RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2014

FINANCIAL SECTION

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Principles

As discussed in the Note 14 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 4 through 12 and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2014

Building the future through quality education

RANCHO SANTIAGO Community College District

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Santa Ana College • Santiago Canyon College

USING THIS ANNUAL REPORT

The purpose of this annual report is to provide readers with information about the activities programs and financial condition of Rancho Santiago Community College District (the District) as of June 30, 2014. The report consists of three basic financial statements: the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows and provides information about the District as a whole. This section of the annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section. Responsibility for the completeness and accuracy of this information rests with the District management.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

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

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

THE DISTRICT AS A WHOLE

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position 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 Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities), presenting the reader a fiscal snapshot of the District.

From the data presented, readers of the Statement of Net Position 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 Position provides a picture of the net position and its availability for expenditure by the District.

The difference between total assets and total liabilities (net position) is one indicator of the current financial condition of the District; the change in net position 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 position (formerly called fund balance) is divided into three major categories. The first category, net investment in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net position; this net position is available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position that is available to the District for any lawful purpose of the District.

The Statement of Net Position as of June 30, 2014 and 2013, is summarized below:

Table 1

(Amounts in thousands)

	2014 (as restated)	2013 (as restated)	Change	Percentage Change
ASSETS				
Current Assets				
Cash and investments	$ 153,122	$ 165,120	$ (11,998)	-7.27%
Accounts receivable	21,687	30,622	(8,935)	-29.18%
Other current assets	2,719	1,891	828	43.79%
Total Current Assets	177,528	197,633	(20,105)	-10.17%
Capital Assets (net)	412,219	394,053	18,166	4.61%
Total Assets	589,747	591,686	(1,939)	-0.33%
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	13,211	20,018	(6,807)	-34.00%
Total Assets and Deferred Outflows	$ 602,958	$ 611,704	$ (8,746)	-1.43%
Current Liabilities				
Accounts payable and accrued liabilities	$ 23,624	$ 21,062	$ 2,562	12.16%
Current portion of long-term debt	9,211	9,269	(58)	-0.63%
Total Current Liabilities	32,835	30,331	2,504	8.26%
Long-Term Debt	400,706	407,205	(6,499)	-1.60%
Total Liabilities	433,541	437,536	(3,995)	-0.91%
NET POSITION				
Net investment in capital assets	82,991	82,907	84	0.10%
Restricted	49,690	40,060	9,630	24.04%
Unrestricted	36,736	51,201	(14,465)	-28.25%
Total Net Position	169,417	174,168	(4,751)	-2.73%
Total Liabilities and Net Position	$ 602,958	$ 611,704	$ (8,746)	-1.43%

Fiscal year ended 2014 compared to 2013:

- Current assets overall decreased by approximately $20.1 million. Within this category, cash and investments decreased due to our continued expenditures related to our bond construction program, and accounts receivable decreased specifically due to the reduction of the State apportionment deferrals. The increase in the other current assets is mainly due to an increase in prepaid expenses related to construction projects during the fiscal year.

- Net capital assets increased by approximately $18.2 million mainly due to ongoing construction in progress, as well as completed construction of the following projects: (1) Santa Ana College Campus Perimeter Beautification Projects, (2) Santa Ana College Cook Gymnasium, and (3) Athletic Field Fencing and Netting at Santiago Canyon College.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

Table 2

(Amounts in thousands)

	2014	2013	Change	Percentage Change
Operating Revenues				
Tuition and fees	$ 12,807	$ 12,801	$ 6	0.05%
Auxiliary sales and charges	660	417	243	0.00%
Total Operating Revenues	13,467	13,218	249	1.88%
Operating Expenses				
Salaries and benefits	146,954	142,560	4,394	3.08%
Supplies and maintenance	37,994	21,586	16,408	76.01%
Financial aid	25,275	21,953	3,322	15.13%
Depreciation	13,201	12,748	453	3.55%
Total Operating Expenses	223,424	198,847	24,577	12.36%
Loss on Operations	(209,957)	(185,629)	(24,328)	13.11%
Nonoperating Revenues				
State apportionments	80,877	73,803	7,074	9.58%
Property taxes	46,370	47,932	(1,562)	-3.26%
Federal grants	36,998	35,015	1,983	5.66%
State grants	20,231	17,671	2,560	14.49%
State taxes and other revenue	6,018	5,197	821	15.80%
Net interest expense	(17,140)	(11,739)	(5,401)	46.01%
Other nonoperating revenues	10,468	11,258	(790)	-7.02%
Total Nonoperating Revenue	183,822	179,137	4,685	2.62%
Other Revenues				
State and local capital income	21,384	20,946	438	2.09%
Net Change in Net Position	$ (4,751)	$ 14,454	$ (19,205)	-132.87%

Fiscal year ended 2014 compared to 2013:

- Tuition and fees remained largely unchanged due to the fact that the State enrollment fees of $46 did not change from 2013 to 2014.

- Supplies and maintenance costs increased by $16.4 million due primarily to the effect of the bond refunding issuance made by the District in 2013.

- The combination of the State apportionment increase of about $7.1 million and property tax decrease of about $1.6 million net an increase of $5.5 million related to the cost of living adjustment and growth funding provided by the State, along with a one-time adjustment from the prior year.

