RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

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

INDEPENDENT AUDITORS' 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 and the discretely presented component units of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of the District as of June 30, 2013, 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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Changes in Accounting Principles

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 62 for the year ended June 30, 2013. These changes require a restatement of the beginning net position of the District as discussed in Note 15. 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 51 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 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 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 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, 2013, 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, 2013

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, 2013. 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, 2013. 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, 2013 and 2012, is summarized below:

Table 1

(Amounts in thousands)

	2013	2012 (as restated)	Change	Percentage Change
ASSETS				
Current Assets				
Cash and investments	$ 165,120	$ 175,810	$ (10,690)	-6.08%
Accounts receivable	30,622	35,955	(5,333)	-14.83%
Other current assets	26,338	8,669	17,669	203.82%
Total Current Assets	222,080	220,434	1,646	0.75%
Capital Assets (net)	394,053	377,598	16,455	4.36%
Total Assets	$ 616,133	$ 598,032	$ 18,101	3.03%
Current Liabilities				
Accounts payable and accrued liabilities	$ 21,062	$ 23,639	$ (2,577)	-10.90%
Current portion of long-term debt	9,269	7,112	2,157	30.33%
Total Current Liabilities	30,331	30,751	(420)	-1.37%
Long-term Debt	407,205	403,138	4,067	1.01%
Total Liabilities	437,536	433,889	3,647	0.84%
NET ASSETS				
Net investment in capital assets	82,907	92,707	(9,800)	-10.57%
Restricted	40,060	29,848	10,212	34.21%
Unrestricted	55,630	41,588	14,042	33.76%
Total Net Position	178,597	164,143	14,454	8.81%
Total Liabilities and Net Position	$ 616,133	$ 598,032	$ 18,101	3.03%

Fiscal year ended 2013 compared to 2012:

- Current assets overall increased by approximately $1.6 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 related to the deferred charge related to the refunding of bonds during the fiscal year.

- Net capital assets increased by approximately $16.5 million mainly due to completed construction of the following projects: (1) Santiago Canyon College Athletics and Aquatics Center, (2) Soccer Field and Cul de Sacs at Santa Ana College, (3) Humanities Building at Santiago Canyon College, and (4) Santiago Canyon College New Entrance and Traffic Signal.

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)

	2013	2012	Change	Percentage Change
Operating Revenues				
Tuition and fees	$ 12,801	$ 11,349	$ 1,452	12.79%
Auxiliary sales and charges	417	664	(247)	0.00%
Total Operating Revenues	13,218	12,013	1,205	10.03%
Operating Expenses				
Salaries and benefits	142,560	140,001	2,559	1.83%
Supplies and maintenance	21,586	42,624	(21,038)	-49.36%
Financial aid	21,953	23,144	(1,191)	-5.15%
Depreciation	12,748	11,872	876	7.38%
Total Operating Expenses	198,847	217,641	(18,794)	-8.64%
Loss on Operations	(185,629)	(205,628)	19,999	-9.73%
Nonoperating Revenues				
State apportionments	73,803	83,912	(10,109)	-12.05%
Property taxes	47,932	37,368	10,564	28.27%
Federal grants	35,015	36,442	(1,427)	-3.92%
State grants	17,671	17,426	245	1.41%
State taxes and other revenue	5,197	5,354	(157)	-2.93%
Net interest expense	(11,739)	(21,910)	10,171	-46.42%
Other nonoperating revenues	11,258	8,663	2,595	29.95%
Total Nonoperating Revenue	179,137	167,255	11,882	7.10%
Other Revenues				
State and local capital income	20,946	18,276	2,670	14.61%
Net Change in Net Position	$ 14,454	$ (20,097)	$ 34,551	-171.92%

Fiscal year ended 2013 compared to 2012:

- Fees increased 13 percent in 2013 due to the increase in State enrollment fees from $36 to $46 and an increase of 477 total funded Full-Time Equivalent Students served.

- Supplies and maintenance costs decreased $21 million due primarily to the effect of the bond refunding issuance made by the District in 2012-2013.

- State apportionments decreased by a total of about $10 million and property taxes increased by a like amount due to the shift from State support with additional RDA payments during the current 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, 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

Year ended June 30, 2012:

(Amounts in thousands)

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

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)

	2013	2012	Change
Cash Provided by (Used in)			
Operating activities	$ (186,225)	$ (196,130)	$ 9,905
Noncapital financing activities	194,677	186,545	8,132
Capital financing activities	(19,799)	(17,941)	(1,858)
Investing activities	657	1,126	(469)
Net Decrease in Cash	(10,690)	(26,400)	15,710
Cash, Beginning of Year	175,810	202,210	(26,400)
Cash, End of Year	$ 165,120	$ 175,810	$ (10,690)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal year ended 2013 compared to 2012:

As of June 30, 2013, the District had $518.6 million in capital assets, less $124.6 million accumulated depreciation for net capital assets of $394.1 million. The District continues to work on the facilities projects that are part of the $337 million bond master plan. The District spent approximately $34.3 million on capital assets in 2012-2013, the majority of which relate to bond proceeds. Depreciation charges totaled $12.7 million in 2012-2013.

Table 5

(Amounts in thousands)

	Balance Beginning of Year, as restated	Additions	Deletions	Balance End of Year
Land and construction in progress	$ 153,324	$ 23,854	$ 17,797	$ 159,381
Buildings and improvements	275,409	14,761	-	290,170
Furniture and equipment	61,680	8,386	984	69,082
Subtotal	490,413	47,001	18,781	518,633
Accumulated depreciation	112,815	12,748	983	124,580
	$ 377,598	$ 34,253	$ 17,798	$ 394,053

Obligations

Fiscal year ended 2013 compared to 2012:

At June 30, 2013, the District had $416.5 million in outstanding long-term liabilities compared to $410.3 million at June 30, 2012. The net increase of $6.2 million includes an increase of $3 million in the Other Postemployment Benefits obligation in accordance with the most recent actuarial study of Retiree Health Liabilities dated July 17, 2012, and an increase of $14.8 million related to the issuance of two General Obligation Refunding Bonds during the fiscal year.

