respectively. Changes in the claims liability amount in the fiscal years 2006 was:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
<u>2006</u>				
Workers' compensation	\$ 573,415	\$ 22,409	\$ 56,671	\$ 539,153
Property and liability	65,000	261,620	29,478	297,142
Retiree health benefits	23,433,265	7,535,015	2,636,775	28,331,505
Total	<u>\$ 24,071,680</u>	<u>\$ 7,819,044</u>	<u>\$ 2,722,924</u>	<u>\$ 29,167,800</u>

Changes in the claims liability amount in the fiscal years 2005 was:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
<u>2005</u>				
Workers' compensation	\$ 587,611	\$ 70,660	\$ 84,856	\$ 573,415
Property and liability	65,000	141,924	141,924	65,000
Retiree health benefits	17,870,247	7,576,000	2,012,982	23,433,265
Total	<u>\$ 18,522,858</u>	<u>\$ 7,788,584</u>	<u>\$ 2,239,762</u>	<u>\$ 24,071,680</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 9 – UNRESTRICTED NET ASSETS**

The following are Board of Trustees’ designations of unrestricted net assets as of June 30, 2006:

Self insurance	\$ 4,338,809
Diversified trust	698,041
Community education	196,775
Bookstore	3,927,353
Associated student body	449,401
Student ID card fees	199,243
Reserve for economic uncertainties	<u>4,843,359</u>
Total unrestricted net assets	<u><u>\$ 14,652,981</u></u>

**NOTE 10 – 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, 2006 is \$647,665.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 11 –FUNCTIONAL EXPENSES CLASSIFICATIONS**

The functional expenses classifications for fiscal year ended 2006 are:

	Salaries and Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 56,372,796	\$ 7,908,022	\$ -	\$ -	\$ 64,280,818
Instructional administration	12,699,583	855,349	-	-	13,554,932
Instructional support services	4,647,215	590,011	-	-	5,237,226
Admissions and records	2,912,490	87,990	-	-	3,000,480
Counseling and guidance	8,446,053	308,955	-	-	8,755,008
Other student services	10,670,695	1,758,905	-	-	12,429,600
Operations and maintenance	5,358,225	1,591,677	3,508,533	-	10,458,435
Planning and policy making	1,996,936	748,649	-	-	2,745,585
General institutional services	18,665,884	9,163,350	-	-	27,829,234
Community services	2,585,598	797,814	-	-	3,383,412
Ancillary services	6,385,018	7,160,019	-	-	13,545,037
Auxiliary operations	474,732	52,696	-	-	527,428
Non-capitalized property items	-	1,175,711	-	-	1,175,711
Student payments	-	7,692,189	-	-	7,692,189
Depreciation	-	-	-	7,555,091	7,555,091
Total operating expenses	<u>\$131,215,225</u>	<u>\$ 39,891,337</u>	<u>\$ 3,508,533</u>	<u>\$ 7,555,091</u>	<u>\$ 182,170,186</u>

**NOTE 12 - 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 YEAR ENDED JUNE 30, 2006**

**NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)**

*Funding Policy*

Active plan members are required to contribute 8.0% of their salary for fiscal year 2006 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 fiscal year 2006 was 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, 2006, 2005, and 2004 were \$4,576,592, \$4,251,691, and \$4,074,732 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 Q Street, Sacramento, California 95814.

*Funding Policy*

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the 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 2006 was 9.116%, 2005 was 9.952%, and 2004 was 10.42%. Contributions of \$3,026,013, \$3,011,339 and \$3,034,389 were made for the fiscal years ended June 30, 2006, 2005, and 2004, respectively. Contributions made were 100% of the required contributions for each year.

**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 year 2006, PARS required employees to contribute 6.2% of their salary and the District was required to contribute 1.3%. As of June 30, 2006, 803 employees participated in PARS. The District's contributions to PARS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$115,053, \$104,055 and \$79,144, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 13 – RETIREE HEALTH BENEFITS**

Plan Description

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 \$20,813 for 2006. (The maximum for most employees is \$13,908 for fiscal year 2006). Currently 288 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 age 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.

Actuarial Valuation (UNAUDITED)

In December 2005, the District received a September 1, 2005 actuarial valuation for Retiree Health Liabilities (the “Report”) from an outside consultant, Total Compensation System, Inc. The Report is based upon data as of September 1, 2005 and it is intended to determine retiree healthcare plan benefit obligations as of June 30, 2006 pursuant to Governmental Accounting Standards Board Statement No.45 (GASB 45). The District is required to report in conformity with GASB 45 beginning with the fiscal year ending June 30, 2008. Among the actuarial methods and assumptions used in the Report are:

(i) the Entry Age Normal actuarial cost method, (ii) amortizing the unfunded accrued actuarial liability over 30 years as a level percentage of payroll, (iii) a 5.0% long-term expected rate of return on District funds, (iv) a 3.0% per annum payroll increase assumption, and (v) a 4.5% health inflation assumption. The Report estimates the actuarial accrued liability (the liability of obligation for benefits earned or allocated to past service at the valuation date calculated using the selected actuarial methods and assumptions) at approximately \$111,243,936, which due to current “pay-as-you-go” funding, is virtually all unfunded. The Report also determined that the Annual Required Contribution (ARC), the normal cost (value of benefits expected to be earned or allocated to the fiscal years) plus a 30-year level percentage of pay amortization of the unfunded liability for FY 2005-06 would be \$7,535,015.

