

**RANCHO SANTIAGO
COMMUNITY COLLEGE DISTRICT**

Annual Financial Report and Single Audit Report

For the Fiscal Years Ended June 30, 2005 and 2004

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
ORGANIZATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

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Dr. Erlinda Martinez	President of Santa Ana College
Mr. Juan Vazquez	President of Santiago Canyon College
Mr. John Didion	Executive Vice Chancellor of Human Resources/Educational Services
Dr. Mark Zacovic	Vice Chancellor, Business Operations

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 TABLE OF CONTENTS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements	
Business-Type Activities:	
Statements of Net Assets	21
Statements of Revenues, Expenses and Changes in Net Assets	22
Statements of Cash Flows	23
Discretely Presented Component Units:	
Statements of Financial Position	25
Statements of Activities	26
Notes to the Basic Financial Statements	27
Supplementary Information	
Independent Auditor’s Report on the Supplementary Information	51
Schedule of Expenditures of Federal Awards	53
Schedule of Expenditures of State Awards	55
Schedule of Workload Measures for Program Based Funding and Annual Apprenticeship Hours of Instruction	56
Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records	57
Annual Financial and Budget Report (CCFS-311) and Reconciliation with the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets	58

Supplementary Information (continued)

Discretely Presented Component Units:

Combining Statement of Financial Position 59

Combining Statement of Activities 60

Note to the Supplementary Information..... 61

Reports on Compliance and Internal Control

Independent Auditor’s Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Basic Financial
Statements Performed in Accordance with *Government Auditing Standards* 63

Independent Auditor’s Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133 65

Independent Auditor’s Report on State Compliance Requirements..... 67

Schedule of Findings and Questioned Costs 70

Status of Prior Year Findings and Recommendations..... 74



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal years ended June 30, 2005 and 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the Rancho Santiago Community College District as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, effective July 1, 2004, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 - 20 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Massar Dini & Company LLP

Certified Public Accountants

Los Angeles, California

November 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of the Rancho Santiago Community College District (the "District") for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

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

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

BASIC FINANCIAL STATEMENTS

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

The following condensed financial information provides an overview of the District's financial activities as of and for the fiscal years ended June 30, 2005, 2004 and 2003. The District's component unit activity is presented in discrete format in the Supplementary Information section of the annual financial report and is not included in this management's discussion and analysis section. Component unit activity for the District consists of the three related foundations: (1) the Santa Ana College Foundation, (2) the Santiago Canyon College Foundation and (3) the Rancho Santiago Community College District Foundation.

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

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

Each one of these statements will be discussed.

Attendance Highlights

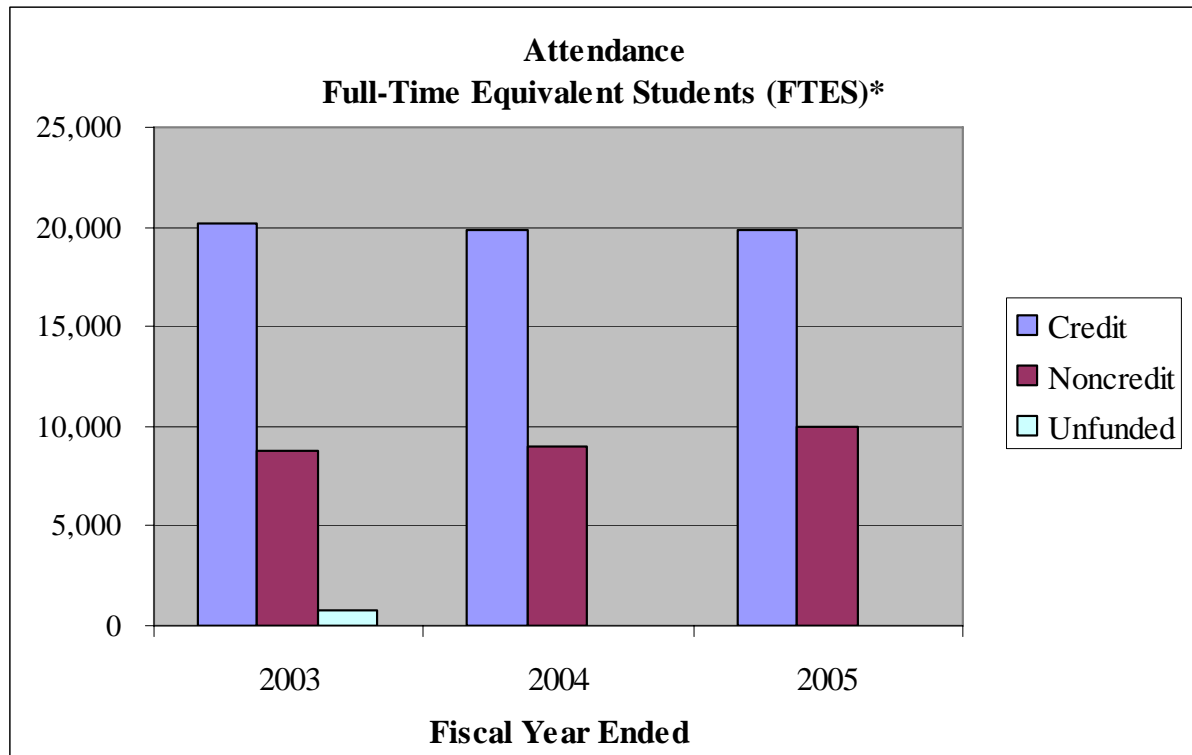
Fiscal year ended 2005 compared to 2004

- Total attendance at Santa Ana College and Santiago Canyon College increased by 3.2%. The increase came from noncredit attendance, which increased by 11.0%. Credit attendance was essentially flat (down 0.3%).

Fiscal year ended 2004 compared to 2003

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

(See attendance graph below)



* -- Full-time equivalent students is based on the District's annual Apportionment Attendance Report, form CCFS-320 filed with the state Chancellor's Office. Credit and noncredit represent funded FTES. Unfunded FTES is total unfunded, there is no designation (credit or noncredit) for unfunded FTES.

Financial Highlights

Statement of Net Assets

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

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

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

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

The Statement of Net Assets as of June 30, 2005, 2004 and 2003 is summarized below:

	(in thousands)				
ASSETS	2005	2004	2003	'04 to '05 Change	'03 to '04 Change
Current assets					
Cash and cash equivalents	\$ 199,861	\$ 97,249	\$ 114,647	106%	-15%
Receivables	15,839	7,559	5,617	110%	35%
Inventory and other assets	1,917	1,228	1,949	56%	-37%
Total current assets	<u>217,617</u>	<u>106,036</u>	<u>122,213</u>	<u>105%</u>	<u>-13%</u>
Noncurrent assets					
Other assets	3,675	2,044	2,060	80%	-1%
Capital assets, net	182,444	152,596	114,774	20%	33%
Total noncurrent assets	<u>186,119</u>	<u>154,640</u>	<u>116,834</u>	<u>20%</u>	<u>32%</u>
Total assets	<u>\$ 403,736</u>	<u>\$ 260,676</u>	<u>\$ 239,047</u>	<u>55%</u>	<u>9%</u>
LIABILITIES					
Current liabilities					
Accounts payables and accrued liabilities	\$ 18,749	\$ 16,365	\$ 14,258	15%	15%
Deferred revenue	2,792	3,432	2,853	-19%	20%
Long-term liabilities-current portion	883	1,000	1,090	-12%	-8%
Bonds payable	6,916	3,420	-	102%	100%
Amounts held for others	765	853	987	-10%	-14%
Total current liabilities	<u>30,105</u>	<u>25,070</u>	<u>19,188</u>	<u>20%</u>	<u>31%</u>
Noncurrent liabilities					
Long-term liabilities, noncurrent portion	25,167	20,351	14,882	24%	37%
Bonds payable	218,137	95,519	99,047	128%	-4%
Total noncurrent liabilities	<u>243,304</u>	<u>115,870</u>	<u>113,929</u>	<u>110%</u>	<u>2%</u>
Total Liabilities	<u>273,409</u>	<u>140,940</u>	<u>133,117</u>	<u>94%</u>	<u>6%</u>
NET ASSETS					
Invested in capital assets, net of related debt	91,939	94,345	81,256	-4%	18%
Restricted	21,912	10,291	8,956	113%	15%
Unrestricted	16,476	15,100	15,718	21%	-13%
Total net assets	<u>130,327</u>	<u>119,736</u>	<u>105,930</u>	<u>9%</u>	<u>13%</u>
Total liabilities and net assets	<u>\$ 403,736</u>	<u>\$ 260,676</u>	<u>\$ 239,047</u>	<u>55%</u>	<u>9%</u>