Table 6

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
General obligation bonds	$ 354,360	$ 99,740	$ 97,286	$ 356,814
Claims payable	400	-	-	400
Compensated absences	4,737	178	-	4,915
Load banking	3,493	579	2	4,070
Net OPEB obligation	47,261	8,894	5,879	50,276
Total Long-Term Obligations	$ 410,251	$ 109,391	$ 103,167	$ 416,475
Amount due within one year				$ 9,269

BUDGETARY HIGHLIGHTS

At the time the 2013-2014 budget was developed, the following assumptions were made:

- The proposed 2013-2014 State Cost of Living Allowance (COLA) increase was budgeted at 1.57 percent.
- The District also budgeted restoration/access/growth funding at the State estimated 1.63 percent plus an additional 1 percent growth opportunity for a total estimated amount of Full-Time Equivalent Students served at 28,926.
- The District budgeted $17.9 million for estimated Education Protection Account (EPA) funding.
- The District's budget is balanced by using a portion of the 2012-2013 unrestricted ending balance stabilization funds.
- The District continued a second 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 and local property taxes. These two sources along with allocations from the EPA, RDA allocations, and 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 keeping budgets afloat temporarily, 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, 2013

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 4,336,877
Cash and cash equivalents - restricted	1,747,109
Investments - unrestricted	71,130,092
Investments - restricted	87,906,390
Accounts receivable	30,477,462
Student loans receivable	144,042
Due from fiduciary funds	639,104
Prepaid expenses	119,947
Inventories	1,131,719
Deferred cost of issuance	4,428,690
Deferred charge on refunding	20,017,998
Total Current Assets	222,079,430
Noncurrent Assets	
Nondepreciable capital assets	159,380,885
Depreciable capital assets, net of depreciation	234,672,279
Total Noncurrent Assets	394,053,164
TOTAL ASSETS	616,132,594
LIABILITIES	
Current Liabilities	
Accounts payable	10,648,209
Accrued interest payable	5,116,432
Due to fiduciary funds	557,990
Deferred revenue	4,738,335
Compensated absences payable - current portion	754,380
Bonds payable - current portion	8,515,000
Total Current Liabilities	30,330,346
Noncurrent Liabilities	
Claims liability	400,000
Compensated absences payable - noncurrent portion	4,160,398
Bonds payable - noncurrent portion	348,298,576
Other long-term liabilities - noncurrent portion	54,346,238
Total Noncurrent Liabilities	407,205,212
TOTAL LIABILITIES	437,535,558
NET POSITION	
Net investment in capital assets	82,907,287
Restricted for:	
Debt service	10,627,347
Capital projects	26,672,852
Educational programs	2,760,010
Unrestricted	55,629,540
TOTAL NET POSITION	$ 178,597,036

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, 2013

OPERATING REVENUES	
Student Tuition and Fees	$ 23,708,303
Less: Scholarship discount and allowance	(10,906,638)
Net tuition and fees	12,801,665
Auxiliary Enterprise Sales and Charges	
Other Operating Revenues	416,711
TOTAL OPERATING REVENUES	13,218,376
OPERATING EXPENSES	
Salaries	102,369,077
Employee benefits	40,190,663
Supplies, materials, and other operating expenses and services	19,491,320
Student financial aid	21,953,484
Equipment, maintenance, and repairs	2,094,827
Depreciation	12,748,021
TOTAL OPERATING EXPENSES	198,847,392
OPERATING LOSS	(185,629,016)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	73,802,994
Local property taxes, levied for general purposes	47,932,517
Federal grants	35,015,245
State grants	17,670,634
State taxes and other revenues	5,197,530
Investment income	657,747
Interest expense on capital related debt	(12,437,237)
Investment income on capital asset-related debt, net	39,864
Transfer out to fiduciary fund	(60,800)
Loss on disposal of capital assets	(1,168)
Other nonoperating revenue	11,319,918
TOTAL NONOPERATING REVENUES (EXPENSES)	179,137,244
LOSS BEFORE OTHER REVENUES AND EXPENSES	(6,491,772)
OTHER REVENUES	
State revenues, capital	1,956,841
Local revenues, capital	18,988,976
TOTAL OTHER REVENUES	20,945,817
CHANGE IN NET POSITION	14,454,045
NET POSITION, BEGINNING OF YEAR AS RESTATED	164,142,991
NET POSITION, END OF YEAR	$ 178,597,036

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 12,945,450
Auxiliary sales	416,711
Payments to or on behalf of employees	(138,459,584)
Payments to vendors for supplies and services	(39,173,943)
Payments to students for scholarships and grants	(21,953,484)
Net Cash Flows From Operating Activities	(186,224,850)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	73,802,994
Property taxes	47,932,517
Grant and contracts	51,409,823
State taxes and other revenue	11,058,952
Other nonoperating	10,472,867
Net Cash Flows From Noncapital Financing Activities	194,677,153
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(30,652,397)
State revenue, capital projects	1,956,841
Local revenue, capital projects	18,988,976
Proceeds from capital debt	99,739,680
Principal paid on capital debt	(97,285,980)
Interest paid on capital debt	(12,586,182)
Interest received on capital asset-related debt	39,864
Net Cash Flows From Capital Financing Activities	(19,799,198)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	657,747
Net Cash Flows From Investing Activities	657,747
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,689,148)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	175,809,616
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 165,120,468

