

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

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JUNE 30, 2016

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the 2015-2016 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 15, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 63, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 64, and the Schedule of District Contributions on page 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2016, 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.

Vavrinich, Train, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



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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, 2016. 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, 2016. 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 (GASB) 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.

BOARD OF TRUSTEES:

Claudia C. Alvarez • Arianna P. Barrios • John R. Hanna • Lawrence R. "Larry" Labrado • Jose Solorio • Nelida Mendoza Yanez • Phillip E. Yarbrough

CHANCELLOR:

Raúl Rodríguez, Ph.D.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

The Statement of Net Position as of June 30, 2016 and 2015, is summarized below:

Table 1

(Amounts in thousands)

	2016	2015	Change	Percentage Change
ASSETS				
Current Assets				
Cash and investments	\$ 281,145	\$ 249,083	\$ 32,062	12.87%
Accounts receivable	14,116	11,710	2,406	20.55%
Other current assets	3,569	2,083	1,486	71.34%
Total Current Assets	<u>298,830</u>	<u>262,876</u>	<u>35,954</u>	<u>13.68%</u>
Capital Assets (net)	<u>431,146</u>	<u>423,088</u>	<u>8,058</u>	<u>1.90%</u>
Total Assets	<u><u>729,976</u></u>	<u><u>685,964</u></u>	<u><u>44,012</u></u>	<u><u>6.42%</u></u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	2,106	6,487	(4,381)	-67.54%
Deferred outflows of resources related to pensions	<u>31,098</u>	<u>10,146</u>	<u>20,952</u>	<u>206.51%</u>
Total Assets and Deferred Outflows	<u><u>\$ 763,180</u></u>	<u><u>\$ 702,597</u></u>	<u><u>\$ 60,583</u></u>	<u><u>8.62%</u></u>
Current Liabilities				
Accounts payable and accrued liabilities	\$ 62,564	\$ 41,881	\$ 20,683	49.39%
Current portion of long-term liabilities	<u>18,505</u>	<u>16,688</u>	<u>1,817</u>	<u>10.89%</u>
Total Current Liabilities	<u>81,069</u>	<u>58,569</u>	<u>22,500</u>	<u>38.42%</u>
Noncurrent liabilities	<u>593,162</u>	<u>583,077</u>	<u>10,085</u>	<u>1.73%</u>
Total Liabilities	<u><u>674,231</u></u>	<u><u>641,646</u></u>	<u><u>32,585</u></u>	<u><u>5.08%</u></u>
DEFERRED INFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	<u>31,403</u>	<u>34,630</u>	<u>(3,227)</u>	<u>-9.32%</u>
Total Liabilities and Deferred Inflows	<u><u>705,634</u></u>	<u><u>676,276</u></u>	<u><u>29,358</u></u>	<u><u>4.34%</u></u>
NET POSITION				
Net investment in capital assets	109,593	109,476	117	0.11%
Restricted	86,759	67,445	19,314	28.64%
Unrestricted	<u>(138,806)</u>	<u>(150,600)</u>	<u>11,794</u>	<u>7.83%</u>
Total Net Position	<u><u>57,546</u></u>	<u><u>26,321</u></u>	<u><u>31,225</u></u>	<u><u>118.63%</u></u>
Total Liabilities, Deferred Inflows, and Net Position	<u><u>\$ 763,180</u></u>	<u><u>\$ 702,597</u></u>	<u><u>\$ 60,583</u></u>	<u><u>8.62%</u></u>

Fiscal year ended 2016 compared to 2015:

- Total assets increased overall by approximately \$44 million. The majority of this increase is within Cash and Investments and relates specifically to an increase in the unrestricted general fund due to expenditure savings and additional unspent revenues at the colleges along with a \$14 million property tax ERAF overpayment that was deposited to our account but related to another District. The amount was set up as a payable and settled in the subsequent fiscal year.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- Due to the provisions of GASB Statement No. 68, described in more detail in Note 13 of the financial statements, the District's net position is adjusted to reflect its "proportionate share" of CalPERS and CalSTRS net pension liabilities as a reduction to net position. Though this is an accounting requirement, districts cannot fund these pension liabilities more than required by CalPERS and CalSTRS. By backing out this accounting shift, the District's total net position would be reported as \$200,990,530 at June 30, 2016, an increase of \$30,656,003 over the previous year's adjusted total net position of \$170,344,527.

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Table 2

(Amounts in thousands)

	2016	2015	Change	Percentage Change
Operating Revenues				
Tuition and fees	\$ 14,039	\$ 13,931	\$ 108	0.78%
Auxiliary sales and charges	783	662	121	18.28%
Total Operating Revenues	<u>14,822</u>	<u>14,593</u>	<u>229</u>	<u>1.57%</u>
Operating Expenses				
Salaries and benefits	165,040	154,257	10,783	6.99%
Supplies and maintenance	50,031	46,203	3,828	8.29%
Financial aid	26,364	25,783	581	2.25%
Depreciation	18,512	16,026	2,486	15.51%
Total Operating Expenses	<u>259,947</u>	<u>242,269</u>	<u>17,678</u>	<u>7.30%</u>
Loss on Operations	<u>(245,125)</u>	<u>(227,676)</u>	<u>17,449</u>	<u>7.66%</u>
Nonoperating Revenues (Expenses)				
State apportionments	86,240	82,772	3,468	4.19%
Property taxes	63,038	48,342	14,696	30.40%
Federal grants	34,961	36,977	(2,016)	-5.45%
State grants	42,124	30,932	11,192	36.18%
State taxes and other revenue	23,301	7,499	15,802	210.72%
Net interest expense	(15,878)	(18,394)	2,516	13.68%
Other nonoperating revenues	10,948	10,868	80	0.74%
Total Nonoperating Revenue (Expenses)	<u>244,734</u>	<u>198,996</u>	<u>45,738</u>	<u>22.98%</u>
Other Revenues				
State and local capital income	31,617	29,865	1,752	5.87%
Net Change in Net Position	<u>\$ 31,226</u>	<u>\$ 1,185</u>	<u>\$ 30,041</u>	<u>2535.11%</u>

Fiscal year ended 2016 compared to 2015:

- State taxes and other revenue increased by over \$15 million due specifically to a one-time State mandates allocation.
- State grants revenue increased by over 36 percent related to several new grants received during the year including CTE Data Unlocked and an Adult Education Block Grant as well as other increases to ongoing categorical programs such as both credit and noncredit Student Success and Support Program and Extended Opportunities Programs and Services allocated in the State budget act.
- Corresponding to the increases in grant revenue, expenses increased as well to fulfill the intended outcomes. In addition, salaries and benefits increased nearly 7 percent due in part to the hiring of additional full-time faculty and increased costs due to continued rate increases for CalPERS and CalSTRS.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

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, 2016:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 75,249	\$ 6,559	\$ -	\$ -	\$ 81,808
Academic support	14,617	550	-	-	15,167
Student services	37,487	3,106	-	-	40,593
Plant operations and maintenance	5,357	3,533	-	-	8,890
Instructional support services	19,249	12,526	-	-	31,775
Community services and economic development	2,321	589	-	-	2,910
Ancillary services and auxiliary operations	9,610	4,372	-	-	13,982
Student aid	-	-	26,364	-	26,364
Physical property and related acquisitions	1,150	18,796	-	-	19,946
Depreciation	-	-	-	18,512	18,512
Total	<u>\$ 165,040</u>	<u>\$ 50,031</u>	<u>\$ 26,364</u>	<u>\$ 18,512</u>	<u>\$ 259,947</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

Year ended June 30, 2015:

(Amounts in thousands)