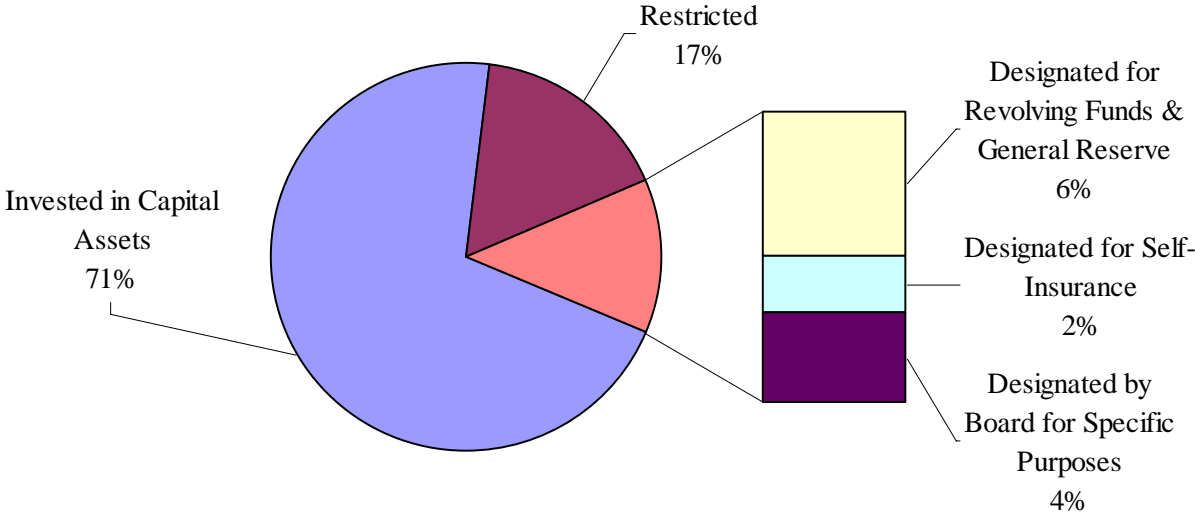
Fiscal year ended 2005 compared to 2004

- Cash and cash equivalents consists mainly of cash in the county treasury (\$166.2 million) and local agency investment fund (LAIF, \$11.3 million). Cash increased by \$102.6 million from the prior year mainly due to the \$120 million in bond proceeds from the Series B issuance, offset by cash outflows for bond construction projects. At June 30, 2005, cash in the county treasury related to bond activities was \$133.2 million (Series A and B combined).
- Receivables consist mainly of receivables from state and federal grants and general apportionment in which the District has earned funds that were not yet received as of the fiscal year end. Receivables increased by \$8.3 million, due to increased lottery receivables (two quarters of revenue receivable at June 30, 2005; one quarter in prior year) and state capital projects, especially the Learning Resource Center construction at Santiago Canyon College.
- Inventory and other assets is mainly bookstore inventory; it increased \$0.7 million due to ordering textbooks at 100% coverage instead of 85% to increase convenience to the students.
- Other assets, noncurrent portion consists mainly of deferred bond issuance costs, which increased \$1.6 million due to the additional issuance cost from the Series B bonds.
- Capital assets, net is the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation. The breakdown of this total net value can be found in the notes to the financial statements and later in this section. Capital assets, net increased by \$29.8 million primarily due to the acquisition and renovation of the Orange Education Center. Investments in capital assets in 2004-05 were related to purchases of land and buildings and construction projects financed by bond, state and local sources.
- Accounts payable and accrued liabilities consists mainly of payables to vendors (\$4.7 million), bond interest payable (\$2.3 million), accrued payroll (\$6.4 million) and post employment benefits (\$2.0 million). The increase of \$2.4 million is spread fairly evenly through these accounts and can be attributed to increase in costs and activity.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are considered earned when spent, up to the award amount. This balance will fluctuate yearly depending on our ability to accomplish the various grant goals throughout the year.
- Bonds payable, current portion consists of the second principal payment for the Series A bond, due September 2005 (\$6.4 million) and the current portion of the bond premium (\$0.5 million).
- Long-term liabilities, noncurrent portion is all of the long-term debt that is due to be paid in one year or later. It currently consists of accrued vacation payable (\$2.9 million), post-employment benefits payable (\$21.4 million) and notes payable (\$0.2 million). The increase of \$4.8 million consists mainly of the \$5.0 million increase to post-employment benefits. This relates to funding the District's retiree health benefit obligation based on a recent actuarial study.
- The \$218.1 million bonds payable consists of the noncurrent portions of the bond principal payable (\$86.3 million, Series A and \$120.0 million, Series B) and bond premium (\$2.6 million, Series A and \$9.3 million, Series B). The increase of \$122.6 million relates to the issuance of Series B bonds in March 2005.

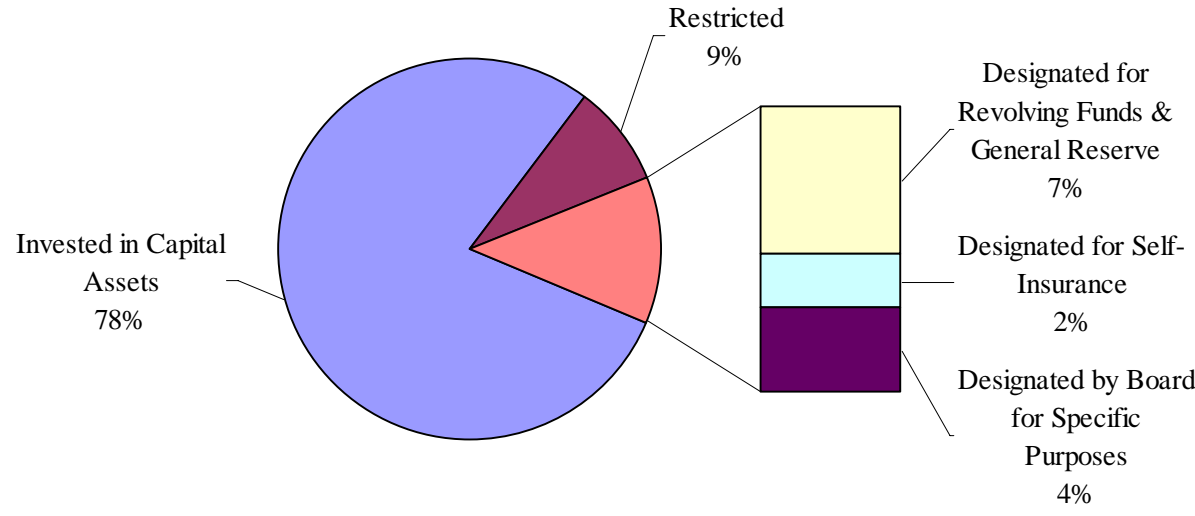
Fiscal year ended 2004 compared to 2003

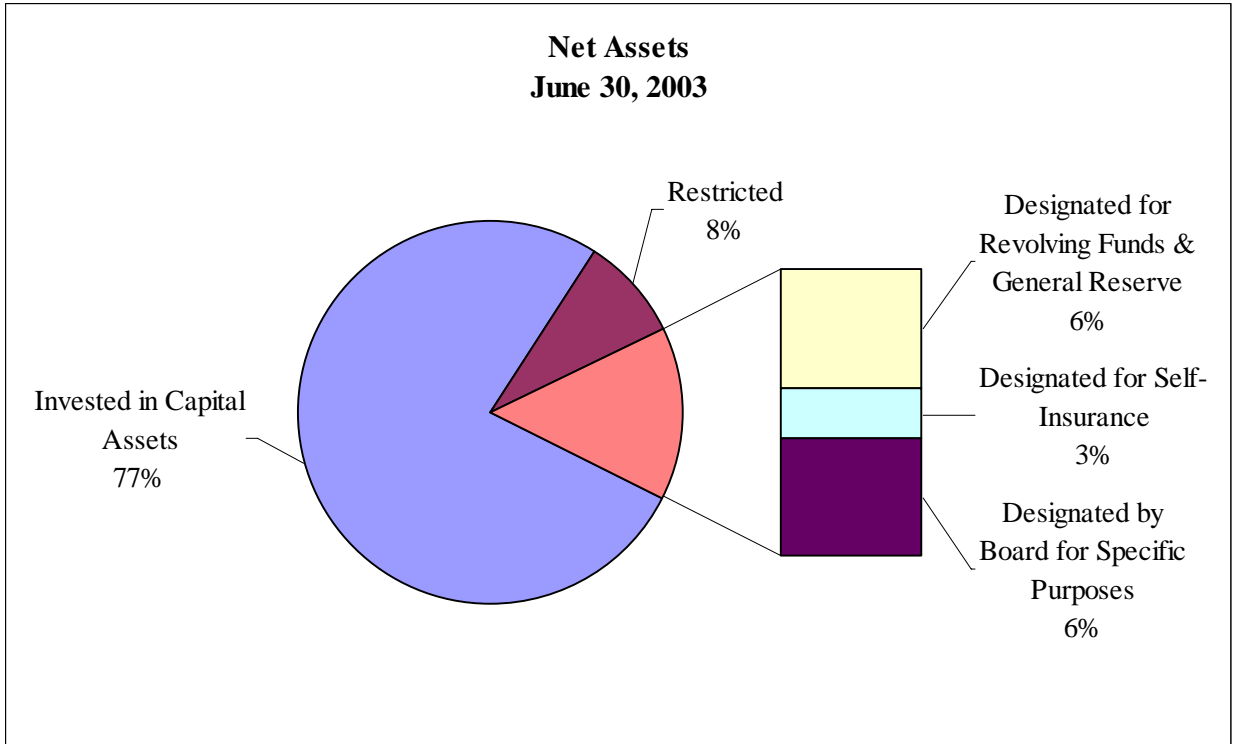
- Cash and cash equivalents consists mainly of cash in the county treasury (\$78.0 million) and local agency investment fund (LAIF, \$11.1 million). Cash decreased by \$17.4 million from the prior year mainly due to cash outflows on Series A bond construction projects. At June 30, 2004, cash in the county treasury related to bond activities was \$40.1 million.
- Receivables consist mainly of receivables from state and federal grants and general apportionment in which the District has earned funds that were not yet received as of the fiscal year end. Receivables increased by \$1.9 million due mainly to state apportionment receivable.
- Inventory and other assets is mainly bookstore inventory; it was reduced due to an increased effort to return textbooks that were not needed for the upcoming semester.
- Capital assets, net is the net historical value of land, buildings, construction in progress and equipment less accumulated depreciation. The breakdown of this total net value can be found in the notes to the financial statements and later in this section. Capital assets, net increased by \$37.8 million. Investments in capital assets in 2003-04 were mainly related to purchases of land and buildings and construction projects financed by bond, state and local sources.
- Accounts payable and accrued liabilities consists mainly of payables to vendors (\$4.8 million), bond interest payable (\$1.4 million) and accrued payroll (\$6.0 million). The increase of \$2.1 million is spread fairly evenly through these accounts.
- Deferred revenue relates to federal, state and local program funds received but not yet earned as of the end of the fiscal year. Most grant funds are considered earned when spent, up to the award amount.
- Bonds payable, current portion consists of the first bond principal payment, due September 2004.
- Long-term liabilities, noncurrent portion is all of the long-term debt that is due to be paid in one year or later. It currently consists of capital leases payable (\$0.2 million), accrued vacation payable (\$2.8 million), post-employment benefits payable (\$16.4 million) and notes payable (\$0.2 million). The increase consists mainly of the \$5.8 million increase to post-employment benefits. This relates to funding the District's retiree health benefit obligation based on a recent actuarial study.
- The \$95.5 million bonds payable consists of the noncurrent portions of the bond principal payable (\$92.7 million) and bond premium (\$2.8 million).