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

Table 3

Year ended June 30, 2014:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 68,529	$ 3,975	$ -	$ -	$ 72,504
Academic support	10,596	193	-	-	10,789
Student services	28,902	1,446	-	-	30,348
Plant operations and maintenance	4,685	2,973	-	-	7,658
Instructional support services	22,580	6,598	-	-	29,178
Community services and economic development	2,349	608	-	-	2,957
Ancillary services and auxiliary operations	8,707	3,650	-	-	12,357
Student aid	-	-	25,275	-	25,275
Physical property and related acquisitions	606	18,551	-	-	19,157
Depreciation	-	-	-	13,201	13,201
Total	$ 146,954	$ 37,994	$ 25,275	$ 13,201	$ 223,424

Year ended June 30, 2013:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	$ 57,885	$ 3,143	$ -	$ -	$ 61,028
Academic support	11,353	211	-	-	11,564
Student services	29,618	1,116	-	-	30,734
Plant operations and maintenance	4,980	2,428	-	-	7,408
Instructional support services	24,964	5,146	-	-	30,110
Community services and economic development	2,843	543	-	-	3,386
Ancillary services and auxiliary operations	10,425	2,910	-	-	13,335
Student aid	-	-	21,953	-	21,953
Physical property and related acquisitions	492	6,089	-	-	6,581
Depreciation	-	-	-	12,748	12,748
Total	$ 142,560	$ 21,586	$ 21,953	$ 12,748	$ 198,847

Statement of Cash Flows

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

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

Statement of Changes in Cash Position

- Operating activities consist of cash receipts from enrollment fees, grants and contracts, and cash payments for salaries, benefits, supplies, utilities, and other items related to the instructional program.

- Noncapital financing activities are primarily State apportionment and property taxes.

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

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

Table 4

(Amounts in thousands)

	2014	2013	Change
Cash Provided by (Used in)			
Operating activities	$ (187,667)	$ (186,225)	$ (1,442)
Noncapital financing activities	209,516	194,677	14,839
Capital financing activities	(34,400)	(19,799)	(14,601)
Investing activities	553	657	(104)
Net Decrease in Cash	(11,998)	(10,690)	(1,308)
Cash, Beginning of Year	165,120	175,810	(10,690)
Cash, End of Year	$ 153,122	$ 165,120	$ (11,998)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal year ended 2014 compared to 2013:

As of June 30, 2014, the District had $548.2 million in capital assets, less $136.0 million accumulated depreciation for net capital assets of $412.2 million. The District continues to work on the facilities projects that are part of the $337 million bond master plan. The District spent approximately $38.5 million on capital assets in 2013-2014, the majority of which relate to bond proceeds. Depreciation charges totaled $13.2 million in 2013-2014.

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	$ 159,381	$ 22,953	$ 7,155	$ 175,179
Buildings and improvements	290,170	11,222	-	301,392
Furniture and equipment	69,082	4,352	1,831	71,603
Subtotal	518,633	38,527	8,986	548,174
Accumulated depreciation	124,580	13,201	1,826	135,955
	$ 394,053	$ 25,326	$ 7,160	$ 412,219

Obligations

Fiscal year ended 2014 compared to 2013:

At June 30, 2014, the District had $409.9 million in outstanding long-term liabilities compared to $416.5 million at June 30, 2013. The net decrease of $6.6 million includes a net decrease of $9.1 million related to the payment of General Obligation Bonds during the fiscal year and a $2.1 million increase in the Other Postemployment Benefits obligation in accordance with the most recent acturarial study of Retiree Health Liabilities dated April 25, 2014.

Table 6

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	$ 356,814	$ 3,182	$ 12,295	$ 347,701
Claims payable	400	-	-	400
Compensated absences	4,915	268	-	5,183
Load banking	4,070	379	186	4,263
Net OPEB obligation	50,276	7,717	5,623	52,370
Total Long-Term Obligations	$ 416,475	$ 11,546	$ 18,104	$ 409,917
Amount due within one year				$ 9,211

BUDGETARY HIGHLIGHTS

At the time the 2014-2015 budget was developed, the following assumptions were made:

- The proposed 2014-2015 State Cost of Living Allowance (COLA) increase was budgeted at 0.85 percent.
- The District also budgeted restoration/access/growth funding at the State estimated 2.75 percent increase for a total estimated amount of 29,415 Full-Time Equivalent Students served.
- The District budgeted $21.8 million for estimated Education Protection Account (EPA) funding.
- The full-time Faculty Obligation Number, which had previously been suspended, was reinstated by the Board of Governors of the California Community Colleges and increased our obligation to an estimated 334.80. The District, therefore, budgeted for 22 new full-time faculty hires to meet this obligation.
- The District's budget is balanced by using a portion of the 2013-2014 unrestricted ending balance stabilization funds.
- The District continued a third year in transition to a new budget allocation model based on SB 361 moving the District to a revenue allocation system. This model will continue in transition until ongoing revenues and expenses are balanced without the need of stabilization funding.

ECONOMIC FACTORS

- The financial position of the Rancho Santiago Community College District is closely tied to that of the State of California. The District receives over 70 percent of its combined General Fund revenues through State apportionments, local property taxes including redevelopment agency allocations, and the Education Protection Account (EPA). These sources, along with student paid enrollment fees, essentially make up the District's general apportionment, the main funding support for California community colleges.
- There is a concern for community colleges in that the shift of State support to the EPA funding, which is temporarily keeping budgets afloat, partially expire in 2016 and fully expire in 2018, along with the dissolution of redevelopment agencies and the related pass-through funding creates uncertainty as to how these revenues will be made up in the future.
- Management continues to closely monitor the State budget information and operating costs of the District and will maintain a close watch over resources to ensure financial stability and retain reserve levels required by Board Policy and the State Chancellor's Office.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2014

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 5,296,589
Cash and cash equivalents - restricted	397,981
Investments - unrestricted	72,315,312
Investments - restricted	75,112,437
Accounts receivable	21,565,948
Student loans receivable	121,121
Due from fiduciary funds	633,801
Prepaid expenses	827,242
Inventories	1,257,333
Total Current Assets	177,527,764
Noncurrent Assets	
Nondepreciable capital assets	175,179,282
Depreciable capital assets, net of depreciation	237,040,026
Total Noncurrent Assets	412,219,308
TOTAL ASSETS	589,747,072
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	13,210,930
LIABILITIES	
Current Liabilities	
Accounts payable	13,423,757
Accrued interest payable	4,768,398
Due to fiduciary funds	532,209
Unearned revenue	4,899,357
Compensated absences payable - current portion	781,029
Bonds payable - current portion	8,430,000
Total Current Liabilities	32,834,750
Noncurrent Liabilities	
Claims liability	400,000
Compensated absences payable - noncurrent portion	4,402,323
Bonds payable - noncurrent portion	339,270,593
Other long-term liabilities - noncurrent portion	56,633,084
Total Noncurrent Liabilities	400,706,000
TOTAL LIABILITIES	433,540,750
NET POSITION	
Net investment in capital assets	82,991,556
Restricted for:	
Debt service	11,297,149
Capital projects	34,754,824
Educational programs	3,637,556
Unrestricted	36,736,167
TOTAL NET POSITION	$ 169,417,252