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 69,729	\$ 5,371	\$ -	\$ -	\$ 75,100
Academic support	11,279	203	-	-	11,482
Student services	30,750	1,769	-	-	32,519
Plant operations and maintenance	4,880	3,283	-	-	8,163
Instructional support services	25,740	10,999	-	-	36,739
Community services and economic development	2,254	521	-	-	2,775
Ancillary services and auxiliary operations	8,582	4,534	-	-	13,116
Student aid	-	-	25,783	-	25,783
Physical property and related acquisitions	1,043	19,523	-	-	20,566
Depreciation	-	-	-	16,026	16,026
Total	<u>\$ 154,257</u>	<u>\$ 46,203</u>	<u>\$ 25,783</u>	<u>\$ 16,026</u>	<u>\$ 242,269</u>

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

- 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)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Cash Provided by (Used in)			
Operating activities	\$ (224,643)	\$ (194,026)	\$ (30,617)
Noncapital financing activities	274,463	229,857	44,606
Capital financing activities	(19,348)	59,314	(78,662)
Investing activities	1,590	816	774
Net Decrease in Cash	<u>32,062</u>	<u>95,961</u>	<u>(63,899)</u>
Cash, Beginning of Year	249,083	153,122	95,961
Cash, End of Year	<u>\$ 281,145</u>	<u>\$ 249,083</u>	<u>\$ 32,062</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Fiscal year ended 2016 compared to 2015:

As of June 30, 2016, the District had \$597.6 million in capital assets, less \$166.5 million of accumulated depreciation for net capital assets of \$431.1 million. The District continues to work on the facilities projects that are part of the \$337 million bond program under Measure E and the \$198 million bond program under Measure Q. The District spent approximately \$26.6 million on capital assets in 2015-2016, the majority of which relate to bond proceeds. Depreciation charges totaled \$18.5 million in 2015-2016. We present more detailed information regarding our capital assets in Note 7 of the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Table 5

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land and construction in progress	\$ 109,499	\$ 22,582	\$ 18,014	\$ 114,067
Buildings and improvements	390,367	19,620	-	409,987
Furniture and equipment	73,684	2,415	2,505	73,594
Subtotal	<u>573,550</u>	<u>44,617</u>	<u>20,519</u>	<u>597,648</u>
Accumulated depreciation	150,462	18,512	2,472	166,502
	<u>\$ 423,088</u>	<u>\$ 26,105</u>	<u>\$ 18,047</u>	<u>\$ 431,146</u>

Obligations

Fiscal year ended 2016 compared to 2015:

At June 30, 2016, the District had \$611.7 million in outstanding long-term liabilities compared to \$599.8 million at June 30, 2015. The net increase of \$11.9 million includes a \$4.7 million increase in the Other Postemployment Benefit obligation in accordance with the most recent actuarial study of Retiree Health Liabilities dated July 7, 2016 and an increase of \$23.6 million to the District's net pension obligation. These increases were offset by a decrease of \$16.1 million related to the net payment of General Obligation Bonds during the fiscal year. We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Table 6

(Amounts in thousands)

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
General obligation bonds	\$ 416,712	\$ 3,426	\$ 19,542	\$ 400,596
Claims payable	400	-	-	400
Compensated absences	5,092	115	-	5,207
Load banking	4,382	-	443	3,939
Net OPEB obligation	53,640	11,156	6,410	58,386
Aggregate pension obligation	119,539	23,600	-	143,139
Total Long-Term Obligations	<u>\$ 599,765</u>	<u>\$ 38,297</u>	<u>\$ 26,395</u>	<u>\$ 611,667</u>
Amount due within one year				<u>\$ 18,505</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

BUDGETARY HIGHLIGHTS

At the time the 2016-2017 budget was developed, the following assumptions were made:

- No State Cost of Living Allowance (COLA) was budgeted for 2016-2017.
- The District budgeted for \$1.9 million for an additional base allocation increase from the State as well as \$2.7 million in a one-time mandates block grant allocation.
- The District budgeted for two large Career Technical Education Grants totaling over \$20 million.
- The District budgeted \$22.6 million for estimated Education Protection Account (EPA) funding.
- The District targeted an increase to 28,930 Full-Time Equivalent Students served, however did not budget for any growth revenue.
- The full-time Faculty Obligation Number was estimated at 364.4. The District therefore budgeted for 17 new full-time faculty hires to meet this obligation.
- The District's 2015-2016 unrestricted ending balance increased by \$11 million, the majority of which are carried over as college-specific reserves.
- The District's budget is balanced without the need to use a portion of the 2015-2016 unrestricted ending balance stabilization funds.

ECONOMIC FACTORS

- The financial position of the District is closely tied to that of the State of California. The District receives over 90 percent of its unrestricted general fund revenues through State apportionments, local property taxes including redevelopment agency allocations, the Education Protection Account (EPA) and student paid enrollment fees which make up the District's general apportionment, the main funding support for California community colleges.
- There are concerns for community colleges in that the condition of the State's budget depends on many volatile and unpredictable economic conditions. This uncertainty coupled with the expectation of Cost of Living Adjustments (COLAs) remaining low in the foreseeable future, growth of Full Time Equivalent Students remaining tenuous and continuing cost increases related to pension obligations necessitates a cautious approach to budget forecasts.
- 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, 2016

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	\$ 3,344,339
Cash and cash equivalents - restricted	524,002
Investments - unrestricted	124,844,086
Investments - restricted	152,432,364
Accounts receivable	14,086,336
Student loans receivable	29,677
Due from fiduciary funds	433,860
Prepaid expenses	1,422,479
Inventories	1,713,125
Total Current Assets	<u>298,830,268</u>
Noncurrent Assets	
Nondepreciable capital assets	114,067,239
Depreciable capital assets, net of depreciation	317,078,747
Total Noncurrent Assets	<u>431,145,986</u>
TOTAL ASSETS	<u>729,976,254</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,105,653
Deferred outflows of resources related to pensions	31,098,524
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>33,204,177</u>
LIABILITIES	
Current Liabilities	
Accounts payable	37,815,241
Accrued interest payable	4,742,363
Due to fiduciary funds	532,209
Unearned revenue	19,473,599
Compensated absences payable - current portion	700,429
Bonds payable - current portion	17,805,000
Total Current Liabilities	<u>81,068,841</u>
Noncurrent Liabilities	
Claims liability	400,000
Compensated absences payable - noncurrent portion	4,506,796
Bonds payable - noncurrent portion	382,790,381
Aggregate net pension obligation	143,139,389
Other long-term liabilities	62,325,359
Total Noncurrent Liabilities	<u>593,161,925</u>
TOTAL LIABILITIES	<u>674,230,766</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	31,403,298
NET POSITION	
Net investment in capital assets	109,593,202
Restricted for:	
Debt service	21,722,989
Capital projects	59,743,934
Educational programs	4,831,914
Other activities	460,669
Unrestricted	(138,806,341)
TOTAL NET POSITION	<u>\$ 57,546,367</u>

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, 2016

OPERATING REVENUES

Student Tuition and Fees	\$ 28,652,585
Less: Scholarship discount and allowance	(14,613,331)
Net tuition and fees	<u>14,039,254</u>
Auxiliary Enterprise Sales and Charges	
Other Operating Revenues	782,543
TOTAL OPERATING REVENUES	<u>14,821,797</u>

OPERATING EXPENSES

Salaries	118,339,127
Employee benefits	46,701,520
Supplies, materials, and other operating expenses and services	42,040,669
Student financial aid	26,363,864
Equipment, maintenance, and repairs	7,990,065
Depreciation	18,511,753
TOTAL OPERATING EXPENSES	<u>259,946,998</u>

OPERATING LOSS

(245,125,201)

NONOPERATING REVENUES (EXPENSES)