Based on the Report, retiree medical benefit liabilities are as follows:

	<u>Number</u>	<u>Actuarial Liability for Past Service</u>
Current Retirees	270	\$ 41,742,900
Active Employees	969	69,501,036
Total	<u>1,239</u>	<u>\$ 111,243,936</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 13 – RETIREE HEALTH BENEFITS (CONTINUED)**

	Total
Actuarial Accrued Liability	\$ 111,243,936
Assets Designated by the District, at Fair Value	(18,563,921)
Unfunded Liability	<u>\$ 92,680,015</u>

The District intends to implement GASB Statement No. 45 for its FY 2007-08 financial statements, which is the required implementation effective date in accordance with the standard. However, if the District were to implement GASB Statement No. 45 for FY 2005-06, the Annual Required Contribution (ARC) determined by the Report, which includes the employer normal cost plus a 30-year amortization of the unfunded actuarial accrued liability, assuming the designated assets were placed into an irrevocable trust, would be as follows:

	Total
Employer Normal Cost	\$ 3,336,230
Unfunded Actuarial Accrued Liability Amortization	4,198,785
Annual Required Contribution	<u>\$ 7,535,015</u>

Based upon District projections, the pay-as-you-go costs for Plan benefits (the Grants and the lump sum severance payments), excluding the subsidy, are estimated to be \$3,383,468 for FY 2006-07. Payments in the fiscal year 2006 in the amount of \$2,636,775 were made for current retiree obligations.

**NOTE 14 - 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.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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 year ended June 30, 2006 totaled \$1,984,517.

The future minimum lease payments are as follows:

Fiscal Year Ending June 30	Leases
2007	\$ 1,203,305
2008	794,045
2009	307,938
2010	84,144
2011	5,060
Total	<u>\$ 2,394,492</u>

E. Construction Contracts

The District has outstanding construction and all other bond fund commitments of approximately \$45,541,165 at June 30, 2006.

**NOTE 15 – 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, 2006, the fair value of the endowment grant is \$3,575,193.

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, 2006, the fair market value of the investment grant is \$260,890.

SCCF received endowment funds from employees through payroll deductions to support future foundation operating activity. At June 30, 2006, the fair market value is \$9,044.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 16 – 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 year 2006 was \$276,884. The donated facilities for fiscal year 2006, was \$11,862. Both 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 year 2006 was \$2,000. In addition, the RSCCDF distributed in equal shares the net proceeds from a special event to SACF and SCCF with the amount of \$103,578 in fiscal year 2006.

**NOTE 17 – SUBSEQUENT EVENTS**

On October 3, 2006, \$120,874,329 of General Obligations Bonds were issued as Election of 2002, Series C general obligation bonds. The bonds have a final maturity date of September 1, 2031 Interest accrues from October 3, 2006 and is payable semiannually on March 1 and September 1 of each year commencing on March 1, 2007.



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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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2006. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

- 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 District 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
- Schedule of Financial Trends and Analysis of the General Fund
- Notes to the Supplementary Information

As discussed in Note 2 to the supplementary information, certain errors in the Schedule of Expenditures of Federal Awards were discovered subsequent to the issuance of the June 30, 2006 SEFA. Accordingly, the schedule has been restated to reflect the correction of such errors.

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 stated in all material respects in relation to the basic financial statements taken as a whole.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
October 20, 2006, except for  
the TRIO Cluster Program on  
the schedule of expenditures  
of federal awards, as to which  
the date is May 31, 2007