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES	
Student Tuition and Fees	$ 27,043,638
Less: Scholarship discount and allowance	(14,236,394)
Net tuition and fees	12,807,244
Auxiliary Enterprise Sales and Charges	
Other Operating Revenues	660,070
TOTAL OPERATING REVENUES	13,467,314
OPERATING EXPENSES	
Salaries	108,770,693
Employee benefits	38,183,492
Supplies, materials, and other operating expenses and services	32,433,555
Student financial aid	25,274,924
Equipment, maintenance, and repairs	5,560,262
Depreciation	13,200,979
TOTAL OPERATING EXPENSES	223,423,905
OPERATING LOSS	(209,956,591)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	80,876,966
Local property taxes, levied for general purposes	46,369,860
Federal grants	36,998,312
State grants	20,230,786
State taxes and other revenues	6,017,684
Investment income	553,164
Interest expense on capital related debt	(17,730,517)
Investment income on capital asset-related debt, net	37,726
Transfer out to fiduciary fund	(39,000)
Loss on disposal of capital assets	(5,407)
Other nonoperating revenue	10,511,785
TOTAL NONOPERATING REVENUES (EXPENSES)	183,821,359
LOSS BEFORE OTHER REVENUES AND EXPENSES	(26,135,232)
OTHER REVENUES	
State revenues, capital	861,256
Local revenues, capital	20,522,882
TOTAL OTHER REVENUES	21,384,138
CHANGE IN NET POSITION	(4,751,094)
NET POSITION, BEGINNING OF YEAR AS RESTATED	174,168,346
NET POSITION, END OF YEAR	$ 169,417,252

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 12,768,130
Auxiliary sales	660,070
Payments to or on behalf of employees	(144,364,866)
Payments to vendors for supplies and services	(31,455,120)
Payments to students for scholarships and grants	(25,274,924)
Net Cash Flows From Operating Activities	(187,666,710)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	80,876,966
Property taxes	46,369,860
Grant and contracts	56,456,852
State taxes and other revenue	14,891,612
Other nonoperating	10,920,658
Net Cash Flows From Noncapital Financing Activities	209,515,948
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(28,630,881)
State revenue, capital projects	861,256
Local revenue, capital projects	20,522,882
Proceeds from capital debt	3,181,708
Principal paid on capital debt	(12,294,691)
Interest paid on capital debt	(18,078,551)
Interest received on capital asset-related debt	37,726
Net Cash Flows From Capital Financing Activities	(34,400,551)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	553,164
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,998,149)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	165,120,468
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 153,122,319

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, Continued
FOR THE YEAR ENDED JUNE 30, 2014

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (209,956,591)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	13,200,979
Changes in Assets and Liabilities:	
Receivables	22,921
Inventories	(125,614)
Prepaid expenses and deferred charges	6,099,773
Accounts payable and accrued liabilities	(28,136)
Unearned revenue	564,538
OPEB obligation	2,093,744
Compensated absences and load banking	461,676
Total Adjustments	22,289,881
Net Cash Flows From Operating Activities	$ (187,666,710)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 5,694,570
Cash in county treasury	147,277,201
Cash in Local Agency Investment Fund (LAIF)	150,548
Total Cash and Cash Equivalents	$ 153,122,319
NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 3,022,572

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 1,978,882	$ 1,338,432
Investments	5	-
Accounts receivable	52,399	-
Due from primary government	532,209	-
Total Assets	2,563,495	$ 1,338,432
LIABILITIES		
Accounts payable	105,721	$ 7,323
Due to primary government	633,801	-
Due to student groups	-	1,331,109
Total Liabilities	739,522	$ 1,338,432
NET POSITION		
Reserved	70,823	
Unreserved	1,753,150	
Total Net Position	$ 1,823,973	

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Trust
ADDITIONS	
Local revenues	$ 2,136,736
DEDUCTIONS	
Classified salaries	578,503
Employee benefits	151,875
Books and supplies	63,818
Services and operating expenditures	1,030,128
Capital outlay	122,136
Total Deductions	1,946,460
OTHER FINANCING SOURCES	
Transfer in from governmental funds	39,000
Change in Net Position	229,276
Net Position - Beginning	1,594,697
Net Position - Ending	$ 1,823,973

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

NOTE 1 - ORGANIZATION

Rancho Santiago Community College District (the District) was established in 1971 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates two colleges located within Orange County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The District has adopted GASB Statement No. 61, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations, for which the District is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the District. The three components used to determine the presentation are: providing a "direct benefit", the "environment and ability to access/influence reporting", and the "significance" criterion. The District has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37 and No. 38. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees.

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

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

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County and State investment pools are determined by the program sponsor.

Restricted Assets

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

Accounts Receivable

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

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2014.

Inventories

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

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction in progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $1,000 and an estimated useful life greater than one year. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. The District does not possess any infrastructure. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of routine maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged as an operating expense in the year in which the expense was incurred. Major outlays for capital improvements are capitalized as construction in progress as the projects are constructed.

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

Accrued Liabilities and Long-Term Obligations

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

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Charge on Refunding

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

Compensated Absences

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

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

Unearned Revenue

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

Noncurrent Liabilities

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

Net Position

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

> **Net Investment in Capital Assets** consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.
>
> **Restricted**: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.
>
> **Unrestricted**: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report $49,689,529 of restricted net position.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

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

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

Board of Governors Grants (BOGG) and Fee Waivers

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

Federal Financial Assistance Programs

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

On Behalf Payments

GASB Statement No. 24 requires direct on behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California.