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, 2013

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (185,629,016)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	12,748,021
Changes in Assets and Liabilities:	
Receivables	66,402
Inventories	46,428
Prepaid expenses and deferred charges	(17,619,767)
Accounts payable and accrued liabilities	407,218
Deferred revenue	(14,457)
OPEB obligation	3,015,196
Compensated absences and load banking	755,125
Total Adjustments	(595,834)
Net Cash Flows From Operating Activities	$ (186,224,850)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 6,083,986
Cash in county treasury	158,886,305
Cash in Local Agency Investment Fund (LAIF)	150,177
Total Cash and Cash Equivalents	$ 165,120,468
NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 2,904,381

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Trust	Agency Funds
ASSETS		
Cash and cash equivalents	$ 1,711,007	$ 1,254,594
Investments	5	-
Accounts receivable	53,446	-
Due from primary government	557,990	-
Total Assets	2,322,448	$ 1,254,594
LIABILITIES		
Accounts payable	88,647	$ 4,370
Due to primary government	639,104	-
Due to student groups	-	1,250,224
Total Liabilities	727,751	$ 1,254,594
NET POSITION		
Reserved	28,445	
Unreserved	1,566,252	
Total Net Position	$ 1,594,697	

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, 2013

	Trust
ADDITIONS	
Local revenues	$ 2,247,892
DEDUCTIONS	
Classified salaries	579,423
Employee benefits	167,235
Books and supplies	26,403
Services and operating expenditures	1,261,138
Capital outlay	110,816
Total Deductions	2,145,015
OTHER FINANCING SOURCES	
Transfer in from governmental funds	60,800
Change in Net Position	163,677
Net Position - Beginning	1,431,020
Net Position - Ending	$ 1,594,697

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents - unrestricted	$ 632,841
Cash and cash equivalents - restricted	1,659,588
Investments, at fair value - unrestricted	170,855
Accounts receivable	33,103
Prepaid expenses	1,000
Total Current Assets	2,497,387
NONCURRENT ASSETS	
Investments, at fair value - unrestricted	1,894,359
Investments, at fair value - restricted	4,306,770
Equipment, net	21,011
Total Noncurrent Assets	6,222,140
TOTAL ASSETS	$ 8,719,527
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 52,443
Deferred revenue	5,932
TOTAL LIABILITIES	58,375
NET ASSETS	
Unrestricted	2,513,031
Temporarily restricted	6,023,841
Permanently restricted	124,280
Total Net Assets	8,661,152
Total Liabilities and Net Assets	$ 8,719,527

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Contributions	$ 2,555,624	$ 1,878,972	$ -	$ 4,434,596
Fundraising	115,660	-	-	115,660
Donated facilities	18,366	-	-	18,366
Donated salaries and benefits	477,148	-	-	477,148
Special events	20,238	18,950	-	39,188
Federal revenues	-	83,957	-	83,957
Administrative fee	18,615	-	-	18,615
Miscellaneous revenue	3,218	4,713	-	7,931
Assets released from restrictions	1,054,705	(1,054,705)	-	-
Total Revenues	4,263,574	931,887	-	5,195,461
EXPENSES				
Operating expenses	545,770	-	-	545,770
Program expenses	3,880,409	-	-	3,880,409
Fundraising expenses	203,482	-	-	203,482
Total Expenses	4,629,661	-	-	4,629,661
OTHER INCOME (EXPENSE)				
Realized gain on sale of investments	4,480	40,769	-	45,249
Unrealized gain (loss)	(21,894)	21,031	-	(863)
Interest and dividends	45,950	124,739	-	170,689
Transfers	(991,026)	1,002,213	(11,187)	-
Total Other Income (Expense)	(962,490)	1,188,752	(11,187)	215,075
CHANGE IN NET ASSETS	(1,328,577)	2,120,639	(11,187)	780,875
NET ASSETS, BEGINNING OF YEAR	3,841,608	3,903,202	135,467	7,880,277
NET ASSETS, END OF YEAR	$ 2,513,031	$ 6,023,841	$ 124,280	$ 8,661,152

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 780,875
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities	
Unrealized loss	863
Depreciation	5,989
Contributions restricted for long-term purposes	(1,878,972)
Changes in Assets and Liabilities	
Decrease in accounts receivable and prepaid accounts	5,983
Increase in accounts payable	29,582
Decrease in due to Rancho Santiago Community College District	(33,653)
Decrease in deferred revenue	(3,000)
Net Cash Flows From Operating Activities	(1,092,333)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	3,049,944
Purchase of investments	(2,858,557)
Increase in restricted cash and cash equivalents	(909,428)
Net Cash Flows From Investing Activities	(718,041)
CASH FLOWS FROM FINANCING ACTIVITIES	
Collections of contributions restricted for long-term purposes	1,878,972
NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	68,598
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	564,243
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	$ 632,841
NONCASH TRANSACTIONS	
Donated facilities	$ 18,366
Donated salaries and benefits	$ 477,148

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. As defined by accounting principles generally accepted in the United States of America and established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, the District, and the following component units:

- **Rancho Santiago Community College District Foundation**

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

- **Santa Ana College Foundation**

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

- **Santiago Canyon College Foundation**

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent 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, 2013, 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, 2013.

Inventories

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

Capital Assets and Depreciation

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

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

Accrued Liabilities and Long-Term Obligations

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

Deferred Issuance Costs, Premiums, and Discounts

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

Deferred Amount on Refunding

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

Compensated Absences

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

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

Deferred Revenue

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

Noncurrent Liabilities

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

Net 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 asset 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 $40,060,209 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.

Foundation Financial Statement Presentation

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

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

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

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

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

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

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

Changes in Accounting Principles

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

The District has implemented the provisions of this Statement for the year ended June 30, 2013. See Note 15 for more information.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

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

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

New Accounting Pronouncements

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

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

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

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.