**SUPPLEMENTARY INFORMATION**

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -RESTATED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Awards	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
Federal Agency/Passthrough Entity/Program Name			
U.S. Department of Education (USDE):			
Direct:			
Financial Aid Cluster			
Federal Work-Study	84.033		\$ 220,961
Perkins Loan	84.038		1,804
Pell Grants	84.063		5,877,107
Pell Grants Administrative Allowance	84.063		12,390
Supplemental Education Opportunity Grants (S.E.O.G.)	84.007		321,200
Total Student Financial Aid Cluster			<u>6,433,462</u>
Adult Basic Education	84.002		19,378
ABE - English Literacy/Civics Education	84.002		1,007,756
ABE - Citizenship Participation/Preparation	84.002		143,943
ABE - ESL	84.002		1,516,029
ABE - ST Literacy RSRC Staff Development	84.002		60,000
ABE - 231 Vocational Literacy	84.002		4,943
ABE - P4 Family Literacy	84.002		252,225
ABE - Secondary Education	84.002		120,600
ABE - 225 Adult Basic Education	84.002		3,194
ABE - 225 County Jail P1-P3	84.002		57,908
ABE - 225 County Jail Program	84.002		102,402
Total ABE			<u>3,288,378</u>
TRIO Cluster			
Upward Bound	84.047	P047A030251	294,676
Talent Search II	84.044	P044A990005	321,825
Student Support Services	84.042	P042A020212	297,963
Total TRIO Cluster			<u>914,464</u>
Title V - Developing Hispanic Serving Institutions	84.031	P031S010038	1,144,214
Title III - SCC	84.031	P116B020523	258,394
Total Title V / Title III Programs			<u>1,402,608</u>
Job Development Training Placement Program	84.126		243,804
Business & International Education Program	84.153	P153A030032-04	54,411
Gear Up III Program	84.334	P334A050103	313,751
Child Care Access Means Parents in School	84.335		35,016
Project I - Teach	84.350	03LHHCA002	10,000
Total direct from U.S. Department of Education			<u>2,059,590</u>
Passed through California Department of Education (CDE):			
Vocational and Technical Education Act (VTEA)			
VTEA Tech-Prep Partnership	84.048	99-TP-62	168,292
VTEA Tech-Prep Education	84.048	99-TP-62	139,288
VTEA Title IC	84.048	00-C01-042	962,979
Total VTEA			<u>1,270,559</u>
Total passed through CDE			<u>1,270,559</u>
Passed through Santa Ana Unified School District (SAUSD):			
Gear Up Program	84.334	P334A990398	112,323
Total passed through SAUSD			<u>112,323</u>
Passed through University of California, Irvine (UCI):			
Gear Up II Program	84.334	P334A020290	106,164
Total passed through UCI			<u>106,164</u>
Total U.S. Department of Education			<u>\$ 14,184,940</u>

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - RESTATED (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

Federal Awards	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
<u>Federal Agency/Passthrough Entity/Program Name</u>			
U.S. Department of Health and Human Services (HHS):			
Passed through CDE:			
Child Development Instr Materials	93.575		\$ 3,690
Child Care Development Fund Capacity Project	93.575		15,092
Pre-Kindergarten Resource Grant	93.575		11,850
Total Child Care Development Fund Block Grant			<u>30,632</u>
Head Start	93.600		139,778
Nursing Workforce Diversity	93.178		395,405
Passed through County of Orange:			
Temporary Assistance for Needy Families (TANF) - Welfare to Work	93.558		171,043
Total U.S. Department of HHS			<u>736,858</u>
U.S. Department of Housing and Urban Development (HUD):			
HUD-Hispanic Serving Institutions Assisting Communities	14.514		38,163
Total direct from HUD			<u>38,163</u>
U.S. Department of Commerce:			
Digital Media Incubator *	11.307		1,016,987
Total U.S. Department of Commerce			<u>1,016,987</u>
U.S. Department of Labor (DOL):			
Workforce Investment Act (WIA) - Nursing Grant	17.258		239,340
Geospatial Tech Assessment Program	17.260		132,178
Total U.S. Department of Labor:			<u>371,518</u>
U.S. Department of Agriculture (USDA):			
Child Care Food Program	10.558		268,924
Total U.S. Department of Agriculture			<u>268,924</u>
Corporation of National and Community Service (CNCS):			
Learn and Serve America at Santa Ana College	94.005	03LHHCA002	121,736
Foundation for CCC-Foster Youth Mentoring Program	94.006	02-064-004	74,060
Total CNCS			<u>195,796</u>
U.S. Department of Small Business Administration:			
Passed through State of California Trade and Commerce:			
California Small Business Development Center (SBDC)	59.037		352,461
Total U.S. Department of Small Business Administration			<u>352,461</u>
National Science Foundation (NSF):			
Passed through City College of San Francisco:			
NSF - Bridge to Biotech	47.074		10,394
Total National Science Foundation			<u>10,394</u>
Total Federal Awards			<u>\$ 17,176,041</u>

\* Capital project grant listed as "Federal grant and contract, capital" under the Statement of Revenue, Expenses and Changes in Net Assets.