Estimates

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

Interfund Activity

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

Change in Accounting Principles

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

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

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by $4,428,690. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

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

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

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

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

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

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

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

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

Primary government	$ 153,122,319
Fiduciary funds	3,317,319
Total Deposits and Investments	$ 156,439,638

Cash on hand and in banks	$ 8,795,984
Cash in revolving	215,900
Investments	147,427,754
Total Deposits and Investments	$ 156,439,638

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County pool and LAIF investment pools.

Specific Identification

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

Investment Type	Carrying Value	Fair Value	Maturity Date
Orange County Treasury Investment Pool	$ 147,277,206	$ 147,337,282	519*
Local Agency Investment Fund (LAIF)	150,548	150,548	232*
Total	$ 147,427,754	$ 147,487,830	

* Weighted average days to maturity

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County pool and LAIF are not required to be rated. The investment in LAIF has not been rated as of June 30, 2014. The District's investment in the Orange County Treasury Investment Pool was rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2014, the District's bank balance of $7,445,123 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	$ 4,258,463	$ -
State Government		
Apportionment	12,937,756	-
Categorical aid	805,738	-
Lottery	2,144,697	-
Other State sources	491,285	-
Local Sources		
Interest	47,352	-
Other local sources	880,657	52,399
Total	$ 21,565,948	$ 52,399
Student loans receivable	$ 121,121	$ -

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2014, the amounts owed between the primary government and the fiduciary funds were $633,801 and $532,209, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2014 fiscal year, there was no transfer made to the primary government from the fiduciary funds. The amount transferred to the fiduciary funds from the primary government amounted to $39,000.

NOTE 6 - CAPITAL ASSETS

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 84,875,123	$ 5,089,237	$ -	$ 89,964,360
Construction in progress	74,505,762	17,863,575	7,154,415	85,214,922
Total Capital Assets Not Being Depreciated	159,380,885	22,952,812	7,154,415	175,179,282
Capital Assets Being Depreciated				
Buildings and improvements	290,170,131	11,221,757	-	301,391,888
Furniture and equipment	69,082,450	4,352,376	1,831,169	71,603,657
Total Capital Assets Being Depreciated	359,252,581	15,574,133	1,831,169	372,995,545
Total Capital Assets	518,633,466	38,526,945	8,985,584	548,174,827
Less Accumulated Depreciation				
Buildings and improvements	71,288,734	8,432,732	-	79,721,466
Furniture and equipment	53,291,568	4,768,247	1,825,762	56,234,053
Total Accumulated Depreciation	124,580,302	13,200,979	1,825,762	135,955,519
Net Capital Assets	$ 394,053,164	$ 25,325,966	$ 7,159,822	$ 412,219,308

Depreciation expense for the year was $13,200,979.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 5,630,241	$ 74,826
Construction	3,208,939	-
Other	4,584,577	38,218
Total	$ 13,423,757	$ 113,044

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consisted of the following:

	Primary Government
Federal financial assistance	$ 160,873
State categorical aid	1,851,246
Other state sources	165,082
Enrollment fees	1,730,225
Other local	991,931
Total	$ 4,899,357

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2014 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General Obligation - 2003, Series A	$ 2,500,000	$ -	$ 2,500,000	$ -	$ -
General Obligation - 2005, Series B	53,986,599	562,203	2,340,000	52,208,802	2,730,000
General Obligation - 2006, Series C	57,120,751	2,552,295	700,000	58,973,046	760,000
2005 General Obligation Refunding Bonds	51,567,790	67,210	1,710,000	49,925,000	2,235,000
2011 General Obligation Refunding Bonds	10,300,000	-	40,000	10,260,000	45,000
2012 General Obligation Refunding Bonds	62,985,000	-	-	62,985,000	2,660,000
2013 General Obligation Refunding Bonds	79,130,000	-	1,225,000	77,905,000	-
Unamortized bond premium	39,223,436	-	3,779,691	35,443,745	-
Total Bonds and Notes Payable	356,813,576	3,181,708	12,294,691	347,700,593	8,430,000
Other Liabilities					
Claims payable	400,000	-	-	400,000	-
Compensated absences	4,914,778	268,574	-	5,183,352	781,029
Load banking	4,070,273	379,190	186,088	4,263,375	-
Net OPEB obligation	50,275,965	7,717,191	5,623,447	52,369,709	-
Total Other Liabilities	59,661,016	8,364,955	5,809,535	62,216,436	781,029
Total Long-Term Obligations	$ 416,474,592	$ 11,546,663	$ 18,104,226	$ 409,917,029	$ 9,211,029

Description of Debt

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

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

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

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

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

The refunding proceeds were issued to pay off a portion of the Series A General Obligation Bonds. The refunding proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased. As of June 30, 2014, the bonds had been paid in full.

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

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013. As of June 30, 2014, the bonds had been paid in full.

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

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

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series A bonds on September 1, 2013, and the Series B bonds on September 1, 2015. As of June 30, 2014, the balance in the escrow account amounted to approximately $63,500,000.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings is approximately $4,400,000.

On January 17, 2013, the District issued $79,130,000 2013 General Obligation Refunding Bonds. Interest rates range from 1.75 percent to 5.0 percent payable semi-annually on March 1 and September 1. The net proceeds from the issuance provided for the partial refunding of $2,650,000 of the 2005 Series B bonds and $80,100,000 of the 2006 Series C bonds.

This was an advance refunding resulting in a legal defeasance of the previously issued bonds. An Escrow Fund was established to fund continued payment of the principal and interest as it becomes due. The Escrow Agreement provides for the redemption of the remaining outstanding principal of the Series B and Series C bonds on September 1, 2016. As of June 30, 2014, the balance in the escrow account amounted approximately $90,500,000.