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, 2013, consist of the following:

Primary government	$ 165,120,468
Fiduciary funds	2,965,606
Total Deposits and Investments	$ 168,086,074
Cash on hand and in banks	$ 8,834,687
Cash in revolving	214,900
Investments	159,036,487
Total Deposits and Investments	$ 168,086,074

Interest Rate Risk

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

Specific Identification

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

Investment Type	Carrying Value	Fair Value	Maturity Date
Orange County Treasury Investment Pool	$ 158,886,310	$ 158,793,010	300
Local Agency Investment Fund (LAIF)	150,177	150,177	278
Total	$ 159,036,487	$ 158,943,187	

* 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, 2013. 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, 2013, the District's bank balance of $5,733,671 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, 2013, 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	$ 3,863,578	$ -
State Government		
Apportionment	22,267,440	-
Categorical aid	769,858	-
Lottery	2,096,723	-
Other State sources	83,503	-
Local Sources		
Interest	21,691	-
Other local sources	1,374,669	53,446
Total	$ 30,477,462	$ 53,446
Student receivables	$ 144,042	$ -

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, 2013, the amounts owed between the government and the fiduciary funds were $639,104 and $557,990, 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 2013 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 $60,800.

NOTE 6 - CAPITAL ASSETS

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

	Balance Beginning of Year, as restated	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 84,875,123	$ -	$ -	$ 84,875,123
Construction in progress	68,449,323	23,853,667	17,797,228	74,505,762
Total Capital Assets Not Being Depreciated	153,324,446	23,853,667	17,797,228	159,380,885
Capital Assets Being Depreciated				
Buildings and improvements	275,408,460	14,761,671	-	290,170,131
Furniture and equipment	61,679,729	8,386,318	983,597	69,082,450
Total Capital Assets Being Depreciated	337,088,189	23,147,989	983,597	359,252,581
Total Capital Assets	490,412,635	47,001,656	18,780,825	518,633,466
Less Accumulated Depreciation				
Buildings and improvements	63,088,418	8,200,316	-	71,288,734
Furniture and equipment	49,726,292	4,547,705	982,429	53,291,568
Total Accumulated Depreciation	112,814,710	12,748,021	982,429	124,580,302
Net Capital Assets	$ 377,597,925	$ 34,253,635	$ 17,798,396	$ 394,053,164

Depreciation expense for the year was $12,748,021.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 5,596,342	$ 67,630
Construction	1,952,500	-
Other	3,099,367	25,387
Total	$ 10,648,209	$ 93,017

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consisted of the following:

	Primary Government
Federal financial assistance	$ 91,759
State categorical aid	2,426,923
Enrollment fees	1,792,260
Other local	427,393
Total	$ 4,738,335

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2013 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	$ 4,810,000	$ -	$ 2,310,000	$ 2,500,000	$ 2,500,000
General Obligation - 2005, Series B	58,052,021	554,578	4,620,000	53,986,599	2,340,000
General Obligation - 2006, Series C	135,443,873	2,436,878	80,760,000	57,120,751	700,000
2005 General Obligation Refunding Bonds	52,667,262	110,528	1,210,000	51,567,790	1,710,000
2011 General Obligation Refunding Bonds	10,300,000	-	-	10,300,000	40,000
2012 General Obligation Refunding Bonds	62,985,000	-	-	62,985,000	-
2013 General Obligation Refunding Bonds	-	79,130,000	-	79,130,000	1,225,000
Unamortized bond premium	30,101,720	17,507,696	8,385,980	39,223,436	-
Total Bonds and Notes Payable	354,359,876	99,739,680	97,285,980	356,813,576	8,515,000
Other Liabilities					
Claims payable	400,000	-	-	400,000	-
Compensated absences	4,736,653	178,125	-	4,914,778	754,380
Load banking	3,493,273	578,650	1,650	4,070,273	-
Net OPEB obligation	47,260,769	8,894,629	5,879,433	50,275,965	-
Total Other Liabilities	55,890,695	9,651,404	5,881,083	59,661,016	754,380
Total Long-Term Obligations	$410,250,571	$109,391,084	$103,167,063	$416,474,592	$ 9,269,380

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. The amount of refunded debt to be paid from the escrow account at June 30, 2013, for Series A is $47,939,250.

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, 2013, the balance in the escrow account amounted to $10,702,149.

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, 2013, the balance in the escrow account amounted to $72,081,852.

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, 2013, the balance in the escrow account amounted to $92,974,897.

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, 2012	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2013
3/12/2003	9/1/2013	2.00-5.25%	$ 96,125,000	$ 4,810,000	$ -	$ -	$ 2,310,000	$ 2,500,000
2/23/2005	9/1/2029	3.00-5.13%	119,999,867	58,052,021	-	554,578	4,620,000	53,986,599
8/4/2005	9/1/2023	3.57-5.25%	53,559,299	52,667,262	-	110,528	1,210,000	51,567,790
9/21/2006	9/1/2031	3.38-5.00%	120,874,329	135,443,873	-	2,436,878	80,760,000	57,120,751
11/30/2011	9/1/2022	2.00-5.00%	10,300,000	10,300,000	-	-	-	10,300,000
3/1/2012	9/1/2027	2.00-5.00%	62,985,000	62,985,000	-	-	-	62,985,000
1/17/13	9/1/2026	1.75-5.00%	79,130,000	-	79,130,000	-	-	79,130,000
				$ 324,258,156	$79,130,000	$ 3,101,984	$88,900,000	$ 317,590,140

Annual requirements for all bonds payable are as follows:

Series A

Fiscal Year	Principal	Interest to Maturity	Total
2014	$ 2,500,000	$ 46,875	$ 2,546,875
Total	$ 2,500,000	$ 46,875	$ 2,546,875