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, 2006**

**State Financial Assistance**

Program Name	Program Entitlements			Program Revenues				Program Expenditures
	Current	Prior	Total	Cash	Receivable	Deferred	Total	
	Year	Year		Received	(Payable)	Revenue		
AB1725 - Faculty and Staff Diversity	\$ 30,531	\$ 13,084	\$ 43,615	\$ 43,615	\$ -	\$ 2,495	\$ 41,120	\$ 41,120
AB1725 - Staff Development	14,021	-	14,021	14,020	-	-	14,020	14,020
Associate Degree Nursing Program	58,823	-	58,823	58,793	-	-	58,793	58,793
AB77 - Handicapped	1,794,305	-	1,794,305	1,809,655	-	42,343	1,767,312	1,767,312
Cal Grant	900,000	6,978	906,978	871,699	-	31,686	840,013	840,013
CalWorks	745,999	992	746,991	748,895	-	-	748,895	748,895
Care Program	128,384	9,434	137,818	137,817	-	21,794	116,023	116,023
Center for International Trade Development	178,875	-	178,875	150,255	28,620	-	178,875	178,875
Center for Nursing - Enrollment Growth	446,046	-	446,046	-	132,565	-	132,565	132,565
Chancellor's Office Center for Excellence	178,875	51,435	230,310	186,750	24,205	-	210,955	210,955
Child Development Center	3,093,779	-	3,093,779	2,848,000	197,552	-	3,045,552	3,045,552
Economic Development Regional Marketing	-	-	-	5,579	-	-	5,579	5,579
Economic Development Program Workplace Learning Resource Center	178,875	52,072	230,947	199,707	-	1,253	198,454	198,454
Extended Opportunity Program and Services (EOPS)	1,834,641	26,471	1,861,112	1,845,737	14,594	47,716	1,812,615	1,812,615
Hazardous Substance	6,985	252,635	259,620	9,985	74,882	-	84,867	84,867
Learning/Resource Center-Santiago Canyon College-Construction	-	4,107,588	4,107,588	3,923,983	114,665	-	4,038,648	4,038,648
MDTP-California Mathematics Diagnostic Testing Project	22,959	-	22,959	22,671	-	-	22,671	22,671
Matriculation	3,909,781	48,116	3,957,897	3,953,337	-	140,131	3,813,206	3,813,206
Orange County Small Business Development Center-EDP	140,550	-	140,550	118,062	22,488	-	140,550	140,550
Santa Ana College MESA CCCP FY 04/05	81,500	-	81,500	61,125	20,148	-	81,273	81,273
Santa Ana Middle College High School	254,000	-	254,000	95,250	157,738	-	252,988	252,988
Santiago Canyon College Science Building	400,000	5,077,238	5,477,238	4,997,054	53,882	-	5,050,936	5,050,936
Scheduled Maintenance	2,202,973	1,224,168	3,427,141	1,620,907	741,497	1,186,130	1,176,274	1,176,274
State Fund for Instructional Equipment	356,204	132,622	488,826	488,826	-	104,187	384,639	384,639
Student Financial Aid Administration	936,347	8,556	944,903	993,546	-	53,073	940,473	940,473
Telecommunication Technology Infrastructure Program (TTIP)	120,299	499,502	619,801	619,798	-	390,816	228,982	228,982
<b>Total State Programs</b>	<b>\$ 18,014,752</b>	<b>\$ 11,510,891</b>	<b>\$ 29,525,643</b>	<b>\$ 25,825,066</b>	<b>\$ 1,582,836</b>	<b>\$ 2,021,624</b>	<b>\$ 25,386,278</b>	<b>\$ 25,386,278</b>

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, 2006**

<u>Full Time Equivalent Students</u>	<u>Residents</u>	<u>Non- Residents</u>	<u>Total Reported Annual FTES (Factored)</u>
A. Credit Full-Time Equivalent Students (FTES)			
1. Weekly census	12,959	515	13,474
2. Daily census	1,191	48	1,239
3. Actual hours of attendance	3,345	134	3,479
4. Independent study/work experience			
a. Weekly	551	9	560
b. Daily	214	4	218
5. Summer intersession	1,815	62	1,877
Total	<u>20,075</u>	<u>772</u>	<u>20,847</u>
B. Noncredit FTES			
1. Actual hours of attendance	8,999	2	9,001
2. Summer intersession	1,344	-	1,344
Total	<u>10,343</u>	<u>2</u>	<u>10,345</u>
Total FTES	<u>30,418</u>	<u>774</u>	<u>31,192</u>
 <u>Apprenticeship Hours</u>			
C. Annual Apprenticeship Hours of Instruction			
1. July 1 - December 31, 2005	288,747		
2. January 1 - April 15, 2006	50,600		
3. April 16 - June 30, 2006	190,199		
Total	<u>529,546</u>		
 <u>Gross Square Footage</u>			
D. Existing facilities	<u>885,700</u>		
 <u>Leased Space FTES</u>			
E. FTES in Leased Facilities	<u>10,470</u>		

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, 2006**

The audit resulted in no adjustments to the fund balances reported on the June 30, 2006 Annual Financial and Budget Report (CCFS-311).