Because the transaction qualified as a legal defeasance, the obligation for the defeased bonds has been removed from the District's financial statements. The economic gain calculated as the sum of the project fund proceeds and the net present value savings is approximately $3,400,000.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2014
3/12/2003	9/1/2013	2.00-5.25%	$ 96,125,000	$ 2,500,000	$ -	$ -	$ 2,500,000	$ -
2/23/2005	9/1/2029	3.00-5.13%	119,999,867	53,986,599	-	562,203	2,340,000	52,208,802
8/4/2005	9/1/2023	3.57-5.25%	53,559,299	51,567,790	-	67,210	1,710,000	49,925,000
9/21/2006	9/1/2031	3.38-5.00%	120,874,329	57,120,751	-	2,552,295	700,000	58,973,046
11/30/2011	9/1/2022	2.00-5.00%	10,300,000	10,300,000	-	-	40,000	10,260,000
3/1/2012	9/1/2027	2.00-5.00%	62,985,000	62,985,000	-	-	-	62,985,000
1/17/2013	9/1/2026	1.75-5.00%	79,130,000	79,130,000	-	-	1,225,000	77,905,000
				$ 317,590,140	$ -	$ 3,181,708	$ 8,515,000	$ 312,256,848

Annual requirements for all bonds payable are as follows:

Series B

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2015	$ 2,702,622	$ 27,378	$ 1,981,850	$ 4,711,850
2016	3,085,609	64,391	1,894,050	5,044,050
2017	1,150,660	159,340	1,847,050	3,157,050
2018	843,654	166,346	1,847,050	2,857,050
2019	901,500	233,500	1,847,050	2,982,050
2020-2024	5,148,258	2,491,742	9,235,250	16,875,250
2025-2029	19,631,499	1,813,501	8,796,066	30,241,066
2030	18,745,000	-	480,341	19,225,341
Total	$ 52,208,802	$ 4,956,198	$ 27,928,707	$ 85,093,707

Series C

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2015	$ 760,000	$ -	$ 85,156	$ 845,156
2016	615,000	-	60,234	675,234
2017	1,155,000	-	24,544	1,179,544
2018	-	-	-	-
2019	-	-	-	-
2020-2024	-	-	-	-
2025-2029	19,012,186	17,387,814	-	36,400,000
2030-2032	37,430,860	45,799,140	-	83,230,000
Total	$ 58,973,046	$ 63,186,954	$ 169,934	$122,329,934

2005 Refunding Bond

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2015	$ 2,235,000	$ -	$ 2,496,838	$ 4,731,838
2016	2,865,000	-	2,369,338	5,234,338
2017	5,670,000	-	2,148,875	7,818,875
2018	5,995,000	-	1,842,669	7,837,669
2019	5,560,000	-	1,685,300	7,245,300
2020-2024	27,600,000	-	3,184,913	30,784,913
Total	$ 49,925,000	$ -	$ 13,727,933	$ 63,652,933

2011 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 45,000	$ 400,300	$ 445,300
2016	2,970,000	355,300	3,325,300
2017	25,000	310,375	335,375
2018	25,000	309,625	334,625
2019	2,525,000	271,375	2,796,375
2020-2024	4,670,000	817,250	5,487,250
Total	$ 10,260,000	$ 2,464,225	$ 12,724,225

2012 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 2,660,000	$ 2,817,950	$ 5,477,950
2016	-	2,791,350	2,791,350
2017	-	2,791,350	2,791,350
2018	2,925,000	2,732,850	5,657,850
2019	3,245,000	2,609,450	5,854,450
2020-2024	21,335,000	10,710,575	32,045,575
2025-2028	32,820,000	3,746,750	36,566,750
Total	$ 62,985,000	$ 28,200,275	$ 91,185,275

2013 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ -	$ 3,524,563	$ 3,524,563
2016	-	3,524,563	3,524,563
2017	2,430,000	3,488,113	5,918,113
2018	1,925,000	3,425,256	5,350,256
2019	830,000	3,382,250	4,212,250
2020-2024	27,035,000	14,698,550	41,733,550
2025-2027	45,685,000	3,642,375	49,327,375
Total	$ 77,905,000	$ 35,685,670	$113,590,670

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2014, was $8,350,167, and contributions made by the District during the year were $5,623,447. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,506,099 and $(3,139,075), respectively, which resulted in an increase to the net OPEB obligation of $2,093,744. As of June 30, 2014, the net OPEB obligation was $52,369,709. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

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

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

Plan Description

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than 10 years, but less than 15 years, of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with 15 years or more service are eligible to receive medical benefits up to $26,884 for 2014. (The maximum for most employees is $22,560 for fiscal year 2014.) Currently, 400 employees meet those eligibility requirements.

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

Funding Policy

The contribution requirements of Plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2013-2014, the District contributed $8,350,167, consisting of $5,623,447 for premiums and $2,726,720 to set aside for the future liability.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 8,350,167
Interest on net OPEB obligation	2,506,099
Adjustment to annual required contribution	(3,139,075)
Annual OPEB cost (expense)	7,717,191
Contributions made	(5,623,447)
Increase in net OPEB obligation	2,093,744
Net OPEB obligation, July 1, 2013	50,275,965
Net OPEB obligation, June 30, 2014	$ 52,369,709

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	$ 8,740,792	$ 5,664,036	65%	$ 47,260,769
2013	8,894,629	5,879,433	66%	50,275,965
2014	7,717,191	5,623,447	73%	52,369,709

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2014, is as follows:

Actuarial Accrued Liability (AAL)	$ 82,058,965
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 82,058,965
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$ 104,223,062
UAAL as Percentage of Covered Payroll	78.73%

The above noted actuarial accrued liability was based on the April 25, 2014, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the April 25, 2014, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.75 percent investment rate of return. Healthcare cost trend rate was four percent. The UAAL is being amortized using the level percentage of payroll method. The remaining amortization period at June 30, 2014, was 18 years.