State apportionments, noncapital	86,240,268
Local property taxes, levied for general purposes	63,038,387
Federal grants	34,961,432
State grants	42,123,488
State taxes and other revenues	23,301,212
Investment income	1,654,221
Interest expense on capital related debt	(17,652,039)
Investment income on capital asset-related debt, net	119,317
Transfer from fiduciary funds	125,000
Transfer to fiduciary funds	(469,403)
Loss on disposal of capital assets	(33,341)
Other nonoperating revenue	11,325,769
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>244,734,311</u>

LOSS BEFORE OTHER REVENUES AND EXPENSES

(390,890)

OTHER REVENUES

State revenues, capital	3,456,437
Local revenues, capital	28,160,244
TOTAL OTHER REVENUES	<u>31,616,681</u>

CHANGE IN NET POSITION

31,225,791

NET POSITION, BEGINNING OF YEAR

26,320,576

NET POSITION, END OF YEAR

\$ 57,546,367

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, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,241,418
Auxiliary sales	782,543
Payments to or on behalf of employees	(160,454,608)
Payments to vendors for supplies and services	(52,848,885)
Payments to students for scholarships and grants	(26,363,864)
Net Cash Flows From Operating Activities	<u>(224,643,396)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State apportionments	84,902,823
Property taxes	63,038,387
Grant and contracts	94,386,894
State taxes and other revenue	22,442,586
Other nonoperating	9,692,579
Net Cash Flows From Noncapital Financing Activities	<u>274,463,269</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchase of capital assets	(21,511,416)
State revenue, capital projects	3,456,437
Local revenue, capital projects	28,160,244
Proceeds from capital debt	3,426,315
Principal paid on capital debt	(19,542,794)
Interest paid on capital debt	(13,456,370)
Interest received on capital asset-related debt	119,317
Net Cash Flows From Capital Financing Activities	<u>(19,348,267)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received from investments	<u>1,590,367</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS

32,061,973

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

249,082,818

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 281,144,791

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, 2016

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating Loss	<u>\$ (245,125,201)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	18,511,753
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows:	
Receivables	65,597
Inventories	(137,918)
Prepaid expenses and deferred charges	(1,035,764)
Accounts payable and accrued liabilities	578,395
Unearned revenue	(1,338,899)
Compensated absences and load banking	(327,964)
Change in deferred outflows of resources related to pensions	(20,952,964)
Change in deferred inflows of resources related to pensions	(3,226,774)
Pension obligation	23,599,923
OPEB obligation	4,746,420
Total Adjustments	<u>20,481,805</u>
Net Cash Flows From Operating Activities	<u><u>\$ (224,643,396)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 3,868,341
Cash in county treasury	277,124,891
Cash in Local Agency Investment Fund (LAIF)	151,559
Total Cash and Cash Equivalents	<u><u>\$ 281,144,791</u></u>

NONCASH TRANSACTIONS

On behalf payments for benefits	<u><u>\$ 4,319,615</u></u>
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The accompanying notes are an integral part of these financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

ASSETS	Trust	Agency Funds
Current Assets		
Cash and cash equivalents	\$ 3,446,931	\$ 1,559,779
Investments	22	958
Accounts receivable	36,311	-
Due from primary government	532,209	-
TOTAL ASSETS	<u>4,015,473</u>	<u>\$ 1,560,737</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>64,534</u>	
LIABILITIES		
Current Liabilities		
Accounts payable	189,498	\$ 27,787
Due to primary government	432,722	1,138
Due to student groups	-	1,531,812
Total Current Liabilities	<u>622,220</u>	<u>1,560,737</u>
Noncurrent Liabilities		
Aggregate net pension liability	<u>405,612</u>	-
TOTAL LIABILITIES	<u>1,027,832</u>	<u>\$ 1,560,737</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>50,037</u>	
NET POSITION		
Unreserved	<u>\$ 3,002,138</u>	

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, 2016

	<u>Trust</u>
ADDITIONS	
Local revenues	<u>\$ 2,856,253</u>
DEDUCTIONS	
Academic salaries	44,321
Classified salaries	680,933
Employee benefits	64,008
Books and supplies	76,470
Services and operating expenditures	1,286,140
Capital outlay	87,693
Total Deductions	<u>2,239,565</u>
OTHER FINANCING SOURCES (USES)	
Transfer from primary government	469,403
Transfer to primary government	(125,000)
Total Other Financing Sources (Uses)	<u>344,403</u>
Change in Net Position	961,091
Net Position - Beginning of Year	<u>2,041,047</u>
Net Position - End of Year	<u><u>\$ 3,002,138</u></u>

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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, No. 38, and No. 39. 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Investments

Investments held at June 30, 2016, 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, 2016.

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 \$5,000 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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

Accrued Liabilities and Long-Term Obligations

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

Debt Issuance Costs, Premiums, and Discounts

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items. The District reports deferred outflows of resources for the deferred charges on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability and for the unamortized amount on net change in proportionate share of net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

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 current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid within 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. The liability for this benefit is reported on the entity-wide financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 and management school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Retirement credit for unused sick leave is applicable to all academic employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Unearned Revenue

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

Noncurrent Liabilities

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

Net Position

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

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

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$86,759,506 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.

Scholarships, Discounts, and Allowances

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances 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.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Interfund Activity

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

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement, effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of GASB Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of GASB Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) 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 GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 30, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Prior to the issuance of this Statement, the requirements of GASB Statement No. 68 applied to the financial statements of all State and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of State or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a State or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of State or local governmental employers and to employees of employers that are not State or local governmental employers; and (3) has no predominant State or local governmental employer (either individually or collectively with other State or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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, 2016, consist of the following:

Primary government	\$ 281,144,791
Fiduciary funds	5,007,690
Total Deposits and Investments	<u>\$ 286,152,481</u>
Cash on hand and in banks	\$ 8,697,751
Cash in revolving	177,300
Investments	277,277,430
Total Deposits and Investments	<u>\$ 286,152,481</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Treasury Investment Pool and LAIF Investment Pool. The Pools' purchase shorter term investments and attempts to time cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District maintains an investment of \$277,125,871 with the Orange County Treasury Investment Pool with an average weighted maturity of 478 days. In addition, the District maintains an investment of \$151,559 with the LAIF Investment Pool.

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 Orange County Treasury Investment Pool and LAIF are not required to be rated. The investment in LAIF has not been rated as of June 30, 2016. The District's investment in the Orange County Treasury Investment Pool was rated AAAm/AAm by Standard & Poor'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, 2016, the District had \$7,973,457 that 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 4 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the Orange County Treasury Investment Pool and Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Uncategorized</u>
Orange County Treasury Investment Pool	\$ 277,808,500	\$ 277,808,500
State Investment Pool	151,559	151,559
Total	<u>\$ 277,960,059</u>	<u>\$ 277,960,059</u>

All assets have been valued using a market approach, with quoted market prices.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, 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	\$ 3,248,862	\$ -
State Government		
Apportionment	1,054,687	-
Categorical aid	2,488,624	-
Lottery	3,257,025	-
Other State sources	528,128	-
Local Sources		
Interest	144,568	-
Other local sources	3,364,442	36,311
Total	\$ 14,086,336	\$ 36,311
Student loans receivable	\$ 29,677	\$ -

NOTE 6 - 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, 2016, the amounts owed between the primary government and the fiduciary funds were \$433,860 and \$532,209, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2016 fiscal year, there was \$125,000 transferred to the primary government from the fiduciary funds. The amount transferred to the fiduciary funds from the primary government amounted to \$469,403.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2016, was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 89,964,360	\$ -	\$ -	\$ 89,964,360
Construction in progress	19,534,333	22,582,600	18,014,054	24,102,879
Total Capital Assets Not Being Depreciated	<u>109,498,693</u>	<u>22,582,600</u>	<u>18,014,054</u>	<u>114,067,239</u>
Capital Assets Being Depreciated				
Buildings and improvements	390,367,390	19,619,744	-	409,987,134
Furniture and equipment	73,683,636	2,415,162	2,505,398	73,593,400
Total Capital Assets Being Depreciated	<u>464,051,026</u>	<u>22,034,906</u>	<u>2,505,398</u>	<u>483,580,534</u>
Total Capital Assets	<u>573,549,719</u>	<u>44,617,506</u>	<u>20,519,452</u>	<u>597,647,773</u>
Less Accumulated Depreciation				
Buildings and improvements	91,005,756	14,113,049	-	105,118,805
Furniture and equipment	59,456,335	4,398,704	2,472,057	61,382,982
Total Accumulated Depreciation	<u>150,462,091</u>	<u>18,511,753</u>	<u>2,472,057</u>	<u>166,501,787</u>
Net Capital Assets	<u>\$ 423,087,628</u>	<u>\$ 26,105,753</u>	<u>\$ 18,047,395</u>	<u>\$ 431,145,986</u>

Depreciation expense for the year was \$18,511,753.