Series B

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2014	$ 2,317,423	$ 22,577	$ 2,057,650	$ 4,397,650
2015	2,676,329	53,671	1,981,850	4,711,850
2016	3,055,383	94,617	1,894,050	5,044,050
2017	1,101,977	208,023	1,847,050	3,157,050
2018	806,539	203,461	1,847,050	2,857,050
2019-2023	4,710,104	2,244,896	9,235,250	16,190,250
2024-2028	3,278,844	2,691,156	9,235,250	15,205,250
2029-2030	36,040,000	-	1,884,206	37,924,206
Total	$ 53,986,599	$ 5,518,401	$ 29,982,356	$ 89,487,356

Series C

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2014	$ 700,000	$ -	$ 116,432	$ 816,432
2015	760,000	-	85,156	845,156
2016	615,000	-	60,234	675,234
2017	1,155,000	-	24,544	1,179,544
2018	-	-	-	-
2019-2023	-	-	-	-
2024-2028	11,159,534	10,610,466	-	21,770,000
2029-2032	42,731,217	55,128,783	-	97,860,000
Total	$ 57,120,751	$ 65,739,249	$ 286,366	$123,146,366

2005 Refunding Bond

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2014	$ 1,642,790	$ 67,210	$ 2,552,712	$ 4,262,712
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
2019-2023	30,475,000	-	4,681,581	35,156,581
2024	2,685,000	-	70,481	2,755,481
Total	$ 51,567,790	$ 67,210	$ 16,162,494	$ 67,797,494

2011 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2014	$ 40,000	$ 401,150	$ 441,150
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
2019-2023	7,195,000	1,088,625	8,283,625
Total	$ 10,300,000	$ 2,865,375	$ 13,165,375

2012 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2014	$ -	$ 2,844,550	$ 2,844,550
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
2019-2023	19,565,000	11,553,650	31,118,650
2024-2028	37,835,000	5,513,125	43,348,125
Total	$ 62,985,000	$ 31,044,825	$ 94,029,825

2013 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2014	$ 1,225,000	$ 3,842,426	$ 5,067,426
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
2019-2023	16,325,000	15,565,750	31,890,750
2024-2027	57,225,000	6,157,425	63,382,425
Total	$ 79,130,000	$ 39,528,096	$ 118,658,096

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2013, was $8,743,003, and contributions made by the District during the year were $5,879,433. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,363,038 and $(2,211,412), respectively, which resulted in an increase to the net OPEB obligation of $3,015,196. As of June 30, 2013, the net OPEB obligation was $50,275,965. 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 $27,810 for 2013. (The maximum for most employees is $22,560 for fiscal year 2013.) Currently, 391 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 2012-2013, the District contributed $9,275,101, consisting of $5,879,433 for premiums and $3,395,668 to set aside for the future liability.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	$ 8,743,003
Interest on net OPEB obligation	2,363,038
Adjustment to annual required contribution	(2,211,412)
Annual OPEB cost (expense)	8,894,629
Contributions made	(5,879,433)
Increase in net OPEB obligation	3,015,196
Net OPEB obligation, July 1, 2012	47,260,769
Net OPEB obligation, June 30, 2013	$ 50,275,965

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
2011	$ 8,127,380	$ 5,066,051	62%	$ 44,184,013
2012	8,740,792	5,664,036	65%	47,260,769
2013	8,894,629	5,879,433	66%	50,275,965

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2013, is as follows:

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

The above noted actuarial accrued liability was based on the July 17, 2012, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of 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 July 17, 2012, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a five percent investment rate of return. Healthcare cost trend rate was four percent. The UAAL is being amortized using the level percentage of payroll method. The remaining amortization period at June 30, 2013, was 19 years.

NOTE 11 - LEASE REVENUES

The District entered into a twelve-year operating lease contract with Santa Ana Unified School District in fiscal year 2001 to lease a building at Santa Ana College with annual lease payments of $91,667 through 2013. The entire lease payment of $1,100,000 was received in fiscal year 2001. This amount was recorded as deferred revenue and is being amortized to revenue over the twelve-year period. The balance of deferred revenue at June 30, 2013, is $0.

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

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

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

At June 30, 2013, 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, 2011	$ 387,361	$ 297,141
Claims and changes in estimates	12,639	(253,558)
Claims payments	-	(43,583)
Liability Balance, June 30, 2012	400,000	-
Claims and changes in estimates	8,795	29,572
Claims payments	(8,795)	(29,572)
Liability Balance, June 30, 2013	$ 400,000	$ -
Assets Available to Pay Claims at June 30, 2013	$ 5,982,496	$ 1,559,669

Joint Powers Authority Risk Pools

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

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

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

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

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

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

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Active members are required to contribute 8.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2013, 2012, and 2011, were $4,629,714, $4,665,310, and $4,684,526, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 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, 2013, 2012, and 2011, were $4,183,376, $3,915,682, and $3,762,543, 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 $483,278 during the fiscal year. The total amount of covered compensation was $6,443,701. Total contributions made are 100 percent of the amount of contributions required for fiscal year 2012-2013.

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, 2013, which amounted to $2,904,381 (5.176 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, 2013. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

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
2014	$ 322,747
2015	298,139
2016	285,253
2017	125,685
2018	3,498
Thereafter	1,497
Total	$ 1,036,819

Rental expenditures for the year ended June 30, 2013, amounted to $329,668.

Construction Commitments

As of June 30, 2013, 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	$ 9,708,189	$ 287,490	2014
Renovate Campus Infrastructure	25,142,750	751,381	2014
Renovate and Expand Athletic Fields	9,992,169	1,871,831	2013
Improvements/Enhancements	1,776,824	4,408,547	2015
Perimeter Site Improvements	5,716,949	638,051	2014
Tessmann Planetarium Upgrade	111,437	1,687,063	2014
Dunlap Hall	1,566,049	7,433,951	2015
Temporary Village (Swing Space)	165,988	5,087,512	2014
Central Plant/UG Utilities (Design Only)	450,000	2,910,000	2015
Purchase of 17th/Bristol Property	-	5,100,000	2014
Santiago Canyon College			
Infrastructure	37,990,870	61,426	2014
Design/Construct Arts, Humanities, and Social Science Building	30,071,098	2,918,380	2014
Design/Construct Gymnasium Building/Pool Complex	19,627,748	426,862	2013
	$ 142,320,071	$ 33,582,494	

The projects are funded through general obligation bonds.