NOTE 11 - RISK MANAGEMENT

Insurance Coverages

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

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

At June 30, 2014, the District accrued the claims liability in accordance with GASB Statement No. 10 for claims that occurred when the District was self-insured. The present value of the liability is estimated at $400,000. Changes in the reported liability are shown below:

	Workers' Compensation	Property and Liability
Liability Balance, July 1, 2012	$ 400,000	$ -
Claims and changes in estimates	8,795	29,572
Claims payments	(8,795)	(29,572)
Liability Balance, June 30, 2013	400,000	-
Claims and changes in estimates	544	80,140
Claims payments	(544)	(80,140)
Liability Balance, June 30, 2014	$ 400,000	$ -
Assets Available to Pay Claims at June 30, 2014	$ 6,620,679	$ 2,290,997

Joint Powers Authority Risk Pools

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

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

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

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

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

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

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

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were $5,001,034, $4,629,714, and $4,665,310, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the PEPRA, changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

As a result of the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For
2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were $4,307,219, $4,183,376, and $3,915,682, respectively, and equal 100 percent of the required contributions for each year.

Public Agency Retirement System (PARS)

Plan Description

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

Funding Policy

Contributions of 7.5 percent of covered compensation of eligible employees are made by the employer and employee. Total contributions, employer and employee combined, were made in the amount of $570,709 during the fiscal year. The total amount of covered compensation was $7,609,447. Total contributions made are 100 percent of the amount of contributions required for fiscal year 2013-2014.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2014, which amounted to $3,022,572 (5.541 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2014. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2014.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2014.

Operating Leases

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

Year Ending June 30,	Lease Payment
2015	$ 370,103
2016	194,974
2017	13,556
2018	4,119
2019	1,497
Total	$ 584,249

Rental expenditures for the year ended June 30, 2014, amounted to $436,829.

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

	Spent to Date	Remaining Construction Commitment	Expected Date of Completion
Santa Ana College			
Renovation of Buildings	$ 9,302,490	$ 11,494	2015
Renovate Campus Infrastructure	24,927,689	4,591	2015
Renovate and Expand Athletic Fields	10,082,438	215	2015
Parking Lot Expansion and Improvements	7,906,461	3,814,517	2015
Perimeter Site Improvements	6,165,992	418,383	2015
Tessmann Planetarium Upgrade	716,875	2,226,519	2015
Dunlap Hall Renovation	1,291,308	13,770,886	2015
Johnson Center Renovation	49,300	2,500	2014
Temporary Village (Swing Space)	2,807,979	1,370,759	2015
Central Plant (Design)	1,271,727	972,661	2015
Purchase of 17th/Bristol Property	5,110,237	14,809	2014
Chavez Hall Renovation	6,642	82,568	2016
Santiago Canyon College			
Infrastructure	37,187,826	60,939	2015
Humanities Building	32,361,136	228,765	2015
Athletics and Aquatics Center	19,849,746	62,826	2014
Science and Math Building	26,415,964	34,950	2014
Orange Education Center Building Certification	383,918	2,069,061	2017
	$ 185,837,728	$ 25,146,443	

The projects are funded through general obligation bonds.

NOTE 14 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District's prior year beginning net position has been restated as of June 30, 2014.

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current fiscal year. As a result, deferring and amortizing bond issuance costs is no longer allowed. The effect on the current fiscal year is as follows:

Primary Government	
Net Position - Beginning	$ 178,597,036
Restatement of deferred cost of issuance for implementation of GASB Statement No. 65	(4,428,690)
Net Position - Beginning, as Restated	$ 174,168,346

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Method Used (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
2/1/2010	$ -	$ 81,480,837	$ 81,480,837	0%	$ 104,537,352	78%
7/17/2012	-	92,397,836	92,397,836	0%	100,628,030	92%
4/25/2014	-	82,058,965	82,058,965	0%	104,223,062	79%

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2014

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

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Jose Solorio	President	2016
Lawrence R. "Larry" Labrado	Vice President	2014
Claudia C. Alvarez	Clerk	2016
Arianna P. Barrios	Member	2016
John R. Hanna	Member	2014
Nelida Mendoza Yanez	Member	2016
Phillip E. Yarbrough	Member	2014
Alana V. Voechting	Student Trustee	2015

DISTRICT EXECUTIVE OFFICERS

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

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Directly Funded:			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		$ 20,797,028
Federal Pell Administrative Allowance	84.063		4,308
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		381,400
Federal Work-Study Program	84.033		353,674
Federal Perkins Loans	84.038		12,920
Federal Direct Loan	84.268		2,230,026
Total Student Financial Assistance Cluster			23,779,356
TRIO Cluster			
Student Support Services	84.042A		293,047
Talent Search	84.044A		308,865
Upward Bound	84.047A		225,181
Upward Bound - Math and Science	84.047M		240,232
Upward Bound - Veterans	84.047V		322,836
Total TRIO Cluster			1,390,161
HIGHER EDUCATION ACT			
Migrant Education - College Assistance Migrant Program	84.149		422,693
Title V - Strengthening Hispanic Serving Institutions	84.031S		684,628
Title III - Hispanic Serving Institution - STEM	84.031C		96,929
Title III - Hispanic Serving Institution - ENGAGE	84.031C		1,152,044
Gear Up IV Program	84.334A		624,352
Child Care Access Means Parents in School (CCAMPIS)	84.335A		10,011
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through from California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002	[1]	182,447
English Literacy and Civics Education Grant (EL Civics)	84.002	[1]	1,424,106
English as a Second Language	84.002	[1]	1,636,324
Secondary Education	84.002	[1]	377,634
CAREER AND TECHNICAL EDUCATION (CTE) ACT			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Title 1, Part B	84.048	99-C01-046	38,000
CTE - CTE Transitions	84.048	99-TP-046	75,960
Title I, Part C	84.048	99-C01-046	1,418,765
LAOC Regional Consortium (Title 1, Part B)	84.048	99-C01-047	370,000
Passed through Program from Department of Rehabilitation			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	[1]	149,704