Interest expense on capital related debt for the year ended June 30, 2016, was \$17,837,982. Of this amount, \$185,943 was capitalized.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	\$ 6,756,374	\$ 95,916
Amounts owed to other Districts	18,504,210	-
Construction	3,608,024	-
Vendor Payables	8,946,633	121,369
Total	<u>\$ 37,815,241</u>	<u>\$ 217,285</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consisted of the following:

	<u>Primary Government</u>
Federal financial assistance	\$ 221,106
State categorical aid	15,435,740
Other state sources	1,335,046
Enrollment fees	2,101,872
Other local	<u>379,835</u>
Total	<u><u>\$ 19,473,599</u></u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2016 fiscal year consisted of the following:

Primary Government

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
General Obligation bonds - 2002 election					
General Obligation - 2005, Series B	\$ 50,323,295	\$ 560,985	\$ 3,150,000	\$ 47,734,280	\$ 1,310,000
General Obligation - 2006, Series C	62,269,930	2,865,330	615,000	64,520,260	1,155,000
2005 General Obligation Refunding Bonds	47,690,000	-	2,865,000	44,825,000	5,670,000
2011 General Obligation Refunding Bonds	10,215,000	-	2,970,000	7,245,000	25,000
2012 General Obligation Refunding Bonds	60,325,000	-	-	60,325,000	-
2013 General Obligation Refunding Bonds	77,905,000	-	-	77,905,000	2,430,000
General Obligation bonds - 2012 election					
General Obligation - 2014, Series A	70,585,000	-	6,345,000	64,240,000	7,215,000
Unamortized bond premium	37,398,635	-	3,597,794	33,800,841	-
Total Bonds and Notes Payable	<u>416,711,860</u>	<u>3,426,315</u>	<u>19,542,794</u>	<u>400,595,381</u>	<u>17,805,000</u>
Other Liabilities					
Claims payable	400,000	-	-	400,000	-
Compensated absences	5,092,371	114,854	-	5,207,225	700,429
Load banking	4,382,074	-	442,818	3,939,256	-
Other postemployment benefits (OPEB)	53,639,683	11,155,998	6,409,578	58,386,103	-
Aggregate net pension obligation	119,539,466	23,599,923	-	143,139,389	-
Total Other Liabilities	<u>183,053,594</u>	<u>34,870,775</u>	<u>6,852,396</u>	<u>211,071,973</u>	<u>700,429</u>
Total Long-Term Obligations	<u>\$ 599,765,454</u>	<u>\$ 38,297,090</u>	<u>\$ 26,395,190</u>	<u>\$ 611,667,354</u>	<u>\$ 18,505,429</u>

Fiduciary Funds

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Aggregate net pension obligation	\$ 397,446	\$ 8,166	\$ -	\$ 405,612	\$ -

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 net pension obligation, 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 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.

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.

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.

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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.

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.

On November 6, 2012, the District voters authorized the issuance and sale of general obligation bonds totaling \$198,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities. On October 14, 2014, the District issued General Obligation Bonds, Election 2012, Series 2014A of \$70,585,000 of current interest bonds. Interest ranges from 2.0 percent to 5.0 percent, payable semi-annually on February 1 and August 1.

Debt Maturity

General Obligation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2015	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2016
2/23/2005	9/1/2029	3.00-5.13%	\$ 119,999,867	\$ 50,323,295	\$ -	\$ 560,985	\$ 3,150,000	\$ 47,734,280
8/4/2005	9/1/2023	3.57-5.25%	53,559,299	47,690,000	-	-	2,865,000	44,825,000
9/21/2006	9/1/2031	3.38-5.00%	120,874,329	62,269,930	-	2,865,330	615,000	64,520,260
11/30/2011	9/1/2022	2.00-5.00%	10,300,000	10,215,000	-	-	2,970,000	7,245,000
3/1/2012	9/1/2027	2.00-5.00%	62,985,000	60,325,000	-	-	-	60,325,000
1/17/2013	9/1/2026	1.75-5.00%	79,130,000	77,905,000	-	-	-	77,905,000
10/16/14	8/1/2044	2.00-5.00%	70,585,000	70,585,000	-	-	6,345,000	64,240,000
				<u>\$ 379,313,225</u>	<u>\$ -</u>	<u>\$ 3,426,315</u>	<u>\$ 15,945,000</u>	<u>\$ 366,794,540</u>

Annual requirements for all bonds payable are as follows:

Election 2002, Series B

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2017	\$ 1,281,988	\$ 28,012	\$ 1,847,050	\$ 3,157,050
2018	944,088	65,912	1,847,050	2,857,050
2019	1,011,535	123,465	1,847,050	2,982,050
2020	1,059,874	190,126	1,847,050	3,097,050
2021	1,117,319	267,681	1,847,050	3,232,050
2022-2026	6,279,476	2,875,524	9,235,250	18,390,250
2027-2030	36,040,000	-	5,578,306	41,618,306
Total	<u>\$ 47,734,280</u>	<u>\$ 3,550,720</u>	<u>\$ 24,048,806</u>	<u>\$ 75,333,806</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Election 2002, Series C

<u>Fiscal Year</u>	Principal (Including accreted interest to date)	Accreted Interest	Current Interest to Maturity	Total
2017	\$ 1,155,000	\$ -	\$ 24,544	\$ 1,179,544
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
2022-2026	1,782,925	837,075	-	2,620,000
2027-2031	46,158,953	39,066,047	-	85,225,000
2032	15,423,382	16,361,618	-	31,785,000
Total	<u>\$ 64,520,260</u>	<u>\$ 56,264,740</u>	<u>\$ 24,544</u>	<u>\$ 120,809,544</u>

2005 Refunding Bond

<u>Fiscal Year</u>	Principal	Current Interest to Maturity	Total
2017	\$ 5,670,000	\$ 2,148,875	\$ 7,818,875
2018	5,995,000	1,842,669	7,837,669
2019	5,560,000	1,567,150	7,127,150
2020	6,295,000	1,283,756	7,578,756
2021	6,515,000	947,494	7,462,494
2022-2024	14,790,000	953,663	15,743,663
Total	<u>\$ 44,825,000</u>	<u>\$ 8,743,607</u>	<u>\$ 53,568,607</u>

2011 Refunding Bond

<u>Fiscal Year</u>	Principal	Interest to Maturity	Total
2017	\$ 25,000	\$ 310,375	\$ 335,375
2018	25,000	309,625	334,625
2019	2,525,000	271,375	2,796,375
2020	-	233,500	233,500
2021	-	233,500	233,500
2022-2023	4,670,000	350,250	5,020,250
Total	<u>\$ 7,245,000</u>	<u>\$ 1,708,625</u>	<u>\$ 8,953,625</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