NOTE 15 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year beginning net position has been restated as of June 30, 2013.

Effective in fiscal year 2012-2013, the District was required to capitalize interest as part of the historical cost of constructing certain business-type activity assets. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the District by $1,724,072.

Primary Government	
Net Position - Beginning	$ 162,418,919
Restatement of capital assets for implementation of GASB Statement No. 62	1,724,072
Net Position - Beginning, as Restated	$ 164,142,991

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013

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

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2013

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
Arianna P. Barrios	President	2016
Jose Solorio	Vice President	2016
Lawrence R. "Larry" Labrado	Clerk	2014
Claudia Alvarez	Member	2016
John R. Hanna	Member	2014
Nelida Mendoza Yanez	Member	2016
Phillip E. Yarbrough	Member	2014
Luis Correa	Student Trustee	2014

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, 2013

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		$ 17,978,275
Federal Pell Administrative Allowance	84.063		2,145
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		346,900
Federal Work-Study Program	84.033		342,984
Federal Perkins Loans	84.038		22,647
Federal Direct Loan	84.268		2,342,836
Total Student Financial Assistance Cluster			21,035,787
TRIO Cluster			
Student Support Services	84.042		295,953
Talent Search	84.044		299,897
Upward Bound	84.047		291,304
Upward Bound - Math and Science	84.047M		135,206
Upward Bound - Veterans	84.047V		61,832
Total TRIO Cluster			1,084,192
HIGHER EDUCATION ACT			
Migrant Education - College Assistance Migrant Program	84.149		524,345
Title V - Strengthening Hispanic Serving Institutions	84.031S		697,121
Title III - Hispanic Serving Institution - STEM	84.031C		1,168,373
Gear Up III Program	84.334A		9,392
Gear Up IV Program	84.334A		743,014
Passed through from California State University, Fullerton			
Title III - Hispanic Serving Institution - STEM	84.031C	S-5261-RSCCD	178,045
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through from California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002	[1]	203,253
English Literacy and Civics Education Grant (EL Civics)	84.002	[1]	1,385,462
English as a Second Language	84.002	[1]	1,890,815
Secondary Education	84.002	[1]	320,823

[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, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CAREER AND TECHNICAL EDUCATION (CTE) ACT			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
CTE - CTE Transitions	84.048	12-112-870	$ 88,174
Title I, Part C	84.048	12-CO1-042	1,453,609
Passed through Program from Department of Rehabilitation			
Rehabilitation Services - Vocational Rehabilitation Grants to State	84.126	[1]	366,507
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES			
Head Start Cluster			
Early Head Start	93.600		1,669,488
Early Learning Mentor Coaches - ARRA	93.709		4,741
Total Head Start Cluster			1,674,229
EMT/Nursing Continuing Ed	93.887		20,756
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	99,290
Passed through from San Francisco Community College District			
California Early Childhood Mentor Program	93.558	CN110123	1,450
Passed through from Yosemite Community College District			
Child Development Training Consortium	93.575	12-13	17,350
Passed through from Foundation for California Community Colleges (FCCC)			
YESS - Youth Empowerment Strategies for Success	93.674	[1]	22,500
U.S. DEPARTMENT OF LABOR			
WIA Cluster			
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
Bridge to Engineering	17.258	[1]	92,959
Passed through from California State University, Fullerton			
CALGRIP - SCC	17.259	K182090	96,360
Passed through from City of Santa Ana			
Youth STEM	17.259	[1]	19,336
Technology Access Center - Job Tech Lab	17.258	[1]	1,470
WIA Youth Activities (Seeds to Trees)	17.258	[1]	75,347
Total WIA Cluster			285,472

[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, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Partnership for Transfer Success in USDA Career Majors	10.223		$ 58,554
Passed through from Orange County Superintendent of Schools			
Network for a Healthy California Coalition	10.551	33762	118,504
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	[1]	313,894
NATIONAL SCIENCE FOUNDATION**			
Passed through from Consulting for Environment System Technology			
NSF - CFEST	47.041	CFEST-SCC-06	1,061
Passed through from California State University, Fullerton			
NSF - TESTUP	47.076	S-4388-SAC	131,153
NSF - FULL-MT2	47.082	S-4707-SACC	19,037
U.S. SMALL BUSINESS ADMINISTRATION			
Women's Business Center	59.043		83,957
Passed through from California Community Colleges Chancellor's Office (CCCCO)			
CITD STEP Global Trade Summit	59.061	F12-0071	25,818
CITD STEP	59.061	F12-0071	41,877
Passed through from California State University, Fullerton			
California Small Business Development Center (SBDC)	59.037	S-5133-RSCCD	617,740
SBA Jobs Acts - (SBDC)	59.037	[1]	157,469
SBA Jobs Acts - Center for International Trade (CITD)	59.037	[1]	64,554
Total Federal Program Expenditures			$ 34,903,577

Student Financial Aid Loan Programs

Loans Outstanding

Rancho Santiago Community College District had the following loan balance outstanding as of June 30, 2013:

Perkins Program	$ 147,198

[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 STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
GENERAL FUND			
AB1725 - Faculty and Staff Diversity	$ 12,781	$ 11,127	$ 23,908
AB77 - Handicapped	1,349,519	-	1,349,519
Basic Skills	683,675	1,192,219	1,875,894
CA Math Diagnostic Testing	25,629	-	25,629
Cal Grant	1,213,278	15,934	1,229,212
CalWorks	324,246	-	324,246
Care Program	80,259	9,442	89,701
Capacity Building Grant - EduPlay	84,899	-	84,899
Career Technical Education Community Collaborative II	605,773	1,042,722	1,648,495
Child Development Center	3,097,349	-	3,097,349
Child Development - Facilities Renovation Repair	95,453	4,999	100,452
Digital Media Center	2,500	-	2,500
Economic and Workforce Development Program	1,417,500	935,388	2,352,888
Econ Dev Program: Enrollment Growth for Nursing	135,287	160,005	295,292
Extended Opportunity Program and Services (EOPS)	1,252,124	5,726	1,257,850
Fund for Student Success	134,653	-	134,653
Matriculation - Non Credit	1,327,254	-	1,327,254
Matriculation - Credit	1,313,900	4,932	1,318,832
Paraprofessional Teacher Training	30,000	-	30,000
Song Brown Family Physician Training Act	225,000	-	225,000
Student Financial Aid Administration	997,383	-	997,383
Student Mental Health	211,435	-	211,435
Telecommunication Technology Infrastructure Program (TTIP)	-	71,316	71,316
Subtotal			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Deferred Revenue	Total Revenue	Program Expenditures
$ 23,908	$ -	$ 9,383	$ 14,525	$ 14,525
1,352,275	-	-	1,352,275	1,352,275
1,875,894	-	1,253,057	622,837	622,837
-	25,629	-	25,629	25,629
1,229,212	-	2,989	1,226,223	1,226,223
324,246	-	634	323,612	323,612
89,701	-	-	89,701	89,701
33,000	-	17,899	15,101	15,101
1,497,052	-	505,041	992,011	992,011
3,093,885	48,750	-	3,142,635	3,142,635
23,863	890	-	24,753	24,753
-	2,058	-	2,058	2,058
1,414,606	545,589	556,087	1,404,108	1,404,108
226,627	33,854	-	260,481	260,481
1,256,641	-	-	1,256,641	1,256,641
63,961	70,692	-	134,653	134,653
1,327,254	-	-	1,327,254	1,327,254
1,318,832	-	23,034	1,295,798	1,295,798
29,826	-	-	29,826	29,826
84,403	24,310	-	108,713	108,713
997,383	-	5,037	992,346	992,346
51,241	18,086	-	69,327	69,327
71,316	-	53,762	17,554	17,554
$ 16,385,126	$ 769,858	$ 2,426,923	$ 14,728,061	$ 14,728,061

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2013

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2012 only)			
1. Noncredit*	464	-	464
2. Credit	1,420	-	1,420
B. Summer Intersession (Summer 2013 - Prior to July 1, 2013)			
1. Noncredit*	162	-	162
2. Credit	164	-	164
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,479	-	14,479
(b) Daily Census Contact Hours	739	-	739
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	5,825	-	5,825
(b) Credit	3,685	-	3,685
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	839	-	839
(b) Daily Census Contact Hours	408	-	408
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	28,185	-	28,185
SUPPLEMENTAL INFORMATION			
In-Service Training Courses (FTES)	2,388	-	2,388
Basic Skills Courses and Immigrant Education			
1. Noncredit*	5,135	-	5,135
2. Credit	713	-	713

* 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, 2013

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 22,542,762	$ -	$ 22,542,762	$ 22,542,762	$ -	$ 22,542,762
Other	1300	19,177,136	-	19,177,136	19,177,136	-	19,177,136
Total Instructional Salaries		41,719,898	-	41,719,898	41,719,898	-	41,719,898
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	12,464,509	-	12,464,509
Other	1400	-	-	-	1,110,157	-	1,110,157
Total Noninstructional Salaries		-	-	-	13,574,666	-	13,574,666
Total Academic Salaries		41,719,898	-	41,719,898	55,294,564	-	55,294,564
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	21,719,818	-	21,719,818
Other	2300	-	-	-	1,248,231	-	1,248,231
Total Noninstructional Salaries		-	-	-	22,968,049	-	22,968,049
Instructional Aides							
Regular Status	2200	922,886	-	922,886	922,886	-	922,886
Other	2400	1,486,170	-	1,486,170	1,486,170	-	1,486,170
Total Instructional Aides		2,409,056	-	2,409,056	2,409,056	-	2,409,056
Total Classified Salaries		2,409,056	-	2,409,056	25,377,105	-	25,377,105
Employee Benefits	3000	15,854,191	-	15,854,191	35,284,639	-	35,284,639
Supplies and Material	4000	-	-	-	711,818	-	711,818
Other Operating Expenses	5000	3,310,950	-	3,310,950	14,690,840	-	14,690,840
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		63,294,095	-	63,294,095	131,358,966	-	131,358,966

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, 2013

		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	$ 2,741,704	$ -	$ 2,741,704	$ 2,741,704	$ -	$ 2,741,704
Student Health Services Above Amount Collected	6441	-	-	-	-	-	-
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	3,137,729	-	3,137,729
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,418,329	-	1,418,329
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, 2013

		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	$ -	$ -	$ -	$ 3,164,887	$ -	$ 3,164,887
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6400	-	-	-	-	-	-
Equipment - Replacement	6410	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		2,741,704	-	2,741,704	10,462,649	-	10,462,649
Total for ECS 84362, 50 Percent Law		$ 60,552,391	$ -	$ 60,552,391	$ 120,896,317	$ -	$ 120,896,317
Percent of CEE (Instructional Salary Cost/Total CEE)		50.09%		50.09%	100.00%		100.00%
50% of Current Expense of Education					$ 60,448,159		$ 60,448,159