**Net Assets
June 30, 2005**



**Net Assets
June 30, 2004**





Statement of Revenues, Expenses and Changes in Net Assets

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

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

The Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2005, 2004 and 2003 is summarized below:

REVENUES	(in thousands)			'04 to '05	'03 to '04
Operating revenues	2005	2004	2003	Change	Change
Tuition and fees, net	\$ 10,518	\$ 8,685	\$ 7,288	21%	19%
Grants and contracts, non-capital	32,974	29,539	29,464	12%	0%
Auxiliary enterprise	7,020	6,976	6,984	1%	0%
Interest on student loans	4	5	4	-20%	25%
Total operating revenues	50,516	45,205	43,740	12%	3%
Operating expenses	166,663	155,792	156,055	7%	0%
Operating loss	(116,147)	(110,587)	(112,315)	5%	-2%
NONOPERATING REVENUES					
(EXPENSES)					
State apportionments, noncapital	58,300	36,034	44,203	62%	-18%
Local property taxes	47,023	62,492	57,599	-25%	8%
State taxes and other revenues	4,660	4,129	4,524	13%	-9%
Interest income	3,390	1,439	1,250	136%	15%
Other nonoperating expenses, net	(4,780)	(4,320)	(893)	11%	384%
Total nonoperating revenues	108,593	99,774	106,683	9%	-6%
Loss before other revenues, expenses, gains or losses	(7,554)	(10,813)	(5,632)	-30%	92%
Apportionments & property taxes, capital	18,145	9,033	1,762	101%	413%
Gift, capital	-	15,586	2,116	-100%	637%
Increase (decrease) in net assets	10,591	13,806	(1,754)	-23%	-887%
NET ASSETS					
Net assets-beginning of year	119,736	105,930	107,684	13%	-2%
Net assets-end of year	<u>\$ 130,327</u>	<u>\$ 119,736</u>	<u>\$ 105,930</u>	<u>9%</u>	<u>13%</u>

Fiscal year ended 2005 compared to 2004

- Net tuition and fees consists of enrollment fees (\$10.6 million), nonresident tuition (\$1.8 million), and all other fees (\$2.3 million) less scholarships discounts and allowances (\$4.3 million). Enrollment fees increased for the second time in two years as shown below:

<u>Fiscal Year</u>	<u>Statewide Enrollment Fees</u>	<u>Percentage Increase</u>
2002-03	\$11.00	
2003-04	18.00	64%
2004-05	26.00	44%

This rate is set by the state for all California community colleges. Enrollment fees are included in the calculation of general apportionment. The nonresident tuition fee remained at \$149 per unit. Enrollment revenue increased 45%, which is in line with the per unit increase, noted above. Other fees were essentially flat.

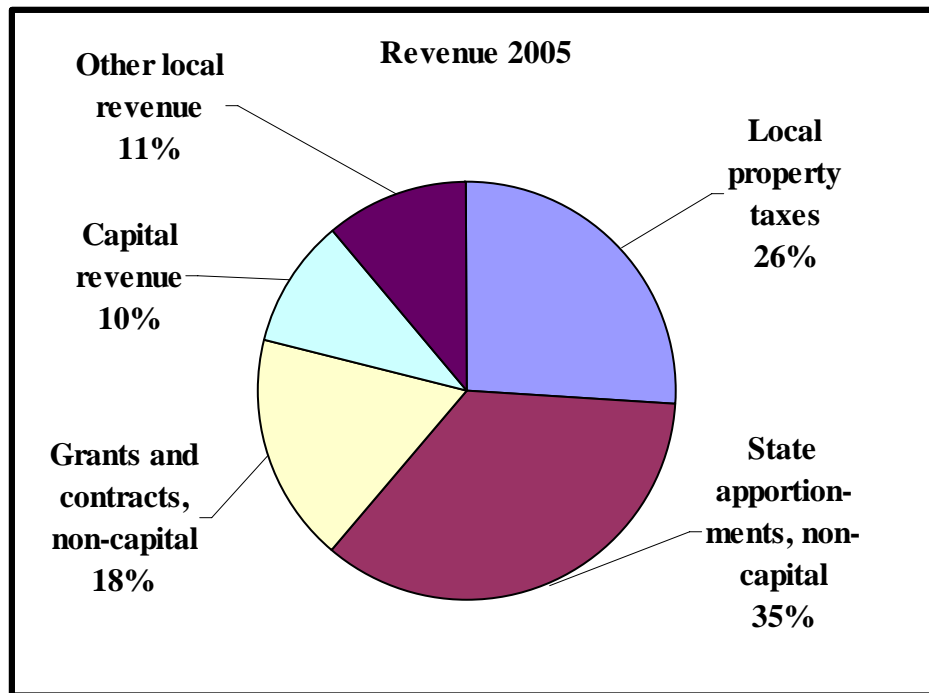
- Grants and contracts, noncapital increased \$3.4 million mainly due to a \$1.0 million increase in student financial aid administration and a \$1.7 million increase in matriculation revenue.
- Auxiliary enterprise, net is primarily bookstore sales less allowances.
- State apportionments, noncapital consists of apprenticeship (\$2.2 million), state apportionment (\$49.5 million) and other apportionments (\$6.6 million, mainly partnership for excellence). State apportionment represents total general apportionment earned less enrollment fees and property taxes. The increase of \$22.3 million is due to local property taxes accounting for a much smaller portion of total apportionment due to the “triple flip” imposed by the legislature.
- Local property taxes decreased \$15.5 million due to an \$18.8 million decrease to ERAF revenue due to the “triple flip” imposed by the legislature, offset by increases in other property taxes. As noted above, decreases in property tax revenue increase the District’s state apportionment revenue.
- State taxes and other revenues consists primarily of state lottery revenue (\$4.3 million).
- Investment income increased by \$1.9 million mainly due to the \$1.2 million increase in bond funds interest due to increased cash balances.
- Other nonoperating expenses over revenues is mainly bond interest expense (\$4.9 million), offset by other revenue.
- Apportionment and property taxes, capital consists mainly of state community college construction act, scheduled maintenance funding and property taxes. The majority of the increase is due to property taxes collected for the repayment of bonds.
- There was no gift, capital in 2004-05. In 2003-04, this amount related to the former Tustin Marine Corps Station.

Fiscal year ended 2004 compared to 2003

- Net tuition and fees consists of enrollment fees (\$7.4 million), nonresident tuition (\$1.8 million), and all other fees (\$2.3 million) less scholarships discounts and allowances (\$2.8 million). Enrollment fees increased to \$18 per unit in 2003-04 from \$11 per unit. This rate is set by the state for all community colleges. Enrollment fees are included in the calculation of general apportionment. The nonresident tuition fee increased to \$149 per unit from \$141. The net increase in this item is due to these rate increases offset by the decline in attendance.
- Auxiliary enterprise, net is primarily bookstore sales less allowances.
- State apportionments, noncapital consists of apprenticeship (\$1.9 million), state apportionment (\$26.7 million) and other apportionments (\$7.4 million, mainly partnership for excellence).

State apportionment represents total general apportionment earned less enrollment fees and property taxes. The decrease of \$8.2 million is due to local property taxes accounting for a much larger portion of total apportionment and the decrease in FTES.