2012 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ -	\$ 2,791,350	\$ 2,791,350
2018	2,925,000	2,732,850	5,657,850
2019	3,245,000	2,609,450	5,854,450
2020	3,550,000	2,473,550	6,023,550
2021	3,895,000	2,324,650	6,219,650
2022-2026	26,225,000	8,612,250	34,837,250
2027-2028	20,485,000	1,046,875	21,531,875
Total	\$ 60,325,000	\$ 22,590,975	\$ 82,915,975

2013 Refunding Bond

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 2,430,000	\$ 3,488,113	\$ 5,918,113
2018	1,925,000	3,425,256	5,350,256
2019	830,000	3,382,250	4,212,250
2020	3,500,000	3,295,650	6,795,650
2021	4,280,000	3,140,050	7,420,050
2022-2026	47,795,000	11,476,600	59,271,600
2027	17,145,000	428,625	17,573,625
Total	\$ 77,905,000	\$ 28,636,544	\$ 106,541,544

Election 2012, Series A

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 7,215,000	\$ 2,580,963	\$ 9,795,963
2018	6,230,000	2,312,063	8,542,063
2019	90,000	2,185,213	2,275,213
2020	175,000	2,178,588	2,353,588
2021	255,000	2,167,838	2,422,838
2022-2026	2,685,000	10,522,938	13,207,938
2027-2031	5,750,000	9,489,813	15,239,813
2032-2036	9,670,000	7,995,040	17,665,040
2037-2041	15,050,000	5,278,050	20,328,050
2042-2045	17,120,000	1,430,600	18,550,600
Total	\$ 64,240,000	\$ 46,141,106	\$ 110,381,106

Compensated Absences

At June 30, 2016, the liability for compensated absences was \$5,207,225 of which \$700,429 is considered current.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Load Banking

At June 30, 2016, the liability for load banking was \$3,939,256.

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2016, was \$11,722,578, and contributions made by the District during the year were \$6,409,578. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$2,413,786 and \$(2,980,366), respectively, which resulted in an increase to the net OPEB obligation of \$4,746,420. As of June 30, 2016, the net OPEB obligation was \$58,386,103. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

Aggregate Net Pension Obligation

At June 30, 2016, the liability for the aggregate net pension obligation amounted to \$143,139,389. See Note 13 for additional information.

NOTE 11 - 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 \$30,699 for 2016. Currently, 272 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.

Contribution Information

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 2015-2016, the District contributed \$11,722,578, consisting of \$6,409,578 for premiums and \$5,313,000 to set aside for the future liability.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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	\$ 11,722,578
Interest on net OPEB obligation	2,413,786
Adjustment to annual required contribution	<u>(2,980,366)</u>
Annual OPEB cost (expense)	11,155,998
Contributions made	<u>(6,409,578)</u>
Increase in net OPEB obligation	4,746,420
Net OPEB obligation, beginning of year	<u>53,639,683</u>
Net OPEB obligation, end of year	<u><u>\$ 58,386,103</u></u>

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
2014	\$ 7,717,191	\$ 5,623,447	73%	\$ 52,369,709
2015	7,567,524	6,297,550	83%	53,639,683
2016	11,155,998	6,409,578	57%	58,386,103

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2016, is as follows:

Actuarial Accrued Liability (AAL)	\$ 129,629,001
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 129,629,001</u></u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	<u>\$ 110,245,828</u>
UAAL as Percentage of Covered Payroll	<u><u>118%</u></u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The above noted actuarial accrued liability was based on the July 7, 2016, 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 7, 2016, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 4.50 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, 2016, was 30 years.

NOTE 12 - RISK MANAGEMENT

Property and Liability 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

At June 30, 2016, 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, 2014	\$ 400,000	\$ -
Claims and changes in estimates	173,460	125,183
Claims payments	<u>(173,460)</u>	<u>(125,183)</u>
Liability Balance, June 30, 2015	400,000	-
Claims and changes in estimates	9,121	65,301
Claims payments	<u>(9,121)</u>	<u>(65,301)</u>
Liability Balance, June 30, 2016	<u>\$ 400,000</u>	<u>\$ -</u>
Assets Available to Pay Claims at June 30, 2016	<u>\$ 7,597,766</u>	<u>\$ 3,730,184</u>

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

For the fiscal year ended June 30, 2016, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

<u>Pension Plan</u>	<u>Primary Government</u>			
	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 92,009,654	\$ 15,094,600	\$ 16,287,283	\$ 7,268,569
CalPERS	51,129,735	16,003,924	15,116,015	3,946,117
Total	<u>\$ 143,139,389</u>	<u>\$ 31,098,524</u>	<u>\$ 31,403,298</u>	<u>\$ 11,214,686</u>

<u>Pension Plan</u>	<u>Fiduciary Funds</u>			
	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalPERS - Associated				
Students Misc. Plan	\$ 405,612	\$ 64,534	\$ 50,037	\$ (64,391)

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the District's total contributions were \$7,110,232.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$	92,009,654
State's proportionate share of net pension liability associated with the District		48,662,964
Total	\$	<u>140,672,618</u>

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.1367 percent and 0.1355 percent, respectively, resulting in a net increase in the proportionate share of 0.0012 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$7,268,569. In addition, the District recognized pension expense and revenue of \$3,769,493 for support provided by the state. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 7,110,232	\$ -
Net change in proportionate share of net pension liability	734,870	-
Difference between projected and actual earnings on pension plan investments	7,249,498	14,749,780
Differences between expected and actual experience in the measurement of the total pension liability	-	1,537,503
Total	<u>\$ 15,094,600</u>	<u>\$ 16,287,283</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (3,104,219)
2018	(3,104,219)
2019	(3,104,219)
2020	1,812,375
Total	<u>\$ (7,500,282)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (133,772)
2018	(133,772)
2019	(133,772)
2020	(133,772)
2021	(133,772)
Thereafter	(133,773)
Total	<u>\$ (802,633)</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on the Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 138,927,416
Current discount rate (7.60%)	92,009,654
1% increase (8.60%)	53,017,208

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Associated Students Miscellaneous Plan under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Miscellaneous Risk Pool Actuarial Valuation, 2014. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The CalPERS Miscellaneous Risk Pool is closed to new entrants and no current employees are covered by the plan.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the total District contributions for CalPERS was \$4,684,270.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS and CalPERS Miscellaneous Risk Pool net pension liability totaling \$51,129,735 and \$405,612, respectively. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.3469 percent and 0.3555 percent, respectively, resulting in a net decrease in the proportionate share of 0.0086 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$3,946,117 for CalPERS and \$(64,391) for CalPERS Miscellaneous Risk Pool. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalPERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 4,684,270	\$ -
Net change in proportionate share of net pension liability	-	1,826,222
Difference between projected and actual earnings on pension plan investments	8,397,514	10,148,240
Differences between expected and actual experience in the measurement of the total pension liability	2,922,140	-
Changes of assumptions	-	3,141,553
Total	<u>\$ 16,003,924</u>	<u>\$ 15,116,015</u>

	<u>CalPERS Miscellaneous Risk Pool</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net change in proportionate share of net pension liability	\$ 61,011	\$ -
Difference between projected and actual earnings on pension plan investments	-	16,708
Differences between expected and actual experience in the measurement of the total pension liability	3,523	-
Changes of assumptions	-	33,329
Total	<u>\$ 64,534</u>	<u>\$ 50,037</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

CalPERS

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (1,283,368)
2018	(1,283,368)
2019	(1,283,369)
2020	2,099,379
Total	<u>\$ (1,750,726)</u>

CalPERS
Miscellaneous Risk Pool

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (12,688)
2018	(12,688)
2019	(12,689)
2020	21,357
Total	<u>\$ (16,708)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

CalPERS

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (836,129)
2018	(836,130)
2019	(373,376)
Total	<u>\$ (2,045,635)</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

CalPERS Miscellaneous Risk Pool

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 10,761
2018	10,761
2019	9,683
Total	<u>\$ 31,205</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and services

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

CalPERS

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 83,217,902
Current discount rate (7.65%)	51,129,735
1% increase (8.65%)	24,446,279

**CalPERS
Miscellaneous Risk Pool**

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.65%)	\$ 680,240
Current discount rate (7.65%)	405,612
1% increase (8.65%)	178,875

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, 2016, which amounted to \$4,319,615 (7.12589 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, 2016. 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.