[1] Pass-Through Entity Identifying Number is unavailable.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES			
Early Head Start	93.600		$ 1,743,918
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	97,054
Passed through from San Francisco Community College District			
California Early Childhood Mentor Program	93.558	CN110123	1,440
Passed through from Yosemite Community College District			
Child Development Training Consortium	93.575	12-13	18,175
Passed through from Foundation for California Community Colleges (FCCC)			
YESS - Youth Empowerment Strategies for Success	93.674	[1]	22,377
U.S. DEPARTMENT OF LABOR			
WIA Cluster			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Bridge to Engineering	17.258	[1]	129,815
Passed through from City of Santa Ana			
Technology Access Center - Job Tech Lab	17.258	[1]	16,007
WIA Youth Activities (Seeds to Trees)	17.258	[1]	51,733
Total WIA Cluster			197,555
U.S. DEPARTMENT OF AGRICULTURE			
Partnership for Transfer Success in USDA Career Majors	10.223		72,958
Forest Reserve	10.665		19,017
Passed through from Orange County Superintendent of Schools			
Network for a Healthy California Coalition	10.551	33762	28,453
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	[1]	291,570
NATIONAL SCIENCE FOUNDATION**			
Passed through from Consulting for Environment System Technology			
NSF - CFEST	47.041	CFEST-SCC-06	529
Passed through from California State University, Fullerton			
NSF - FULL-MT2	47.082	S-4707-SACC	22,657
U.S. SMALL BUSINESS ADMINISTRATION			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
CITD STEP	59.061	F12-0071	6,486
Passed through from California State University, Fullerton			
California Small Business Development Center (SBDC)	59.037	S-5133-RSCCD	547,478
SBA Jobs Acts - (SBDC)	59.037	[1]	37,495
SBA Jobs Acts - Center for International Trade (CITD)	59.037	[1]	52,516

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

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**			
Passed through from University of California, San Diego (UCSD)			
MESA Community College Laboratory Research Experience	43.001	NNX10AT93H	$ 10,000
Total Federal Program Expenditures			$ 37,002,792
Student Financial Aid Loan Programs			
Loans Outstanding			
Rancho Santiago Community College District had the following loan balance outstanding as of June 30, 2014:			
Perkins Program			$ 118,841

** Research and Development Grants

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Program	Program Entitlements Current Year	Prior Year	Total Entitlement
GENERAL FUND			
AB1725 - Faculty and Staff Diversity	$ 12,224	$ 9,383	$ 21,607
Basic Skills	863,720	1,211,031	2,074,751
CA Math Diagnostic Testing	26,605	-	26,605
Cal Grant	1,740,708	-	1,740,708
California Child Signature Program (CSP)	55,000	-	55,000
CalWorks	408,384	-	408,384
Care Program	75,909	9,443	85,352
Capacity Building Grant - EduPlay	-	84,899	84,899
Career Technical Education Community Collaborative II	-	697,619	697,619
Child Development Center	3,097,349	-	3,097,349
Econ Dev Program: BEC Statewide, BEC, and YEP	600,090	848,004	1,448,094
Econ Dev Program: Enrollment Growth	230,500	34,811	265,311
Extended Opportunity Program and Services (EOPS)	1,543,040	5,726	1,548,766
Matriculation - Non Credit	1,785,302	-	1,785,302
Matriculation - Credit	2,116,746	2,513	2,119,259
Santa Ana Middle College High School	99,000	-	99,000
Santiago Canyon College MESA CCP	50,500	-	50,500
Song Brown Family Physician Training Act	116,287	-	116,287
Student Financial Aid Administration	997,383	-	997,383
Student Mental Health	211,435	-	211,435
Telecommunication Technology Infrastructure Program (TTIP)	-	53,762	53,762
Subtotal			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
$ 21,607	$ -	$ 1,152	$ 20,455	$ 20,455
2,074,751	-	1,233,050	841,701	841,701
-	26,604	-	26,604	26,604
1,727,450	13,258	-	1,740,708	1,740,708
-	23,142	-	23,142	23,142
408,384	-	14,186	394,198	394,198
76,071	-	-	76,071	76,071
50,899	-	16,278	34,621	34,621
544,028	39,343	-	583,371	583,371
2,762,371	141,075	-	2,903,446	2,903,446
796,086	414,083	89,527	1,120,642	1,120,642
228,431	-	22,891	205,540	205,540
1,541,889	-	-	1,541,889	1,541,889
1,785,302	-	42,299	1,743,003	1,743,003
2,139,780	-	367,299	1,772,481	1,772,481
39,600	55,076	-	94,676	94,676
30,300	19,995	-	50,295	50,295
83,201	33,086	-	116,287	116,287
1,080,368	-	25,319	1,055,049	1,055,049
80,291	40,076	-	120,367	120,367
53,762	-	39,245	14,517	14,517
$ 15,524,571	$ 805,738	$ 1,851,246	$ 14,479,063	$ 14,479,063

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

	Reported Data	Audit Adjustments	Audited Data
CATEGORIES			
A. Summer Intersession (Summer 2013 only)			
1. Noncredit*	612	-	612
2. Credit	1,684	-	1,684
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit*	171	-	171
2. Credit	33	-	33
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,559	-	14,559
(b) Daily Census Contact Hours	1,358	-	1,358
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	5,618	-	5,618
(b) Credit	3,349	-	3,349
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	812	-	812
(b) Daily Census Contact Hours	493	-	493
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	28,689	-	28,689
SUPPLEMENTAL INFORMATION			
In-Service Training Courses (FTES)	2,470	-	2,470
Basic Skills Courses and Immigrant Education			
1. Noncredit*	5,223	-	5,223
2. Credit	1,093	-	1,093