See accompanying note to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)  
AND RECONCILIATION WITH STATEMENT OF NET ASSETS AND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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	
<b>REVENUES:</b>											
Federal Revenues	\$ 9,530,372	\$ 334,572	\$ -	\$ -	\$ 1,016,987	\$ -	\$ -	\$ -	\$ 6,294,111	\$ -	\$ 17,176,042
State Revenues	80,047,658	3,335,564	-	84,530	10,350,725	-	-	-	912,799	-	94,731,276
Local Revenues	62,647,926	286,111	7,631,445	9,749,090	5,567,320	4,014,609	4,785,133	138,998	70,517	1,580,079	96,471,228
<b>TOTAL REVENUES</b>	<b>152,225,956</b>	<b>3,956,247</b>	<b>7,631,445</b>	<b>9,833,620</b>	<b>16,935,032</b>	<b>4,014,609</b>	<b>4,785,133</b>	<b>138,998</b>	<b>7,277,427</b>	<b>1,580,079</b>	<b>208,378,546</b>
<b>EXPENDITURES:</b>											
Academic Salaries	59,594,877	1,687,709	-	-	-	-	-	-	-	-	61,282,586
Classified Salaries	37,018,259	827,257	934,028	-	-	-	-	21,451	-	411,742	39,212,737
Employee Benefits	28,678,237	960,144	287,734	-	-	-	7,535,015	3,791	-	108,671	37,573,592
Supplies and Materials	3,003,733	164,930	5,593,770	-	48,456	2,883	-	-	-	287	8,814,059
Other Operating Expenses and Services	20,662,702	41,634	214,813	-	271,977	2,839,123	5,927	105,710	63,063	1,201,340	25,406,289
Capital Outlay	2,008,098	10,790	12,089	-	53,050,861	13,152	-	-	-	72,632	55,167,622
<b>TOTAL EXPENDITURES</b>	<b>150,965,906</b>	<b>3,692,464</b>	<b>7,042,434</b>	<b>-</b>	<b>53,371,294</b>	<b>2,855,158</b>	<b>7,540,942</b>	<b>130,952</b>	<b>63,063</b>	<b>1,794,672</b>	<b>227,456,885</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,260,050</b>	<b>263,783</b>	<b>589,011</b>	<b>9,833,620</b>	<b>(36,436,262)</b>	<b>1,159,451</b>	<b>(2,755,809)</b>	<b>8,046</b>	<b>7,214,364</b>	<b>(214,593)</b>	<b>(19,078,339)</b>
<b>NET OTHER FINANCING SOURCES (USES)</b>	<b>(1,742,102)</b>	<b>(141,094)</b>	<b>(200,600)</b>	<b>(15,204,719)</b>	<b>5,413,234</b>	<b>-</b>	<b>-</b>	<b>22,000</b>	<b>(7,220,246)</b>	<b>178,600</b>	<b>(18,894,927)</b>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(482,052)</b>	<b>122,689</b>	<b>388,411</b>	<b>(5,371,099)</b>	<b>(31,023,028)</b>	<b>1,159,451</b>	<b>(2,755,809)</b>	<b>30,046</b>	<b>(5,882)</b>	<b>(35,993)</b>	<b>(37,973,266) A</b>
<b>BEGINNING FUND BALANCE:</b>											
Net Beginning Balance, July 1	17,155,723	182,857	3,538,942	15,472,411	137,111,489	3,179,358	(7,011,774)	419,354	1,766,513	930,809	157,273,271
Prior Years Adjustments	319,755	-	-	-	-	-	-	-	-	-	319,755
Adjusted Beginning Balance	17,475,478	182,857	3,538,942	15,472,411	137,111,489	3,179,358	(7,011,774)	419,354	1,766,513	930,809	173,065,437
<b>ENDING FUND BALANCE, JUNE 30, 2006</b>	<b>\$ 16,993,426</b>	<b>\$ 305,546</b>	<b>\$ 3,927,353</b>	<b>\$ 10,101,312</b>	<b>\$ 106,088,461</b>	<b>\$ 4,338,809</b>	<b>\$ (9,767,583)</b>	<b>\$ 449,400</b>	<b>\$ 1,760,631</b>	<b>\$ 894,816</b>	<b>\$ 135,092,171</b>
<b>RECONCILIATION TO INCREASE IN NET ASSETS</b>											
A Net Decrease in Fund Balance	(37,973,266)										
Capitalized assets	53,715,067										228,467,920
Depreciation expense	(7,555,091)										(3,220,445)
Loss on capital assets disposal	(135,954)										(222,947,259)
Increase in compensated balances	(275,027)										2,934,300
Principal payments of notes payable	30,222										(166,111)
Principal payments of capital lease	231,564										
Bond proceeds	(53,559,299)										
Principal debt payments	55,565,000										
Bond issuance costs	(308,870)										
Deferred amount for refunding	3,339,835										
Premium from sales of bond	(3,240,223)										
<b>INCREASE IN NET ASSETS</b>	<b>\$ 9,833,958</b>										<b>\$ 140,160,576</b>
<b>RECONCILIATION TO NET ASSETS</b>											
Capital assets, net											228,467,920
Compensated balances, long-term											(3,220,445)
Bond payable											(222,947,259)
Bond issuance cost											2,934,300
Notes payable balance											(166,111)
<b>NET ASSETS, JUNE 30, 2006</b>											<b>\$ 140,160,576</b>