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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, 2016.

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, 2016.

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
2017	\$ 282,147
2018	137,310
2019	33,747
2020	15,622
2021	2,465
Total	<u>\$ 471,291</u>

Rental expenditures for the year ended June 30, 2016, amounted to \$753,928.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

	<u>Spent to Date</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Santa Ana College			
Johnson Student Center	\$ 509,350	\$ 4,161,128	2020
Central Plant Infrastructure	18,223,372	24,270,115	2018
17th & Bristol Street Parking Lot	136,167	46,114	2018
Science Center	1,709,966	3,366,404	2020
Temporary Village Phase 2	994,922	34,124	2016
Santiago Canyon College			
Building U Portables Certification	254,315	1,045,685	2017
Aquatic Bleachers Certification	10,919	89,347	2016
	<u>\$ 21,839,011</u>	<u>\$ 33,012,917</u>	

The projects are funded through general obligation bonds.

REQUIRED SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Cost 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)
July 17, 2012	\$ -	\$ 92,397,836	\$ 92,397,836	0%	\$ 100,628,030	92%
April 25, 2014	-	82,058,965	82,058,965	0%	104,223,062	79%
July 7, 2016	-	129,629,001	129,629,001	0%	110,245,828	118%

See accompanying note to required supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
CalSTRS		
District's proportion of the net pension liability	0.1367%	0.1355%
District's proportionate share of the net pension liability	\$ 92,009,654	\$ 79,176,119
State's proportionate share of the net pension liability associated with the District	48,662,964	47,809,959
Total	<u>\$ 140,672,618</u>	<u>\$ 126,986,078</u>
District's covered - employee payroll	<u>\$ 63,390,631</u>	<u>\$ 60,347,491</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>145.15%</u>	<u>131.20%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>77%</u>
CalPERS		
District's proportion of the net pension liability	0.3469%	0.3555%
District's proportionate share of the net pension liability	\$ 51,129,735	\$ 40,363,347
District's covered - employee payroll	\$ 38,369,484	\$ 37,323,667
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>133.26%</u>	<u>108.14%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>79%</u>	<u>83%</u>
CalPERS - MISCELLANEOUS RISK POOL		
District's proportion of the net pension liability	0.01096%	0.00639%
District's proportionate share of the net pension liability	\$ 405,612	\$ 397,446
District's covered - employee payroll*	N/A	N/A
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>N/A</u>	<u>N/A</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>78%</u>	<u>80%</u>

* The plan has no active members and, therefore, no covered-employee payroll.

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	2016	2015
CalSTRS		
Contractually required contribution	\$ 7,110,232	\$ 5,629,088
Contributions in relation to the contractually required contribution	7,110,232	5,629,088
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 66,264,977	\$ 63,390,631
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	\$ 4,684,270	\$ 4,516,472
Contributions in relation to the contractually required contribution	4,684,270	4,516,472
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 39,529,705	\$ 38,369,484
Contributions as a percentage of covered - employee payroll	11.85%	11.77%
CalPERS - MISCELLANEOUS RISK POOL		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll*	N/A	N/A
Contributions as a percentage of covered - employee payroll	N/A	N/A

* The plan has no active members and, therefore, no covered-employee payroll.

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2016

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

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Claudia C. Alvarez	President	2016
John R. Hanna	Vice President	2018
Nelida Mendoza Yanez	Clerk	2016
Arianna P. Barrios	Member	2016
Lawrence R. "Larry" Labrado	Member	2018
Jose Solorio	Member	2016
Phillip E. Yarbrough	Member	2018
Luis Mejia	Student Trustee	2017

DISTRICT EXECUTIVE OFFICERS

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

* Retired as of June 30, 2016.

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		\$ 20,136,538	\$ -
Federal Pell Administrative Allowance	84.063		7,582	-
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		584,700	-
Federal Work-Study Program	84.033		364,394	-
Federal Perkins Loans	84.038		80,992	-
Federal Direct Loan	84.268		1,827,273	-
Total Student Financial Assistance Cluster			23,001,479	-
TRIO Cluster				
Student Support Services	84.042A		447,227	-
Student Support Services - Veterans	84.042A		75,468	-
Talent Search	84.044A		291,740	-
Upward Bound	84.047A		295,505	-
Upward Bound - Math and Science	84.047M		210,300	-
Upward Bound - Veterans	84.047V		129,842	-
Total TRIO Cluster			1,450,082	-
HIGHER EDUCATION ACT				
Migrant Education - College Assistance Migrant Program	84.149A		425,403	-
Title V - Strengthening Hispanic Serving Institutions	84.031S		255,313	-
Title III - Hispanic Serving Institution - STEM	84.031C		146,035	-
Title III - Hispanic Serving Institution - ENGAGE	84.031C		1,074,760	186,004
Gear Up IV Program	84.334A		393,646	178,911
Child Care Access Means Parents in School (CCAMPIS)	84.335A		11,390	-
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)				
Passed through from California Department of Education				
Adult Education and Family Literacy Act (AEFLA)	84.002A	13971	142,504	-
English Literacy and Civics Education Grant (EL Civics)	84.002A	14508	992,141	-
English as a Second Language	84.002A	13978	1,531,451	-
Secondary Education	84.002A	14109	500,020	-

[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, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
CAREER AND TECHNICAL EDUCATION (CTE) ACT				
Passed through from California Community Colleges				
Chancellor's Office (CCCCO)				
CTE - CTE Transitions	84.048A	99-TP-62	\$ 89,403	\$ -
Title I, Part C	84.048	99-C01-046	937,575	-
LAOC Regional Consortium (Title I, Part B)	84.048	15-150-003	409,642	-
U.S. DEPARTMENT OF HEALTH and HUMAN SERVICES				
Early Head Start	93.600		1,900,471	-
Passed through from California Community Colleges				
Chancellor's Office (CCCCO)				
Temporary Assistance to Needy Families (TANF)	93.558	[1]	92,134	-
Passed through from Yosemite Community College District				
Child Development Training Consortium	93.575	15-16-2885	30,075	-
Passed through from Foundation for California Community Colleges (FCCC)				
YESS - Youth Empowerment Strategies for Success	93.674	[1]	20,359	-
U.S. DEPARTMENT OF LABOR				
Passed through from California Community Colleges				
Chancellor's Office (CCCCO)				
Bridge to Engineering	17.268	[1]	272,573	69,040
WIA Title I, Youth CASP	17.259	[1]	6,700	-
Passed through from City of Santa Ana				
Technology Access Center - Job Tech Lab	17.261	A-2010-171	151	-
U.S. DEPARTMENT OF AGRICULTURE				
Passed through from California Department of Education (CDE)				
Child and Adult Care Food Program	10.558	13666	332,274	-

[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, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
NATIONAL SCIENCE FOUNDATION				
Research and Development Cluster				
NSF - ATE OC Biotechnology Collaborative	47.076		\$ 63,500	\$ 5,000
NSF - STEM Scholars Academy	47.076		90,671	72,575
Passed through from University of California, Irvine				
NSF - IUSE	47.076	1432701	97,884	-
Passed through from California State University, Fullerton				
NSF - FULL-MT2	47.076	1035315	12,156	-
Passed through from Consulting for Environment System Technology				
NSF - CFEST	47.041	CFEST-SCC-06	3,062	-
Total Research and Development Cluster			267,273	77,575
U.S. SMALL BUSINESS ADMINISTRATION				
Passed through from California State University, Fullerton				
California Small Business Development Center (SBDC)	59.037	S-5871-RSCCD	602,039	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through from California Governor's Office of Emergency Services (CAL OES)				
Local Hazard Mitigation Plan	97.047	2014-00005	41,711	-
Total Federal Program Expenditures			\$ 34,926,604	\$ 511,530