* Including Career Development and College Preparation (CDCP) FTES

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	$ 23,233,447	$ -	$ 23,233,447	$ 23,233,447	$ -	$ 23,233,447
Other	1300	22,165,086	-	22,165,086	22,165,086	-	22,165,086
Total Instructional Salaries		45,398,533	-	45,398,533	45,398,533	-	45,398,533
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	13,180,756	-	13,180,756
Other	1400	-	-	-	1,108,478	-	1,108,478
Total Noninstructional Salaries		-	-	-	14,289,234	-	14,289,234
Total Academic Salaries		45,398,533	-	45,398,533	59,687,767	-	59,687,767
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	22,920,927	-	22,920,927
Other	2300	-	-	-	1,177,641	-	1,177,641
Total Noninstructional Salaries		-	-	-	24,098,568	-	24,098,568
Instructional Aides							
Regular Status	2200	947,104	-	947,104	947,104	-	947,104
Other	2400	1,610,827	-	1,610,827	1,610,827	-	1,610,827
Total Instructional Aides		2,557,931	-	2,557,931	2,557,931	-	2,557,931
Total Classified Salaries		2,557,931	-	2,557,931	26,656,499	-	26,656,499
Employee Benefits	3000	13,862,173	-	13,862,173	33,086,474	-	33,086,474
Supplies and Material	4000	-	-	-	772,471	-	772,471
Other Operating Expenses	5000	3,448,003	-	3,448,003	15,603,888	-	15,603,888
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		65,266,640	-	65,266,640	135,807,099	-	135,807,099

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ 2,522,181	$ -	$ 2,522,181	$ 2,522,181	$ -	$ 2,522,181
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	878	-	878
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	3,101,265	-	3,101,265
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,390,287	-	1,390,287
Lottery Expenditures							-
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	-	-	-
Employee Benefits	3000	-	-	-	-	-	-
Supplies and Materials	4000	-	-	-	-	-	-
Software	4100	-	-	-	-	-	-
Books, Magazines, and Periodicals	4200	-	-	-	-	-	-
Instructional Supplies and Materials	4300	-	-	-	-	-	-
Noninstructional Supplies and Materials	4400	-	-	-	-	-	-
Total Supplies and Materials		-	-	-	-	-	-

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, Continued
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ 3,758,209	$ -	$ 3,758,209
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		2,522,181	-	2,522,181	10,772,820	-	10,772,820
Total for ECS 84362, 50 Percent Law		$ 62,744,459	$ -	$ 62,744,459	$ 125,034,279	$ -	$ 125,034,279
Percent of CEE (Instructional Salary Cost/Total CEE)		50.18%		50.18%	100.00%		100.00%
50% of Current Expense of Education					$ 62,517,140		$ 62,517,140

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2014

Activity Classification	**Object Code**			**Unrestricted**	
EPA Proceeds:	8630				$ 20,419,045
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 20,419,045			$ 20,419,045
					-
					-
					-
					-
					-
					-
Total Expenditures for EPA		$ 20,419,045	-	-	$ 20,419,045
Revenues Less Expenditures					$ -

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance, Retained Earnings, and Due to Student Groups		
General Funds	$ 29,603,923	
Special Revenue Funds	4,192,775	
Capital Project Funds	53,227,665	
Debt Service Funds	16,065,547	
Internal Service Funds	(4,015,469)	
Fiduciary Funds	4,455,407	
Total Fund Balance, Retained Earnings, and Due to Student Groups		**$ 103,529,848**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	548,174,827	
Accumulated depreciation is	(135,955,519)	412,219,308
Amounts held in trust on behalf of others (Trust and Agency Funds)		(3,155,082)
Expenditures relating to the issuance of debt were recognized on the modified accrual basis and are amortized over the life of the debt on the accrual basis.		13,210,930
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(4,768,398)
Long-term liabilities at year end consist of:		
Bonds payable	347,700,593	
Claims payable	400,000	
Net OPEB obligation	52,369,709	
Load banking	4,263,375	
Compensated absences	5,183,352	
Less load banking already recorded in funds	(4,263,375)	
Less compensated absences already recorded in funds	(781,029)	
Less claims payable already recorded in funds	(400,000)	
Less net OPEB obligation already recorded in funds	(52,853,271)	(351,619,354)
Total Net Position		**$ 169,417,252**

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

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

Schedule of Expenditures of Federal Awards

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

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

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenses, and Changes in Net Position:		$ 36,998,312
Federal Perkins Loans	84.038	12,920
Network for a Healthy California Coalition	10.551	81
Federal Pell Grant Program	84.063	(8,521)
Total Expenditures of Federal Awards		$ 37,002,792

Subrecipients

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Title III - Hispanic Serving Institution - STEM	84.031C	$ 1,026,797
Early Head Start	93.600	236,522
Gear Up IV Program	84.334A	286,407
		$ 1,549,726

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State Chancellor's Office.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

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

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS

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

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, 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, the basic financial statements of the business-type activities of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 29, 2014.

Change in Accounting Principles

As discussed in Note 14 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2014. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, 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 consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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

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Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2014

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

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2014.

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In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

Section 421	Salaries of Classroom Instructors (50 Percent Law)
Section 423	Apportionment for Instructional Service Agreements/Contracts
Section 424	State General Apportionment Funding System
Section 425	Residency Determination for Credit Courses
Section 426	Students Actively Enrolled
Section 427	Concurrent Enrollment of K-12 Students in Community College Credit Courses
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (TBA) Hours
Section 490	Proposition 1D State Bond Funded Projects
Section 491	Proposition 30 Education Protection Account Funds

The District did not receive any funding through Proposition ID State Bond Funded Projects; therefore, compliance tests within this section were not applicable.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.038, 84.063, 84.268	Student Financial Assistance Cluster
84.149	Migrant Education - College Assistance Migrant Program (CAMP)
84.334A	Gear Up IV Program
84.048	Title 1, Part B; CTE - CTE Transitions; Title I, Part C; LAOC Regional Consortium (Title 1, Part B)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 396,703
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

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

Federal Awards Findings

2013-001 ELIGIBILITY

Federal Program Affected

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

Criteria or Specific Requirement

Recruitment and Eligibility under section 418A of the Higher Education Act of 1965, as amended Section H(H5):

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

Condition

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

Questioned Costs

There were no questioned costs.

Context

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

Effect

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

Cause

Santiago Canyon College was not clear on the eligibility requirements related to the maximum completed units' requirements of 24 units (one academic year). As a result, the site has one issue of noncompliance related to the compliance requirement outlined in the criteria.

Recommendation

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

Current Status

Implemented.