- Local property taxes increased \$4.9 million due to increasing property values in Orange County. As noted above, increases in property tax revenue reduce the District's state apportionment revenue.
- State taxes and other revenues consists primarily of state lottery revenue (\$3.7 million).
- Other nonoperating expenses over revenues is mainly bond interest (\$4.2 million).
- Apportionment & property taxes, capital consists mainly of state community college construction act, scheduled maintenance funding and property taxes. The majority of the increase is due to property taxes collected for the repayment of bonds.
- Gift, capital is the \$16.3 million appraised value of the land at the former Tustin Marine Corps Air Station, offset by the decrease in the appraised value of the land at the future site of the Digital Media Center in Santa Ana. The Tustin land acquisition completed years of negotiations between the District and various parties involved.



Operating Expenses (by natural classification)

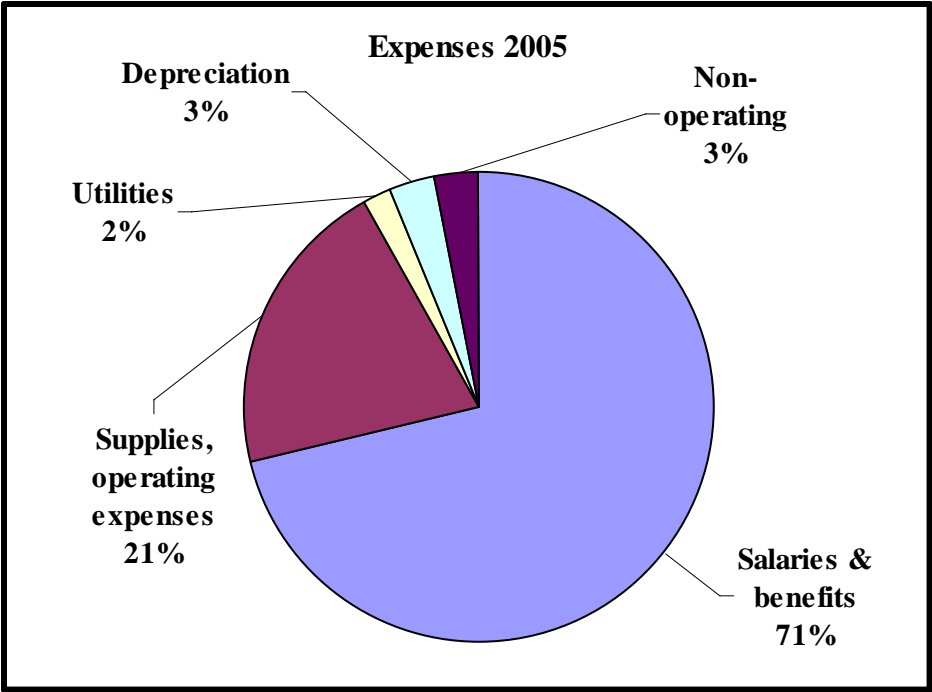
	(in thousands)			'04 to '05	'03 to '04
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>Change</u>
Salaries	\$ 92,764	\$ 89,116	\$ 90,611	4%	-2%
Employee benefits	28,644	27,214	22,545	5%	21%
Supplies, materials, other operating expenses and services	36,199	31,325	32,493	16%	-4%
Utilities	3,206	2,867	3,317	12%	-14%
Depreciation	5,850	5,270	7,089	11%	-26%
 Total operating expenses	 <u>\$ 166,663</u>	 <u>\$ 155,792</u>	 <u>\$ 156,055</u>	 <u>7%</u>	 <u>0%</u>

Fiscal year ended 2005 compared to 2004

- Salaries increased 4.0% mainly due to annual step increases as well as the removal of hiring freezes and slow-downs.
- Employee benefits increased 5.0%, primarily due to significant increases to health insurance premiums with an off-setting decrease in the PERS rate from 10.4% to 9.952%.
- Supplies, materials, other operating expenses and services increased \$4.9 million due to the restoration of operating budgets, which were cut in the prior year and equipment purchased which was under the capitalization threshold.
- The increase in depreciation expense is due to increasing capital assets from bond projects.

Fiscal year ended 2004 compared to 2003

- Salaries decreased 2% mainly due to hiring freezes and slow-downs imposed by the District and class offering reductions in response to the continuing state budget crisis. Prior year raises (3.8% for full-time faculty and 3.4% for classified and management) were delayed until February 2003 and July 2003 respectively, so their impact affected the 2003-04 fiscal year. There was also a 0.5% raise for faculty effective July 2003.
- Employee benefits increased \$4.7 million due to the increased PERS rate from 2.9% to 10.4%, increase in health and welfare benefits, and a \$2.0 million increase to the retiree benefits accrual.
- Supplies, materials, other operating expenses and services decreased \$1.1 million due to planned cuts to District budgets in response to the state budget crisis.
- The decrease in depreciation expense is due mainly to one-time adjustments in 2003 to prior periods to properly state accumulated depreciation.



Statement of Cash Flows

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

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

Statement of Cash Flows

(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash Provided By (Used In):			
Operating activities	\$ (108,889)	\$ (95,924)	\$ (98,749)
Non-capital financing activities	108,284	99,822	111,875
Capital and related financing activities	100,347	(22,750)	61,284
Investing activities	<u>2,870</u>	<u>1,454</u>	<u>1,225</u>
Net increase (decrease) in cash	102,612	(17,398)	75,635
Cash - Beginning of the fiscal year	<u>97,249</u>	<u>114,647</u>	<u>39,012</u>
Cash – End of the fiscal year	<u>\$ 199,861</u>	<u>\$ 97,249</u>	<u>\$ 114,647</u>

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

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

(in thousands)

Balances for fiscal year ended June 30,

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 84,044	\$ 80,012	\$ 52,768
Buildings and improvements	86,642	78,186	75,930
Construction in progress	32,390	14,158	5,412
Equipment	<u>43,503</u>	<u>41,309</u>	<u>37,753</u>
Capital assets, gross	246,579	213,665	171,863
Less: accumulated depreciation	<u>64,135</u>	<u>61,069</u>	<u>57,089</u>
Capital assets, net	<u>\$ 182,444</u>	<u>\$ 152,596</u>	<u>\$ 114,774</u>

Fiscal year ended 2005 compared to 2004

As of June 30, 2005, the District had \$246.5 million in capital assets, less \$64.1 million accumulated depreciation for net capital assets of \$182.4 million. The District continues to work on the facilities projects that are part of the \$337.0 million bond master plan. The District received Series B bond proceeds of \$120.0 million in March 2005. The District spent approximately \$26 and \$1.0 million of Series A and Series B proceeds respectively in 2004-05. Depreciation charges totaled \$5.9 million in 2004-05.

Some of the major capital additions during the 2004-05 fiscal year included:

	(in thousands)
1. Construction in progress, Digital Media Center at Bristol Street, Santa Ana	\$ 3,182
2. Various athletics related projects at Santa Ana College	994
3. Construction in progress at Orange Education Center, Batavia Street, Orange	15,338
4. Construction in progress, Public Safety Institute, at former Tustin Marine Base site	347
5. Construction in progress, Learning Resource Center, Santiago Canyon College	5,099
6. Land purchase and relocation of tenants, College Avenue properties adjacent to Santa Ana College	4,032
7. Fire Training Tower, Costa Mesa	350

Fiscal year ended 2004 compared to 2003

As of June 30, 2004, the District had \$213.6 million in capital assets, less \$61.0 million accumulated depreciation for net capital assets of \$152.6 million. The District continues to work on the facilities projects that are part of the \$337 million bond master plan. The District received Series A bond proceeds of \$96 million in March 2003. The District has spent approximately \$37 and \$24 million of those proceeds in 2002-03 and 2003-04 respectively. Depreciation charges totaled \$7.1 million in 2002-03 and \$5.3 million in 2003-04.

Some of the major capital additions during the 2003-04 fiscal year included:

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

Debt Administration

Long-Term Debt

	(in thousands)		
	Balances for fiscal year ended June 30,		
	2005	2004	2003
Notes payable	\$ 196	\$ 262	\$ 292
Bond obligations	225,052	98,939	99,047
Deferred revenue	3,434	4,165	3,678
Compensated balances	3,561	3,350	3,305
Capital leases	231	642	1,033
Other accrued liabilities	24,073	18,524	12,610
Total	<u>256,547</u>	<u>125,882</u>	<u>119,965</u>
Less: due within one year	<u>13,242</u>	<u>10,012</u>	<u>6,035</u>
Total long-term liabilities	<u>\$ 243,305</u>	<u>\$ 115,870</u>	<u>\$ 113,930</u>

Fiscal year ended 2005 compared to 2004

At June 30, 2005, the District had \$243.3 million in outstanding long-term debt compared to \$115.9 million at June 30, 2004. The majority of the increase was due to the issuance of Series B bonds. Series B of the general obligation bonds were issued in March 2005 in the amount of \$119,999,867. The District is scheduled to repay the bond liability over the next 25 years beginning with the first repayment September 2007.