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

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
GENERAL FUND			
AB86 - Adult Education	\$ -	\$ 54,502	\$ 54,502
Adult Education Block Grant	3,079,153	-	3,079,153
Adult Education - Data and Accountability	507,900	-	507,900
Basic Skills	709,889	728,221	1,438,110
Cal Grant	2,087,447	-	2,087,447
CalWorks	427,777	-	427,777
Career Technical Education Enhancement Fund	16,664,382	10,474,888	27,139,270
Career Technical Education Pathway	9,624	-	9,624
Career Technical Education Management	16,324	-	16,324
Child Development Center	3,768,799	-	3,768,799
Child Development - Facilities Renovation Repair	-	81,954	81,954
Cooperative Agencies Resources for Education (CARE)	130,899	-	130,899
Disabled Student Program and Services (DSPS)	2,013,990	168,668	2,182,658
Econ Dev Program: Go Biz, Small Business, Retail Hospitality	755,345	254,910	1,010,255
Econ Dev Program: DSN Sector Navigator, Global Trade	980,500	460,192	1,440,692
Econ Dev Program: Enrollment Growth	192,287	-	192,287
Equal Opportunity Employment	11,670	3,558	15,228
Extended Opportunity Program and Services (EOPS)	2,096,589	9,618	2,106,207
Full-time Student Success Grant	346,800	38,900	385,700
Orange County Career Pathway Partnership	-	5,293,761	5,293,761
Orange County Teacher Pathway Partnership	1,091,983	285,589	1,377,572
Proposition 39 - Clean Energy Workforce	187,804	62,605	250,409
QRIS Block Grant	212,204	-	212,204
Santa Ana Middle College High School	99,000	-	99,000
Santiago Canyon College MESA CCP	50,500	-	50,500
Song Brown Family Physician Training Act	-	218,576	218,576
Student Equity	4,132,245	1,137,213	5,269,458
Student Financial Aid Administration	1,040,270	-	1,040,270
Student Mental Health	5,839	-	5,839
Student Success and Support Program - Non Credit	2,639,264	160,459	2,799,723
Student Success and Support Program - Credit	6,467,802	1,628,949	8,096,751
TAFY - Transition Aged Foster Youth	-	374	374
TAP CPD	950,000	-	950,000
Telecommunication Technology Infrastructure Program (TTIP)	-	24,793	24,793
Total			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Unearned Revenue	Total Revenue	Program Expenditures
\$ 54,502	\$ -	\$ -	\$ 54,502	\$ 54,502
3,079,153	-	2,164,711	914,442	914,442
507,900	-	507,900	-	-
1,430,999	-	712,149	718,850	718,850
2,080,180	-	2,277	2,077,903	2,077,903
427,777	-	14,946	412,831	412,831
10,469,739	800	4,466,593	6,003,946	6,003,946
7,002	-	-	7,002	7,002
-	6,776	-	6,776	6,776
3,245,539	523,261	-	3,768,800	3,768,800
9,411	40,079	-	49,490	49,490
125,098	-	-	125,098	125,098
2,184,352	-	168,362	2,015,990	2,015,990
443,405	334,997	48,075	730,327	730,327
417,628	705,714	33,082	1,090,260	1,090,260
176,905	15,382	-	192,287	192,287
15,228	-	-	15,228	15,228
2,097,786	-	35,366	2,062,420	2,062,420
457,450	-	61,111	396,339	396,339
4,393,761	-	2,943,380	1,450,381	1,450,381
285,589	184,685	-	470,274	470,274
231,628	18,731	-	250,359	250,359
211,804	-	211,804	-	-
56,516	62,276	8,811	109,981	109,981
30,300	20,200	-	50,500	50,500
114,391	36,474	-	150,865	150,865
5,054,858	-	1,771,672	3,283,186	3,283,186
1,040,270	-	3,791	1,036,479	1,036,479
5,839	-	-	5,839	5,839
2,827,193	-	564,248	2,262,945	2,262,945
8,096,751	-	1,697,364	6,399,387	6,399,387
374	-	-	374	374
-	539,249	-	539,249	539,249
24,793	-	20,098	4,695	4,695
<u>\$ 49,604,121</u>	<u>\$ 2,488,624</u>	<u>\$ 15,435,740</u>	<u>\$ 36,657,005</u>	<u>\$ 36,657,005</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT
 AS OF JUNE 30, 2016**

CATEGORIES	**Revised Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2015 only)			
1. Noncredit*	601.98	-	601.98
2. Credit	1,716.50	-	1,716.50
B. Summer Intersession (Summer 2016 - Prior to July 1, 2016)			
1. Noncredit*	229.66	-	229.66
2. Credit	57.94	-	57.94
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	14,074.65	-	14,074.65
(b) Daily Census Contact Hours	1,380.85	-	1,380.85
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit*	5,795.91	-	5,795.91
(b) Credit	3,293.65	-	3,293.65
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Contact Hours	946.00	-	946.00
(b) Daily Census Contact Hours	804.50	-	804.50
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	28,901.64	-	28,901.64
SUPPLEMENTAL INFORMATION			
In-Service Training Courses (FTES)	2,335.09	-	2,335.09
Basic Skills Courses and Immigrant Education			
1. Noncredit*	5,316.73	-	5,316.73
2. Credit	827.95	-	827.95

* Including Career Development and College Preparation (CDCP) FTES

** Annual report revised as of October 20, 2016.

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, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 25,959,212	\$ -	\$ 25,959,212	\$ 25,959,212	\$ -	\$ 25,959,212
Other	1300	23,881,933	-	23,881,933	23,881,933	-	23,881,933
Total Instructional Salaries		49,841,145	-	49,841,145	49,841,145	-	49,841,145
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	12,537,118	-	12,537,118
Other	1400	-	-	-	1,156,100	-	1,156,100
Total Noninstructional Salaries		-	-	-	13,693,218	-	13,693,218
Total Academic Salaries		49,841,145	-	49,841,145	63,534,363	-	63,534,363
<u>Classified Salaries</u>							
Noninstructional Salaries							
Regular Status	2100	-	-	-	22,706,025	-	22,706,025
Other	2300	-	-	-	1,081,474	-	1,081,474
Total Noninstructional Salaries		-	-	-	23,787,499	-	23,787,499
Instructional Aides							
Regular Status	2200	775,256	-	775,256	775,256	-	775,256
Other	2400	1,623,839	-	1,623,839	1,623,839	-	1,623,839
Total Instructional Aides		2,399,095	-	2,399,095	2,399,095	-	2,399,095
Total Classified Salaries		2,399,095	-	2,399,095	26,186,594	-	26,186,594
Employee Benefits	3000	20,650,775	-	20,650,775	43,617,992	-	43,617,992
Supplies and Material	4000	-	-	-	702,974	-	702,974
Other Operating Expenses	5000	4,243,704	-	4,243,704	17,644,501	-	17,644,501
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		77,134,719	-	77,134,719	151,686,424	-	151,686,424

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, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	\$ 5,952,358	\$ -	\$ 5,952,358	\$ 5,952,358	\$ -	\$ 5,952,358
Student Health Services Above Amount Collected	6441	-	-	-	133,566	-	133,566
Student Transportation	6491	-	-	-	-	-	-
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	4,329,121	-	4,329,121
Objects to Exclude							
Rents and Leases	5060	-	-	-	1,401,033	-	1,401,033
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, 2016**

	Object/TOP Codes	ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	\$ -	\$ -	\$ -	\$ 4,421,852	\$ -	\$ 4,421,852
Capital Outlay							
Library Books	6000	-	-	-	-	-	-
Equipment	6300	-	-	-	-	-	-
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay							
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		5,952,358	-	5,952,358	16,237,930	-	16,237,930
Total for ECS 84362, 50 Percent Law		\$ 71,182,361	\$ -	\$ 71,182,361	\$ 135,448,494	\$ -	\$ 135,448,494
Percent of CEE (Instructional Salary Cost/Total CEE)		52.55%		52.55%	100.00%		100.00%
50% of Current Expense of Education					\$ 67,724,247		\$ 67,724,247

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, 2016**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2016.