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
DISCRETELY PRESENTED COMPONENT UNITS  
COMBINING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2006**

	<b>Santa Ana College Foundation</b>	<b>Santiago Canyon College Foundation</b>	<b>Rancho Santiago Community College District Foundation</b>	<b>Total</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 1,407,781	\$ 333,228	\$ 92,414	\$ 1,833,423
Accounts receivable	72,790	1,747	677	75,214
Prepaid expenses	-	-	4,640	4,640
Investments	1,331,322	493,699	3,544,518	5,369,539
<b>Total Assets</b>	<b>\$ 2,811,893</b>	<b>\$ 828,674</b>	<b>\$ 3,642,249</b>	<b>\$ 7,282,816</b>
<b>Liabilities and Net Assets</b>				
Liabilities				
Current liabilities				
Accounts payable	\$ 7,753	\$ 4,930	\$ 36,606	\$ 49,289
Due to organizations	67,671	16,951	4,079	88,701
Total liabilities	75,424	21,881	40,685	137,990
Net Assets				
Unrestricted	248,394	344,125	20,547	613,066
Temporarily restricted				
Programmatic support	1,122,410	111,525	5,824	1,239,759
Scholarships	1,104,775	342,099	-	1,446,874
Endowment	260,890	9,044	3,575,193	3,845,127
Total temporarily restricted	2,488,075	462,668	3,581,017	6,531,760
Total net assets	2,736,469	806,793	3,601,564	7,144,826
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,811,893</b>	<b>\$ 828,674</b>	<b>\$ 3,642,249</b>	<b>\$ 7,282,816</b>

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, 2006

	UNRESTRICTED FUNDS				TEMPORARILY RESTRICTED FUNDS				
	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	Total
<b>Support and revenue</b>									
Support:									
Contributions	\$ 8,179	\$ 1,853	\$ -	\$ 10,032	\$ 517,655	\$ 113,487	\$ 52,000	\$ 683,142	\$ 693,174
Special event (net of expenses of \$116,993)	-	15,630	103,578	119,208	46,844	20,461	-	67,305	186,513
Affiliated foundation:									
Contributions	24,939	24,939	-	49,878	27,850	27,850	-	55,700	105,578
Donated services	180,186	87,240	9,458	276,884	-	-	-	-	276,884
Donated facilities	5,532	6,330	-	11,862	-	-	-	-	11,862
Total support	218,836	135,992	113,036	467,864	592,349	161,798	52,000	806,147	1,274,011
Revenue:									
Interest and dividends	29,680	11,932	838	42,450	22,514	8,113	-	30,627	73,077
Unrealized gain (loss) on investments	(15,641)	1,524	5	(14,112)	22,008	1,989	-	23,997	9,885
Realized gain (loss) on investments	2,555	9,281	-	11,836	8,573	(2,922)	-	5,651	17,487
Management fees	-	892	-	892	-	-	-	-	892
Other revenue	-	358	11,183	11,541	-	-	-	-	11,541
Total revenue	16,594	23,987	12,026	52,607	53,095	7,180	-	60,275	112,882
Total support and revenue before net assets released from restrictions	235,430	159,979	125,062	520,471	645,444	168,978	52,000	866,422	1,386,893
Net assets released from restrictions	257,567	114,150	63,160	434,877	(257,567)	(114,150)	(63,160)	(434,877)	-
Total support and revenue after net assets released from restrictions	492,997	274,129	188,222	955,348	387,877	54,828	(11,160)	431,545	1,386,893
<b>Expenses</b>									
Program services	310,958	201,029	198,575	710,562	-	-	-	-	710,562
Supporting services:									
Management and general	97,642	6,874	3,481	107,997	-	-	-	-	107,997
Fundraising	78,971	46,295	2,723	127,989	-	-	-	-	127,989
Total expenses	487,571	254,198	204,779	946,548	-	-	-	-	946,548
<b>Excess (deficit) of support and revenue over expenses</b>	<b>5,426</b>	<b>19,931</b>	<b>(16,557)</b>	<b>8,800</b>	<b>387,877</b>	<b>54,828</b>	<b>(11,160)</b>	<b>431,545</b>	<b>440,345</b>
<b>Capital additions on Endowment Grant</b>									
Interest and dividends	-	-	-	-	-	-	81,342	81,342	81,342
Realized gain on investments	-	-	-	-	-	-	195,421	195,421	195,421
Unrealized gain on investments	-	-	-	-	-	-	42,704	42,704	42,704
Total capital additions	-	-	-	-	-	-	319,467	319,467	319,467
Total support and revenue (under) over expenses after capital additions	5,426	19,931	(16,557)	8,800	387,877	54,828	308,307	751,012	759,812
<b>Net assets - beginning of year</b>	<b>242,968</b>	<b>324,194</b>	<b>37,104</b>	<b>604,266</b>	<b>2,100,198</b>	<b>407,840</b>	<b>3,272,710</b>	<b>5,780,748</b>	<b>6,385,014</b>
<b>Net assets - end of year</b>	<b>\$ 248,394</b>	<b>\$ 344,125</b>	<b>\$ 20,547</b>	<b>\$ 613,066</b>	<b>\$ 2,488,075</b>	<b>\$ 462,668</b>	<b>\$ 3,581,017</b>	<b>\$ 6,531,760</b>	<b>\$ 7,144,826</b>