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

Fiscal year ended 2004 compared to 2003

At June 30, 2004, the District had \$115.9 million in outstanding long-term debt compared to \$113.9 million at June 30, 2003. The majority of the increase was due to net increases in retiree benefit obligations.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

State Economy

- The economic position of Rancho Santiago Community College District is closely tied to that of the State of California. The District received 35% of its funding through state apportionments and 26% from local property taxes. These two sources with enrollment fees essentially make up the District's general apportionment, the main support for California community colleges.
- The District is not aware of any currently known facts, decisions or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise.

- The governor's budget for fiscal year 2005-06 provides an increase in overall funding for community colleges of 9%.
- The governor's budget for fiscal year 2005-06 increases the proposition 98 split for community colleges from 10.25% to 10.46%.
- Enrollment fees for California community colleges remain at \$26 per unit for 2005-06.

RSCCD Budget

Assumptions:

- The governor's 2005-06 budget for community colleges contains a 4.23% cost of living increase.
- The 2005-06 adopted budget includes resources to enable the District to meet its FTES goal of base apportionment plus 2.09 % growth.
- The District has budgeted the employer's share of the PERS contribution at 9.116% for 2005-06, a decrease from 9.952%.
- The effects of salary negotiations for 2005-06 are unknown at this point. 4% raises for 2004-05, which were effective June 2005 for classified, and July 2005 for faculty and management employees are included in the District's 2005-06 adopted budget.

Capital Improvements:

- The District plans to begin demolition of the apartments on College Avenue, adjacent to Santa Ana College in 2005-06.
- The District continues to replace its aging telephone and computer network and will embark on implementation of the Datatel software system. It is anticipated that full implementation will take several years.
- The District plans to complete construction on the Digital Media Center in Santa Ana in 2005-06.
- The District plans to complete construction on the Learning Resource Center at Santiago Canyon College in 2005-06.
- Major construction of the Public Safety Institute (Tustin Marine Corps Air Station site) began November 2005.
- Construction began October 2005 on men's and women's locker room facilities at Santa Ana College after demolition of the existing facilities.

Finance:

- The District refunded (refinanced) a portion of the Series A bonds in August 2005 to create over \$3 million in savings for district taxpayers and garnered \$5 million in additional proceeds for the District.

Operations:

- The District will offer intersession classes in January 2006 to provide additional student access and to generate additional FTES growth.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET ASSETS
JUNE 30, 2005 and 2004**

Assets	2005	2004
Current assets		
Cash and cash equivalents	\$ 180,907,325	\$ 91,847,702
Restricted cash and cash equivalents	18,953,887	5,401,759
Receivables	15,741,172	7,460,569
Restricted student loans receivable	98,250	98,775
Inventory	1,770,250	1,193,024
Other assets	146,750	34,216
Total current assets	<u>217,617,634</u>	<u>106,036,045</u>
Noncurrent assets		
Restricted student loans receivable	575,769	557,081
Bond issuance costs	3,098,795	1,487,015
Capital assets, net:		
Non-depreciable	116,432,858	94,169,492
Depreciable	66,011,041	58,426,507
Total noncurrent assets	<u>186,118,463</u>	<u>154,640,095</u>
Total Assets	<u>\$ 403,736,097</u>	<u>\$ 260,676,140</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Accounts payable	\$ 7,426,873	\$ 6,883,293
Interest payable	2,262,708	1,354,754
Accrued salaries	6,407,774	5,966,413
Deferred revenue	2,792,140	3,431,729
Compensated balances	620,859	523,065
Bonds payable	6,915,992	3,420,000
Capital leases	231,564	410,836
Claims liability	2,651,398	2,160,353
Notes payable	30,222	65,889
Amounts held for others	764,964	852,615
Total current liabilities	<u>30,104,494</u>	<u>25,068,947</u>
Noncurrent liabilities		
Deferred revenue	641,665	733,332
Compensated balances	2,940,347	2,827,374
Capital leases	-	231,564
Claims liability	21,420,282	16,362,505
Notes payable	166,111	196,333
Bonds payable	218,136,580	95,519,039
Total noncurrent liabilities	<u>243,304,985</u>	<u>115,870,147</u>
Total liabilities	<u>273,409,479</u>	<u>140,939,094</u>
Net Assets		
Invested in capital assets, net of related debt	91,938,758	94,345,176
Restricted		
Expendable		
Scholarships and loans	1,290,764	1,236,887
Capital projects	4,354,284	4,814,305
Debt service	15,472,411	3,258,137
Other special purposes	794,725	982,356
Total restricted net assets	<u>21,912,184</u>	<u>10,291,685</u>
Unrestricted	<u>16,475,676</u>	<u>15,100,185</u>
Total net assets	<u>130,326,618</u>	<u>119,737,046</u>
Total Liabilities and Net Assets	<u>\$ 403,736,097</u>	<u>\$ 260,676,140</u>

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating revenues		
Tuition and fees	\$ 14,811,939	\$ 11,477,898
Less: Scholarship discounts and allowances	(4,294,030)	(2,793,205)
Net tuition and fees	<u>10,517,909</u>	<u>8,684,693</u>
Grants and contracts, noncapital:		
Federal	14,859,234	14,863,157
State	15,379,334	12,556,001
Local	2,735,189	2,120,266
Auxiliary enterprise sales and charges	7,019,518	6,975,963
Interest on student loans	4,450	4,834
Total operating revenues	<u>50,515,634</u>	<u>45,204,914</u>
Operating expenses		
Salaries	92,763,656	89,116,386
Employee benefits	28,644,541	27,214,293
Supplies, materials and other operating expenses and services	36,199,277	31,325,103
Utilities	3,206,169	2,866,579
Depreciation	5,849,530	5,269,467
Total operating expenses	<u>166,663,173</u>	<u>155,791,828</u>
Operating loss	(116,147,539)	(110,586,914)
Nonoperating revenues (expenses)		
State apportionments, noncapital	58,300,404	36,033,618
Local property taxes	47,022,763	62,492,221
State taxes and other revenues	4,659,802	4,129,095
Interest income, noncapital	3,389,642	1,439,466
Interest expense on capital asset-related debt	(4,969,578)	(4,202,994)
Other nonoperating revenues (expenses), net	189,562	(116,599)
Total nonoperating revenues, net	<u>108,592,595</u>	<u>99,774,807</u>
Loss before capital revenues	<u>(7,554,944)</u>	<u>(10,812,107)</u>
Capital revenues		
State grants and contracts	5,116,294	1,568,142
Federal grant and contract	155,865	40,841
State taxes and other revenues	137,619	88,179
Local property taxes and revenues	12,734,738	7,336,157
Grants and gifts	-	15,586,113
Total capital revenues	<u>18,144,516</u>	<u>24,619,432</u>
Increase in net assets	10,589,572	13,807,325
Net assets - beginning of year	<u>119,737,046</u>	<u>105,929,721</u>
Net assets - end of year	<u><u>\$ 130,326,618</u></u>	<u><u>\$ 119,737,046</u></u>

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOW
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
	Cash In/(Out)	Cash In/(Out)
Cash Flows From Operating Activities		
Tuition and fees	\$ 10,229,649	\$ 8,721,863
Federal grants and contracts	15,196,615	14,148,325
State grants and contracts	14,481,395	13,363,769
Local grants and contracts	2,357,837	3,014,392
Payments to employees for salaries	(92,161,218)	(88,802,184)
Payments for employee benefits	(22,944,609)	(21,199,090)
Payments to suppliers	(39,853,976)	(28,947,852)
Payments to utilities	(3,168,520)	(2,923,368)
Loans issued to students	(98,250)	(98,775)
Collection of loans	68,114	64,567
Interest on student loans	4,450	4,834
Auxiliary enterprise sales and charges	6,999,929	6,688,635
Net cash used by operating activities	<u>(108,888,584)</u>	<u>(95,964,884)</u>
Cash Flows From Noncapital Financing Activities		
State apportionments	58,242,799	33,446,168
Local property taxes	46,636,675	62,513,038
State taxes and other revenues	3,224,215	4,114,247
Other nonoperating revenues	267,859	(116,559)
Student organization agency receipts	1,419,983	1,539,164
Student organization agency disbursements	(1,507,624)	(1,673,627)
Net cash provided by noncapital financing activities	<u>108,283,907</u>	<u>99,822,431</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds from bond	129,788,176	-
Bond issuance cost	(1,840,308)	-
State taxes for capital purposes	137,619	88,179
State grants and contracts for capital purposes	2,487,494	1,987,013
Federal grants and contracts for capital purposes	155,865	40,841
Local property taxes for capital purposes	12,679,407	7,300,490
Non-resident tuition	90,998	92,864
Purchase of capital assets	(34,285,129)	(26,668,066)
Proceeds from sales of capital assets	7,859	14,231
Principal paid on bonds payable	(3,420,000)	-
Principal paid on capital lease and notes payable	(476,725)	(421,334)
Interest paid on long-term liabilities	(4,978,485)	(5,142,904)
Net cash provided/(used) by capital and related financing activities	<u>100,346,771</u>	<u>(22,708,686)</u>
Cash Flows From Investing Activities		
Investment income - noncapital	2,689,562	1,372,825
Interest on tax revenue	180,095	80,772
Net cash provided by investing activities	<u>2,869,657</u>	<u>1,453,597</u>
Net Increase (Decrease) in Cash and Cash Equivalents	102,611,751	(17,397,542)
Cash and Cash Equivalents - Beginning of Year	97,249,461	114,647,003
Cash and Cash Equivalents - End of Year	\$ 199,861,212	\$ 97,249,461