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, 2013

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

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, 2013

Activity Classification	**Object Code**			**Unrestricted**	
EPA Proceeds:	8630				$ 20,761,952
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 20,761,952			$ 20,761,952
					-
					-
					-
					-
					-
					-
Total Expenditures for EPA		$ 20,761,952	-	-	$ 20,761,952
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, 2013

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	$ 39,069,962	
Special Revenue Funds	3,651,179	
Capital Project Funds	72,340,551	
Debt Service Funds	15,743,779	
Internal Service Funds	(5,792,631)	
Fiduciary Funds	4,169,086	
Total Fund Balance, Retained Earnings, and Due to Student Groups		**$ 129,181,926**
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	518,633,466	
Accumulated depreciation is	(124,580,302)	394,053,164
Amounts held in trust on behalf of others (Trust and Agency Funds)		(2,844,921)
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.		24,446,688
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(5,116,432)
Long-term liabilities at year end consist of:		
Bonds payable	356,813,576	
Claims payable	400,000	
Net OPEB obligation	50,275,965	
Load banking	4,070,273	
Compensated absences	4,914,778	
Less load banking already recorded in funds	(4,070,273)	
Less compensated absences already recorded in funds	(754,380)	
Less claims payable already recorded in funds	(400,000)	
Less net OPEB obligation already recorded in funds	(50,126,550)	(361,123,389)
Total Net Position		**$ 178,597,036**

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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:		$ 35,015,245
Federal Perkins Loans	84.038	22,647
Network for Health California Coalition	10.551	120
Veterans Rep Fee	64.000	(6,180)
Federal Pell Grant Program	84.063	(128,255)
Total Expenditures of Federal Awards		$ 34,903,577

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	$ 657,280
Early Head Start	93.600	270,070
Gear Up III Program	84.334A	8,697
Gear Up IV Program	84.334A	407,221
		$ 1,343,268

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013

Schedule of Expenditures of State Awards

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

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

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 AUDITORS' REPORTS

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

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

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

We have audited, 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) and its discretely presented component units as of and for the year ended June 30, 2013, 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, 2013.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 62 for the year ended June 30, 2013. These changes require a restatement of the beginning net position of the District as discussed in Note 15. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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, 2013

vtd

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

INDEPENDENT AUDITORS' 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 the 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, 2013. The District's major Federal programs are identified in the Summary of Auditors' 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, 2013.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2013-1. Our opinion on each major Federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 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 in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-1 that we consider to be significant deficiencies.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2013

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

INDEPENDENT AUDITORS' 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 April 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, 2013.

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 April 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2013.

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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 431	Gann Limit Calculation
Section 433	CalWORKS
Section 435	Open Enrollment
Section 437	Student Fees – Instructional and Other Materials
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 474	Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
Section 475	Disabled Student Programs and Services (DSPS)
Section 479	To Be Arranged (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 1D State Bond Funded Projects; therefore, compliance tests within this section were not applicable.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

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

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.038, 84.063, 84.268	Student Financial Assistance Cluster
84.042, 84.044, 84.047	TRIO Cluster
84.149	Migrant Education - College Assistance Migrant Program
84.031S, 84.031C	Title V - Strengthening Hispanic Serving Institutions, Title III - Hispanic Serving Institution - STEM
84.002	Adult Education and Family Literacy ACT (AEFLA)
93.600, 93.709 (ARRA)	Head Start Cluster (includes ARRA)
59.037	California Small Business Development Center (SBDC), SBA Jobs Acts - (SBDC), SBA Jobs Acts - Center for International Trade (CITD)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 416,034
Auditee qualified as low-risk auditee?	No

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

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

2013-1 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.

Management's Response and Corrective Action Plan

In moving forward, the District has added a multi-layer verification process to the existing implemented procedures to verify unit completion on a semester basis.

CAMP Director will:

- Review transcripts to verify unit completion of each student on a semester basis to ensure students are only served until 24 units at SCC are met. The Director will initial the file to indicate the file has been reviewed.
- Develop and maintain unit tracking database and verify unit completion on a semester basis.
- Once a student reaches 24 units at SCC, the student's participation in the CAMP program will be completed.

CAMP Counselor will:

- Review transcripts to verify unit completion of each student on a semester basis to ensure students are only served until 24 units at SCC are met. The Counselor will initial the file to indicate the file has been reviewed.
- Maintain and update unit tracking database and verify unit completion on a semester basis.

CAMP Program Assistant will:

- Review transcripts to verify unit completion of each student on a semester basis to ensure students are only served until 24 units at SCC are met. The Program Assistant will initial the file to indicate the file has been reviewed.
- Maintain and update unit tracking database and verify unit completion on a semester basis.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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

2012-1 SUSPENSION AND DEBARMENT

Federal Program Affected

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

Criteria or Specific Requirement

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

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

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

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

Condition

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

Questioned Costs

No questioned costs. See context.

Context

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

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented.

2012-2 SPECIAL TESTS AND PROVISIONS: DIRECT LOAN RECONCILIATION

Federal Program Affected

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

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

No questioned costs.

Context

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

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented.

2012-3 ELIGIBILITY

Federal Program Affected

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

Criteria or Specific Requirement

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

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

Condition

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

Questioned Costs

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

Context

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

Effect

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

Cause

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

Recommendation

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

Current Status

Not implemented. See current year finding 2013-1.

2012-4 REPORTING

Federal Program Affected

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

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

No questioned costs.

Context

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

Effect

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

Cause

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

Recommendation

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

Current Status

Implemented.

State Awards Findings

2012-5 TO BE ARRANGED (TBA) HOURS

Criteria or Specific Requirement

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

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

Condition

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

Questioned Costs

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

Recommendation

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

Current Status

Implemented.

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

Criteria or Specific Requirement

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

Condition

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

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

Questioned Costs

There are no questioned costs.

Recommendation

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

Current Status

Implemented.

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

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

There are no questioned costs.

Recommendation

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

Current Status

Implemented.