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, 2016**

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				\$ 23,577,290
Activity Classification	Activity Code	Salaries and Benefits (Obj 1000-3000)	Operating Expenses (Obj 4000-5000)	Capital Outlay (Obj 6000)	Total
Instructional Activities	1000-5900	\$ 23,577,290	-	-	\$ 23,577,290
					-
Total Expenditures for EPA		\$ 23,577,290	-	-	\$ 23,577,290
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, 2016**

Amounts Reported for Governmental Activities in the Statement

Total Fund Balance, Retained Earnings, and Due to Student Groups

General Funds	\$ 40,541,020
Special Revenue Funds	5,150,250
Capital Project Funds	102,959,541
Debt Service Funds	26,465,352
Internal Service Funds	(590,695)
Fiduciary Funds	<u>5,759,129</u>

**Total Fund Balance, Retained Earnings,
and Due to Student Groups**

\$ 180,284,597

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	597,647,773	
Accumulated depreciation is	<u>(166,501,787)</u>	431,145,986

Amounts held in trust on behalf of others (Trust and Agency Funds) (4,533,950)

Governmental funds report deferred cost of refunding associated with the issuance of debt when first issued, whereas the amounts are deferred and amortized in the Statement of Activities. Deferred charges on refunding at year end amounted to: 2,105,653

Contributions to pension plans made subsequent to the measurement date were recognized as expenditures on the modified accrual basis, but are not recognized on the accrual basis. 11,794,502

The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (1,091,352)

The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense. (9,251,008)

The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. 1,384,637

The changes of assumptions are not recognized as an expenditure under the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. (3,141,553)

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred. (4,742,363)

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION, Continued
JUNE 30, 2016**

Long-term liabilities at year end consist of:

Bonds payable	\$ 366,874,044
Claims payable	400,000
Net OPEB obligation	58,386,103
Load banking	3,939,256
Compensated absences	5,207,225
Aggregate net pension liability	143,139,389
Less load banking already recorded in funds	(3,939,256)
Less compensated absences already recorded in funds	(700,429)
Less claims payable already recorded in funds	(400,000)
Less net OPEB obligation already recorded in funds	(60,218,887)

In addition, the District issued "capital appreciation" general obligation bonds. The accretion of interest on those bonds to date is the following:

33,721,337

Total Net Position

\$ (546,408,782)

\$ 57,546,367

See accompanying note to supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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 Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The Federal Perkins Loan program (CFDA #84.038), a part of the Student Financial Assistance Cluster, represents outstanding loans with the U.S. Department of Education with continuing compliance requirements. The balance outstanding at June 30, 2016 was \$33,078.

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. The reconciling amounts consist primarily of Federal Perkins Loans funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Child Care Access Means Parents in School (CCAMPIS) funds have been recorded in the current period as revenues that have not been expended as of June 30, 2016. These unspent balances are reported as legally restricted ending balances within the Statement of Net Position - Primary Government.

Description	CFDA Number	Amount
Total Federal Revenues from the Statement of Revenues, Expenses, and Changes in Net Position:		\$ 34,961,432
Federal Perkins Loans	84.038	80,992
Child Care Access Means Parents in School (CCAMPIS)	84.335A	(115,820)
Total Expenditures of Federal Awards		<u>\$ 34,926,604</u>

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Schedule of Workload Measures for State General Apportionment

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

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

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

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

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

Proposition 30 Education Protection Act (EPA) Expenditure Report

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

Reconciliation of Governmental Funds to the Statement of Net Position

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

INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with the 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 financial statements of the business-type activities and the aggregate remaining fund information of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2016.

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinich, Trinn, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Varrinck, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Rancho Santiago Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015. 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.

Basis for Qualified Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding *Section 427 Concurrent Enrollment of K-12 Students in Community College Credit Courses*, Finding 2016-001. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2016.

Unmodified Opinion for Each of the Other 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, 2016, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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 429	Student Success and Support Program (SSSP)
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
Section 438	Student Fees – Health Fees and Use of Health Fee Funds
Section 439	Proposition 39 Clean Energy
Section 440	Intersession Extension Programs
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 does not offer any Intersession Extension Programs; therefore, the compliance tests within this section were not applicable.

The District did not receive any funding through Proposition 1D State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

Vavrinich, Trinn, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.038, 84.063, 84.268	<u>Student Financial Assistance Cluster</u>
84.042A, 84.044A, 84.047A, 84.047M, 84.047V	<u>TRIO Cluster</u>
84.031S, 84.031C	<u>Title V - Strengthening Hispanic Serving Institutions; Title III - Hispanic Serving Institution - STEM; Title III - Hispanic Serving Institution - ENGAGE</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,047,798</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Qualified</u>
Unmodified for all State programs except for the following State program which was qualified:	

<u>Name of State Program</u>
Concurrent Enrollment of K-12 Students in Community College Credit Courses

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

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

2016-001 CONCURRENT ENROLLMENT

Criteria or Specific Requirement

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with the following criteria:

- *Education Code* Sections 48800-48802, 76000-76002, and 84752.
- CCR, Title 5, Sections 51004, 51006, 51021, 53410, 55002, 55100, 58100-58108, 58050, 58051(a) (1), 58051.5, 58052, 58056(a), 58058, 58060, and 59300 et seq.
- Legal Opinions M 98-17 and M 02-20 issued by the Chancellor's Office, California Community Colleges.

Legal Advisory 05-01, "Questions and Answers Re. Concurrent Enrollment" - issued January 5, 2005 by the Chancellor's Office, California Community Colleges.

Condition

Significant Deficiency - During the testing for Santa Ana College (the College), 2 out of 25 courses tested could not be determined if the courses being offered on an high school campus was advertised for a minimum of 30 days to the general public.

Questioned Costs

A 100% audit of courses taught at high school campuses was conducted by the College, resulting in a total of 14.50 FTES as being questioned. The Annual CCFS-320 report was amended to reflect this adjustment.

Context

The District generates approximately over 1,200 FTES for concurrently enrolled students.

Effect

The FTES generated for concurrently enrolled high school students was improperly identified. The College is at risk of noncompliance for the Education Codes and Title 5 requirements related to concurrent enrolled students.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

Cause

The College did not have a mechanism in place to ensure that all courses offered on high school campuses are meeting the requirement to be advertised to the general public at least 30 days prior to the start of each course.

Recommendation

The College should implement a process to identify all course offerings at high school campuses and ensure that they are properly advertised to the general public at least 30 days prior to the start of each course.

Management's Response and Corrective Action Plan

The College has examined all course sections scheduled at high school campuses and assessed whether they were advertised to the public at least 30 days prior to the start of the course. In cases where the 30-day rule has not been met, these sections have been removed from apportionment reporting. The Office of the Vice President of Academic Affairs is working with Admissions and Records to generate a report of sections in jeopardy of not meeting the 30-day rule prior to the course start dates. A checklist on scheduling the College courses at high school sites has also been distributed to the deans with scheduling authority that includes the 30-day rule as a requirement. In cases where we will not meet the 30-day rule or course sections that are part of our non-AB288 dual enrollment MOUs, we will not report these sections for apportionment.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

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.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.