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOW (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
	<u>Cash In/(Out)</u>	<u>Cash In/(Out)</u>
Reconciliation of Net Operating Loss to Net Cash Provided (Used) By Operating Activities:		
Operating loss	\$ (116,147,539)	\$ (110,586,914)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	5,849,530	5,269,467
Changes in operating assets and liabilities:		
Receivables	(352,675)	3,512,571
Inventory	(577,226)	739,566
Other assets	26,769	(17,466)
Student loans receivable	(18,163)	(34,208)
Accounts payable	(2,905,232)	(533,195)
Accrued salaries	441,361	(621,697)
Deferred revenue	(964,998)	347,860
Compensated balances	210,767	45,488
Claims payable	5,548,822	5,913,644
Net cash used by operating activities	<u>\$ (108,888,584)</u>	<u>\$ (95,964,884)</u>

Noncash capital financing and investing activities:

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,668,486	\$ 1,570,864
Accounts receivable	4,623	4,505
Pledges receivable	4,366	2,242
Investments	4,815,754	4,428,647
Prepaid expenses	-	4,598
Total current assets	<u>6,493,229</u>	<u>6,010,856</u>
Fixed assets, net	-	318
Total Assets	<u><u>\$ 6,493,229</u></u>	<u><u>\$ 6,011,174</u></u>
 Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 22,379	\$ 9,592
Due to organizations	85,836	101,402
Total liabilities	<u>108,215</u>	<u>110,994</u>
 Net Assets		
Unrestricted	604,266	569,656
Temporarily restricted:		
Programmatic support	1,292,274	1,041,542
Scholarships	1,028,212	984,323
Endowment	3,460,262	3,304,659
Total temporarily restricted	<u>5,780,748</u>	<u>5,330,524</u>
 Total net assets	<u>6,385,014</u>	<u>5,900,180</u>
Total Liabilities and Net Assets	<u><u>\$ 6,493,229</u></u>	<u><u>\$ 6,011,174</u></u>

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Support:						
Contributions	\$ 8,185	\$ 503,478	\$ 511,663	\$ 39,674	\$ 433,178	\$ 472,852
Special event (net of expenses of \$105,189 for 2005 and \$109,823 for 2004)	100,159	61,692	161,851	86,045	66,497	152,542
Affiliated foundation:						
Contributions	71,474	13,886	85,360	21,690	3,900	25,590
Donated services	217,593	-	217,593	371,926	-	371,926
Donated facilities	11,862	-	11,862	11,862	-	11,862
Total support	409,273	579,056	988,329	531,197	503,575	1,034,772
Revenue:						
Interest and dividends	22,905	38,797	61,702	21,430	29,325	50,755
Unrealized gain (loss) on investments	(30,325)	10,551	(19,774)	73,924	8,938	82,862
Realized gain (loss) on investments	770	45,828	46,598	(2,891)	545	(2,346)
Management fees	967	-	967	1,644	-	1,644
Other revenue	12,916	-	12,916	15,838	-	15,838
Total revenue	7,233	95,176	102,409	109,945	38,808	148,753
Total support and revenue before net assets released from restrictions	416,506	674,232	1,090,738	641,142	542,383	1,183,525
Net assets released from restrictions	333,615	(333,615)	-	351,564	(351,564)	-
Total support and revenue after net assets released from restrictions	750,121	340,617	1,090,738	992,706	190,819	1,183,525
Expenses						
Program services	537,402	-	537,402	628,046	-	628,046
Supporting services:						
Management and general	61,156	-	61,156	192,288	-	192,288
Fundraising	116,953	-	116,953	130,067	-	130,067
Total expenses	715,511	-	715,511	950,401	-	950,401
Excess of support and revenue over expenses	34,610	340,617	375,227	42,305	190,819	233,124
Capital reductions on endowment grant						
Interest and dividends	-	70,660	70,660	-	58,068	58,068
Realized (loss) gain on investments	-	94,797	94,797	-	115,972	115,972
Unrealized (loss) gain on investments	-	(55,850)	(55,850)	-	305,294	305,294
Total capital reductions	-	109,607	109,607	-	479,334	479,334
Total support and revenue over expenses after capital additions	34,610	450,224	484,834	42,305	670,153	712,458
Net assets - beginning of year	569,656	5,330,524	5,900,180	527,351	4,660,371	5,187,722
Net assets - end of year	\$ 604,266	\$ 5,780,748	\$ 6,385,014	\$ 569,656	\$ 5,330,524	\$ 5,900,180

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 1 - REPORTING ENTITY

The Rancho Santiago Community College District (District) provides higher education in the County of Orange in the State of California and is governed by an elected Board of Trustees. The District has two college campuses: Santa Ana College (SAC), one of the state's oldest community colleges, located in Santa Ana and Santiago Canyon College (SCC), one of State's newest community colleges, located in Orange. The District also has operations at the District office and various vocational and adult centers, such as the Garden Grove Center, the Centennial Education Center, the Marketplace Education Center and the Orange Education Center. The District's factored annual full-time equivalent students (FTES) for 2004-05 and 2003-04 were 29,736 and 28,804 respectively

While the District is a political subdivision of the State, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a potential component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated, with the District. The District identified three potential component units: the Santa Ana College Foundation (SACF), the Santiago Canyon College Foundation (SCCF) and the Rancho Santiago Community College District Foundation (RSCCDF).

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

District

A. Basis of Presentation

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

B. Implementation of New GASB Statement

During the fiscal year ended June 30, 2005, the District implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* – an amendment of GASB Statement No. 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed.

C. Measurement Focus and Basis of Accounting

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

All intra-district transactions have been eliminated.

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

D. Cash and Investments

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

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

E. Receivables

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventories

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

G. Bond Issuance Costs

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

H. Capital Assets

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District’s capitalization policy includes all items with a unit cost of \$1,000 (for equipment) and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Expenditures for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

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

I. Property Taxes

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

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Revenue

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

K. Noncurrent Liabilities

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

L. Compensated Balances

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

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

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

M. Amounts Held for Others

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

N. Tuition and Fees

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

O. Net Assets

The District’s net assets are classified as follows:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward the restricted resources, and then towards unrestricted resources.

P. Operating and Nonoperating Transactions

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

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

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

Q. Use of Estimates

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

R. Employee Retirement Plans

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

S. Reclassifications

Certain reclassifications have been made to fiscal year 2004 amounts in order to conform to the fiscal year 2005 presentation.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discretely Presented Component Units – Foundations

A. Basis of Accounting

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

B. Classification of Net Assets

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

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

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investments for general or specific purposes. The Foundations have no permanently restricted net assets.

C. Contributions

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

D. Recognition of Donor Restricted Contributions

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

E. Investments

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Donated Assets, Services and Facilities

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

NOTE 3 – CASH AND INVESTMENTS

Total cash and investments at fair value, as of June 30, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
<u>District</u>		
Cash:		
Cash on hand	\$ 3,415,098	\$ 3,713,905
Pooled cash	<u>196,446,114</u>	<u>93,535,556</u>
Total Cash	<u>199,861,212</u>	<u>97,249,461</u>
 <u>Component Units</u>		
Cash on hand	1,668,486	1,570,864
Investments with trustees	<u>4,815,754</u>	<u>4,428,647</u>
Total cash and investments	<u>\$ 6,484,240</u>	<u>\$ 5,999,511</u>

Deposits

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks. The market value of pledged securities must equal 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. California law also allows financial institutions to secure an agency's deposits by pledging first trust deeds or first mortgages having a value of 150 percent of an agency's total deposits. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the District. At June 30, 2005 and 2004, cash held by financial institutions for the District of \$1,330,045 and \$1,118,282 respectively was entirely insured and collateralized as described above. The book balance at June 30, 2005 and 2004 for the District was \$3,415,098 and \$3,713,905, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

The component units have cash deposits with one financial institution in the aggregate of \$1,658,362 and \$1,544,823 at June 30, 2005 and 2004 respectively. The National Credit Union Association (NCUA) limits each foundation to a recovery of \$100,000 for all accounts at the financial institution. Each Foundation maintains a bank account at the financial institution insured by the NCUA. Therefore, the component units are subject to the risk of loss for amounts in excess of \$300,000. The book balance of the component units cash deposits as of June 30, 2005 and 2004 were \$1,668,486 and \$1,570,864, respectively.

Cash and Pool Funds

A significant portion of the District's cash balances is deposited with the Orange County Treasury as required by state law. The County Treasury is sponsored and administered by the County of Orange and oversight is conducted by the County Treasury Oversight Committee. The fair value of the position in the pool is the same as the value of the pool shares. The Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. Interest earned on such pooled cash balances is distributed to the District based upon the average cash balance during the distribution period. At June 30, 2005 and 2004, the District had \$185,182,555 and \$82,480,001 respectively, deposited with the County Treasury. The weighted average maturity of investments in the Orange County Educational Pool (Pool) was 0.29 years and 0.32 years at June 30, 2005 and 2004, respectively. The Orange County Pool does not maintain a credit rating.