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS OF THE GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

GENERAL FUND	Budget*		2006		Actuals		2004	
	2007				2005			
<b>Revenues</b>								
Federal	\$ 9,020,211	5.33%	\$ 9,530,372	6.26%	\$ 8,160,858	5.79%	\$ 8,301,651	6.39%
State	97,846,443	57.85%	80,047,658	52.58%	74,939,891	53.18%	49,053,338	37.75%
Local	62,280,563	36.82%	62,647,926	41.15%	57,819,903	41.03%	72,580,512	55.86%
Total revenue and other sources	<u>169,147,217</u>	<u>100.00%</u>	<u>152,225,956</u>	<u>100.00%</u>	<u>140,920,652</u>	<u>100.00%</u>	<u>129,935,501</u>	<u>100.00%</u>
<b>Expenditures</b>								
Academic salaries	63,879,993	36.60%	59,594,877	39.48%	55,267,655	39.85%	53,079,268	41.83%
Classified salaries	40,553,098	23.24%	37,018,259	24.52%	33,744,745	24.33%	32,342,982	25.49%
Employee benefits	33,451,842	19.17%	28,678,237	19.00%	26,805,217	19.33%	22,772,664	17.95%
Supplies and materials	3,852,938	2.21%	3,003,733	1.99%	2,616,042	1.89%	2,239,821	1.77%
Other operating expenses	25,770,883	14.77%	20,662,702	13.69%	17,665,767	12.74%	14,379,643	11.33%
Capital outlay	7,009,907	4.02%	2,008,098	1.33%	2,587,334	1.87%	2,086,756	1.64%
Total expenditures and other uses	<u>174,518,661</u>	<u>100.00%</u>	<u>150,965,906</u>	<u>100.00%</u>	<u>138,686,760</u>	<u>100.00%</u>	<u>126,901,134</u>	<u>100.00%</u>
<b>(DECREASE)/INCREASE IN FUND BALANCE</b>								
	(5,371,444)		1,260,050		2,233,892		3,034,367	
Other Financing Sources	170,000		85,617		125,729		67,559	
Other Financing Uses	<u>(2,558,007)</u>		<u>(1,827,719)</u>		<u>(2,114,932)</u>		<u>(2,849,207)</u>	
Net Decrease/(Increase) in Fund Balance	(7,759,451)		(482,052)		244,689		252,719	
Beginning Fund Balance	16,993,426		17,475,478		17,230,789		16,978,070	
Ending Fund Balance	<u>\$ 9,233,975</u>	5.29%	<u>\$ 16,993,426</u>	11.26%	<u>\$ 17,475,478</u>	12.60%	<u>\$ 17,230,789</u>	13.58%

\* The Year 2007 General Fund Budget was taken from the Annual Budget approved by the Board on September 11, 2006.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE SUPPLEMENTARY INFORMATION - RESTATED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - PURPOSE OF SCHEDULES**

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2006 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 2006 was \$1,168,367.
- Federal Perkins Loan Program - The District participates in the DOE federal Perkins loan program and distributed \$21,500 in fiscal year 2006. 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, 2006 was \$585,318.

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 State apportionment funding.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
NOTES TO THE SUPPLEMENTARY INFORMATION – RESTATED (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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 are 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.

Schedule of Financial Trends and Analysis of the General Fund

This schedule provides financial information for the previous three fiscal years actual costs, and current fiscal year budget, for the General Fund only.

**NOTE 2 – RESTATEMENT**

Subsequent to the original issue of the SEFA the following programs were re-categorized as the TRIO Cluster: Upward Bound (CFDA 84.047), Talent Search II (CFDA 84.044) and Student Support Services (CFDA 84.042). The TRIO Cluster is a major program for the current fiscal year.



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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 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2006. 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 over financial reporting 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 misstatements caused by error or fraud in amounts that would be material in relation to the 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

October 20, 2006



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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, 2006. 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 the District's compliance based on our audit.

Certain errors in the schedule of findings and questioned costs were discovered subsequent to the issuance of the report. Accordingly, the schedule has been restated to reflect the addition of the TRIO Cluster as a major program.