Local Agency Investment Fund (LAIF)

The District also maintained cash balances with the State of California Local Agency Investment Fund (LAIF) amounting \$11,263,559 and \$11,055,555 as of June 30, 2005 and 2004 respectively. The LAIF is an external investment pool sponsored by the State of California. These pooled funds approximate fair value. The administration of the LAIF is provided by the California State Treasurer and regulatory oversight is provided by the Pooled Money Investment Board and the Local Investment Advisory Board.

The total amount invested by all public agencies in LAIF was \$18,573,277,668 and \$21,950,644,962 at June 30, 2005 and 2004, respectively. LAIF is part of the State of California Pooled Money Investment Account (PMIA) whose balance was \$60,503,473,770 at June 30, 2005 and \$57,600,699,158 at June 30, 2004. Of this amount, 2.4% at June 30, 2005 and 1.6% at June 30, 2004 is invested in derivative financial products. PMIA is not SEC-registered, but is required to invest according to California State Code. The average maturity of PMIA investments was 165 days and 196 days as of June 30, 2005 and 2004, respectively.

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Investments

As of June 30, 2005, the component units had the following investments:

	Fair Value	Interest rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
Investments with Trustee:				
U.S. Government Agencies	\$ 103,458	Variable, 3.785-7.00%	11/21/08-08/15/29	4.30
Corporate Bonds	83,621	Variable, 6.75-8.375%	02/15/07-06/15/24	8.79
International Bonds	11,598	7.25%	09/23/27	22.25
Negotiable Certificates of Deposit	451,482	2.25-4.50%	07/05/05-10/08/09	2.17
Preferred Stock	165,879	5.75-9.50%	12/01/05-01/15/09	1.25
Common Stock	3,149,868	-	n/a	-
Money Market Mutual Funds	849,848	-	n/a	-
Total Investments	<u>\$ 4,815,754</u>			<u>3.22</u>

As of June 30, 2004, the component units had the following investments:

	Fair Value	Interest rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
Investments with Trustee:				
U.S. Government Agencies	\$ 40,342	Variable, 7.00%	11/21/08-06/21/11	7.51
Corporate Bonds	93,175	6.75-8.375%	06/15/24	12.44
International Bonds	10,137	7.25%	09/23/27	23.25
Negotiable Certificates of Deposit	262,244	2.25-7.00%	07/05/05-07/06/06	1.06
Preferred Stock	182,313	5.75-9.50%	12/01/05-01/15/09	1.68
Common Stock	2,994,045	-	n/a	-
Money Market Mutual Funds	846,391	-	n/a	-
Total Investments	<u>\$ 4,428,647</u>			<u>3.88</u>

Interest Rate Risk

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

Custodial Credit Risk

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Credit Risk

The investment policies of the District’s component units set forth the minimum acceptable credit ratings from the two following nationally recognized statistical rating organizations. For an issuer of convertible preferred stock and convertible bonds, the rating must be no less than BBB (S&P), or Baa (Moody’s). For an issuer of common stocks purchased by Santa Ana College Foundation, the rating must be no less than B (S&P). As of June 30, 2005, the District’s component units are in compliance with its investment policies regarding credit risk.

Concentration of Credit Risk

At June 30, 2005, the District’s component units did not exceed the investment policy limitations that states that no more than 5% of the total market value of investments may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies, or mutual funds. Furthermore, no more than 20% of the total market value of equity securities may be invested in any one industry. Lastly, the District was in compliance with its asset allocation guidelines that set forth the maximum percentage that the component units may invest in any one investment type.

At June 30, 2005, the credit ratings of investments by investment type were as follows (NR means Not Rated):

	<u>Moody’s</u>	<u>% of Portfolio</u>
Investments with Trustee:		
U.S. Government Agencies	Aaa	2.15%
Corporate Bonds	Baa	1.74%
International Bonds	A	0.24%
Negotiable Certificates of Deposit	N/A	9.38%
Preferred Stock	C	3.44%
Common Stock	N/A	65.41%
Money Market Mutual Funds	NR	17.65%
Total Investments		<u>100.00%</u>

At June 30, 2004, the credit ratings of investments by investment type were as follows:

	<u>Moody’s</u>	<u>% of Portfolio</u>
Investments with Trustee:		
U.S. Government Agencies	Aaa	0.91%
Corporate Bonds	BBB	2.10%
International Bonds	A	0.23%
Negotiable Certificates of Deposit	N/A	5.92%
Preferred Stock	CCC	4.12%
Common Stock	N/A	67.61%
Money Market Mutual Funds	NR	19.11%
Total Investments		<u>100.00%</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 4 – RECEIVABLES

The following is a summary of receivables at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Federal programs	\$ 1,871,703	\$ 2,209,084
State revenues	10,710,918	3,265,139
Property tax	1,082,868	696,779
Local revenue	<u>2,075,683</u>	<u>1,289,567</u>
Total	<u>\$ 15,741,172</u>	<u>\$ 7,460,569</u>

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

The following is summary of restricted receivables at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Student loan	<u>\$ 674,019</u>	<u>\$ 655,856</u>

NOTE 5 – CAPITAL ASSETS

A schedule of changes in capital assets for the fiscal years ended June 30, 2005 and 2004 is shown below:

Activity for the fiscal year ended June 30, 2005 is:

District:	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
Capital assets, non-depreciable:				
Land	\$ 80,011,399	\$ 4,031,531	\$ -	\$ 84,042,930
Construction in progress	<u>14,158,093</u>	<u>26,770,306</u>	<u>8,538,471</u>	<u>32,389,928</u>
Total capital assets, non-depreciable	<u>94,169,492</u>	<u>30,801,837</u>	<u>8,538,471</u>	<u>116,432,858</u>
Capital assets, depreciable:				
Building	63,335,919	8,513,327	58,939	71,790,307
Portable buildings	6,110,183	-	-	6,110,183
Site improvements	8,739,426	25,145	22,179	8,742,392
Equipment	17,762,871	1,920,004	188,682	19,494,193
Technology equipment	<u>23,546,002</u>	<u>3,052,205</u>	<u>2,589,451</u>	<u>24,008,756</u>
Total capital assets, depreciable	<u>\$ 119,494,401</u>	<u>\$ 13,510,681</u>	<u>\$ 2,859,251</u>	<u>\$ 130,145,831</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance			Balance
	July 1, 2004	Additions	Deductions	June 30, 2005
Less accumulated depreciation for:				
Building	\$ 20,365,612	\$ 1,322,372	\$ 5,501	\$ 21,682,483
Portable buildings	1,924,139	398,454	-	2,322,593
Site improvements	6,840,940	357,722	22,179	7,176,483
Equipment	12,027,268	1,372,725	171,529	13,228,464
Technology equipment	19,909,935	2,405,257	2,583,425	19,731,767
Total accumulated depreciation	61,067,894	5,849,530	2,782,634	64,134,790
Total capital assets, depreciable, net	58,426,507	7,661,151	76,617	66,011,041
Total capital assets, net	152,595,999	38,462,988	8,615,088	182,443,899
Component units:				
Equipment	13,178	-	-	13,178
Less: accumulated depreciation	12,860	318	-	13,178
Capital assets, net	\$ 318	\$ (318)	\$ -	\$ -

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

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Component units:	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Equipment	\$ 13,178	\$ -	\$ -	\$ 13,178
Less: accumulated depreciation	<u>10,257</u>	<u>2,603</u>	<u>-</u>	<u>12,860</u>
Capital assets, net	<u>\$ 2,921</u>	<u>\$ (2,603)</u>	<u>\$ -</u>	<u>\$ 318</u>

Land and construction in progress are not depreciated.

NOTE 6 – ACCOUNTS PAYABLE

The following is a summary of accounts payable at June 30, 2005 and 2004:

District:

	2005	2004
Amounts due to federal grantors	\$ -	\$ 1,087
Amounts due to state grantors	102,917	578
Amounts due to state	858,442	1,892,667
Amounts due to students	144,224	157,331
Amounts due to employees	24,928	45,559
Trade payables	6,276,568	4,769,301
Sales tax payable	<u>19,794</u>	<u>16,770</u>
Total	<u>\$ 7,426,873</u>	<u>\$ 6,883,293</u>

Component units:

Trade payables	<u>\$ 22,379</u>	<u>\$ 9,592</u>
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**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 7 – LONG-TERM LIABILITIES

Activity for the fiscal year ended June 30, 2005 is:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Within One Year
Bonds and notes payable					
Notes payable	\$ 262,222	\$ -	\$ 65,889	\$ 196,333	\$ 30,222
Bonds payable	<u>96,125,000</u>	<u>119,999,867</u>	<u>3,420,000</u>	<u>212,704,867</u>	<u>6,395,000</u>
	96,387,222	119,999,867	3,485,889	212,901,200	6,425,222
Bonds premiums	<u>2,814,039</u>	<u>9,788,308</u>	<u>254,642</u>	<u>12,347,705</u>	<u>520,992</u>
Total bond and notes payable	99,201,261	129,788,175	3,740,531	225,248,905	6,946,214
Other liabilities:					
Deferred revenue	4,165,062	2,861,130	3,592,387	3,433,805	2,792,140
Compensated balances	3,350,438	2,961,353	2,750,585	3,561,206	620,859
Capital leases	642,400	-	410,836	231,564	231,564
Claims liability (Note 10)	<u>18,522,858</u>	<u>7,788,584</u>	<u>2,239,762</u>	<u>24,071,680</u>	<u>2,651,398</u>
Total other liabilities	<u>26,680,758</u>	<u>13,611,067</u>	<u>8,993,570</u>	<u>31,298,255</u>	<u>6,295,961</u>
Total long term liabilities	<u>\$ 125,882,019</u>	<u>\$ 143,399,242</u>	<u>\$ 12,734,101</u>	256,547,160	<u>\$ 13,242,175</u>
Due within one year				<u>13,242,175</u>	
Total long term liabilities				<u>\$ 243,304,985</u>	

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

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

A. Bonds Payable

On November 5, 2002, the voters of the Rancho Santiago Community College District (District) approved the issuance of \$337,000,000 general obligation bonds to be used to finance the acquisition, construction and modernization of certain property and District facilities.