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 programs for the year ended June 30, 2006.

### 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 the 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 and use 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.

*Macias Fini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California  
October 20, 2006, except  
for the TRIO Cluster  
Program, as to which  
the date is May 31, 2007



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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 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, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2006. 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.

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:

<u>Program Area Tested</u>	<u>Compliance Requirement</u>
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.

CalWORKs

Districts accepting CalWORKs Program State and Federal Temporary Assistance for Needy Families (TANF) funds are required to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

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.

Noncredit Courses

Districts should comply with noncredit courses and related apportionment via a noncredit course self-assessment conducted April 2005. Self-assessment must be completed and available to review.

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.

Minimum Conditions – “Standard of Scholarship” (i.e. Course Repetition)

Districts are required to meet certain minimum conditions. These minimum conditions include Standard of Scholarship in the California Code of Regulations and publish statements of those regulations under appropriate headings in their catalogs.

Student Fees – Instructional Materials Fees and Health Fees

Districts shall charge fees to students in accordance with the California Education Codes and policies the districts have established.

As described in item 06-1 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding course repetition. 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, 2006.

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.

*Macias Jini & O'Connell LLP*

Certified Public Accountants

Los Angeles, California

October 20, 2006

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – RESTATED  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**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>
11.307	Digital Media Incubator
84.031	Title V - Developing Hispanic Serving Institutions
84.334	Gear-Up
	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 – RESTATED (CONTINUED)  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	TRIO Cluster:
84.042	Student Support Services
84.044	Talent Search II
84.047	Upward Bound

Dollar threshold used to distinguish between Type A and Type B programs: \$515,281

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**

**06-1. Course Repetition**

Condition

During our review of course repetition requirement, we found that the database of application program (GLINK) used by the District Student Admission and Records (A&R) Office has limited capacity to hold student records to the maximum of nine semesters only. This limitation prevents staff of the A&R Office from identifying a student who attempts to register (i.e. repeat) for the same course that was taken prior to academic year 2003. In our detail transactions review, we found seventeen (17) out of the fifty (50) students selected between two campuses are not in compliance with requirements under the Title 5 55763(d).

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – RESTATED (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**06-1. Course Repetition (Continued)**

Recommendation

The system used by the Admission and Records Offices of both colleges should be upgraded so that the permanent academic record of a student can be annotated in such a manner that all work remains legible ensuring a true and complete academic history. The benefit of this upgrade would be reliability and accountability towards the system in complying with District and State requirements. In the mean time, the A&R Offices should perform additional procedures to cross-check the registered course to other alternative student academic records.

Management response

Our current database has limitations that cannot be overcome until we migrate to our new enterprise information system, Datatel.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Part IV – State Findings Section**

<u><b>Finding</b></u>	<u><b>Recommendation</b></u>	<u><b>Status</b></u>
<b>05-1. Concurrent Enrollment</b>		
<p>Of the forty (40) 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 one (1) of the students at Santiago Canyon College; b) Of the remaining thirty-nine (39) students tested, there were no parent signatures on the Career Advanced Placement Program Forms for two (2) K-12 students at Santiago Canyon College.</p>	<p>The Admission and Records Offices of Santiago Canyon College should require all K-12 students to submit their Career Advanced Placement Program (CAP) 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.</p>	Implemented
<b>05-2. Extended Opportunity Programs and Services (EOP&amp;S) Advisory Committee Meeting</b>		
<p>The EOP&amp;S Advisory Committee did not conduct any meetings in the 2005-06 academic year.</p>	<p>We recommend that the EOP&amp;S Advisory Committee meet at least once each academic year to comply with California Education Code Section 56208. Furthermore, minutes should be maintained to document the meetings.</p>	Implemented

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Part IV – State Findings Section  
(Continued)**

<u>Finding</u>	<u>Recommendation</u>	<u>Status</u>
<p><b>05-3. Course Repetition</b></p> <p>During our review of course repetition requirement, we found that the database of application program (GLINK) used by the District Student Admission and Records (A&amp;R) Office has limited capacity to hold student records to the maximum of nine semesters only. This limitation prevents staff of A&amp;R Office from identifying a student who attempts to register (i.e. repeat) for the same course that was taken prior to academic year 2002. In our detail transactions review, we found fifteen (15) out of the forty (40) students selected between two campuses are not in compliance with requirements under the Title 5 55763(d).</p>	<p>The system used by the Admission and Records Offices of both colleges should be upgraded so that the permanent academic record of a student can be annotated in such a manner that all work remains legible ensuring a true and complete academic history. The benefit of this upgrade would be reliability and accountability towards the system in complying with District and State requirements. In the mean time, the A&amp;R Offices should perform additional procedures to cross-check the registered course to other alternative student academic records.</p>	<p>Not implemented  – See finding 06-1</p>