On March 31, 2003, \$96,125,000 of Rancho Santiago Community College District, Election of 2002, Series 2003A Bonds were issued with a final maturity date of September 1, 2027 and interest rates ranging from 2% to 5%, depending on the maturity of the related bonds. Interest accrues from March 31, 2003 and is payable semiannually on March 1 and September 1 of each year commencing on March 1, 2004. The outstanding principal balance of these bonds at June 30, 2005 was \$92,705,000.

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

The following table summarizes the annual debt service requirements of the District for the Series 2003A general obligation bonds:

Year Ending	Principal	Interest	Total
<u>June 30</u>			
2006	\$ 6,395,000	\$ 3,995,863	\$ 10,390,863
2007	6,935,000	3,767,963	10,702,963
2008	1,500,000	3,589,263	5,089,263
2009	1,655,000	3,539,263	5,194,263
2010	1,800,000	3,497,888	5,297,888
2011-2015	11,605,000	16,505,663	28,110,663
2016-2020	17,230,000	13,769,000	30,999,000
2021-2025	25,385,000	8,868,937	34,253,937
2026-2028	20,200,000	2,034,750	22,234,750
Totals	<u>\$ 92,705,000</u>	<u>\$ 59,568,590</u>	<u>\$ 152,273,590</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

The following table summarizes the annual debt service requirements of the District for the Series 2005B general obligation bonds:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -	\$ 7,948,001	\$ 7,948,001
2007	1,359,156	5,434,319	6,793,475
2008	1,709,268	5,437,407	7,146,675
2009	949,324	5,372,001	6,321,325
2010	1,218,440	5,380,085	6,598,525
2011-2015	10,640,109	26,941,916	37,582,025
2016-2020	19,341,780	26,449,533	45,791,313
2021-2025	29,621,790	24,198,522	53,820,312
2026-2029	55,160,000	7,957,581	63,117,581
Totals	<u>\$ 119,999,867</u>	<u>\$ 115,119,365</u>	<u>\$ 235,119,232</u>

Bonds Summary:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003 general obligation bonds	\$ 92,705,000	\$ 59,568,590	\$ 152,273,590
2005 general obligation bonds	119,999,867	115,119,365	235,119,232
Totals	<u>\$ 212,704,867</u>	<u>\$ 174,687,955</u>	<u>\$ 387,392,822</u>

B. Capital Leases

The District leases equipment with a cost of \$3,486,351 at June 30, 2005 and 2004 under agreements, which provide for title to pass to the District upon expiration of the lease period. Accumulated amortization of the leased assets at June 30, 2005 and 2004 was \$1,850,662 and \$1,538,548, respectively. The future minimum payments under capital lease at June 30, 2005 is shown below:

	<u>Lease</u>
Fiscal Year Ending June 30, 2006	\$ 242,401
Less: amount representing interest	(10,837)
Present value of minimum lease payments	<u>\$ 231,564</u>

C. Notes Payable

California Department of Education

In fiscal year 2003, the District entered into a non-interest bearing loan with the California Department of Education (CDE) in the form of an assistance loan in the amount of \$150,000 to be repaid over a ten-year period at \$15,000 per year. The loan was utilized for the Centennial Child Development Center relocatable building project. The loan balance at June 30, 2005 and 2004 is \$105,000 and \$120,000, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)

In fiscal year 2002, the District entered into a similar loan with the CDE with the same terms, conditions and purpose in the amount of \$150,000. The loan balance at June 30, 2005 and 2004 is \$91,333 and \$106,556, respectively.

State Chancellor’s Office

In fiscal year 2001, the District entered into a non-interest bearing loan with the Chancellor’s Office of California, in the amount of \$107,000 to be repaid in three annual payments of \$35,667. The loan was utilized for a state-of-the-art LED technology message marquee at SAC. The loan balance at both June 30, 2005 and 2004 is \$0 and \$35,666, respectively.

The future minimum payments under notes payable at June 30, 2005 is shown below:

<u>Fiscal Year Ending June 30,</u>	<u>Notes Payable</u>
2006	\$ 30,222
2007	30,222
2008	30,222
2009	30,222
2010	30,222
2011- 2012	45,223
Total	<u>\$ 196,333</u>

NOTE 8 – SHORT-TERM BORROWING

Tax and Revenue Anticipation Notes (TRANS)

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

NOTE 9 - RISK MANAGEMENT

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

The District is also a member of the Alliance of Schools for Cooperative Insurance (ASCIP) and Schools Excess Liability Fund (SELF). The District is subject to various deductible amounts and pays premiums assessed by the pools. The pools are responsible for claims beyond the deductible amount of commercial insurance and provide for high-level umbrella type coverage above certain limits. The pools are operated

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 9 - RISK MANAGEMENT (CONTINUED)

separately and are independently accountable for their fiscal matters. The pools are not component units of the District for financial reporting purposes. A copy of the most recent audited financial statements can be obtained from ASCIP and SELF.

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

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

As of June 30, 2005 and 2004, liability for claims amounted to \$24,071,680 and \$18,522,858, respectively. Changes in the claims liability amount in the fiscal years 2005 was:

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

Changes in the claims liability amount in the fiscal years 2004 was:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
<u>2004</u>				
Workers' compensation	\$ 520,250	\$ 125,805	\$ 58,444	\$ 587,611
Property and liability	65,000	55,153	55,153	65,000
Retiree health benefits	12,023,964	7,576,000	1,729,717	17,870,247
Total	<u>\$ 12,609,214</u>	<u>\$ 7,756,958</u>	<u>\$ 1,843,314</u>	<u>\$ 18,522,858</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 10 – UNRESTRICTED NET ASSETS

The following are Board of Trustees' designations of unrestricted net assets as of June 30, 2005 and 2004:

	2005	2004
Self insurance	\$ 3,179,359	\$ 2,823,128
Diversified trust	672,777	657,940
Community education	258,032	364,349
Bookstore	3,538,942	3,034,250
Associated student body	419,354	387,376
Student ID card fees	188,880	150,946
Reserve for economic uncertainties	8,218,332	7,682,196
Total designated balances	<u>\$ 16,475,676</u>	<u>\$ 15,100,185</u>

NOTE 11 – RENTAL INCOME

The District entered into a twelve-year operating lease contract with Santa Ana Unified School District in fiscal year 2001 to lease a building at Santa Ana College with annual lease payments of \$91,667 through 2013. The entire lease payment of \$1,100,000 was received in fiscal year 2001. This amount was recorded as deferred revenue and is being amortized to revenue over the twelve-year period. The balance of deferred revenue at June 30, 2005 and 2004 is \$733,332 and \$824,999, respectively.

NOTE 12 –FUNCTIONAL EXPENSES CLASSIFICATIONS

The functional expenses classifications for fiscal year ended 2005 are:

	Salaries and Benefits	Supplies, Materials, Other Operating Expenses and Services	Utilities	Depreciation	Total
Instruction	\$ 50,948,402	\$ 6,275,247	\$ -	\$ -	\$ 57,223,649
Instructional administration	12,375,819	662,109	-	-	13,037,928
Instructional support services	4,277,591	317,638	-	-	4,595,229
Admissions and records	2,142,503	60,014	-	-	2,202,517
Counseling and guidance	7,848,540	335,961	-	-	8,184,501
Other student services	9,889,617	1,916,690	-	-	11,806,307
Operations and maintenance	4,472,201	1,487,417	3,206,169	-	9,165,787
Planning and policy making	1,823,991	612,077	-	-	2,436,068
General institutional services	18,658,341	7,689,973	-	-	26,348,314
Community services	2,239,801	724,904	-	-	2,964,705
Ancillary services	6,266,674	6,802,301	-	-	13,068,975
Auxiliary operations	464,717	69,251	-	-	533,968
Non-capitalized property items	-	1,384,589	-	-	1,384,589
Student payments	-	7,861,106	-	-	7,861,106
Depreciation	-	-	-	5,849,530	5,849,530
Total operating expenses	<u>\$ 121,408,197</u>	<u>\$ 36,199,277</u>	<u>\$ 3,206,169</u>	<u>\$ 5,849,530</u>	<u>\$ 166,663,173</u>

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 12 –FUNCTIONAL EXPENSES CLASSIFICATIONS (CONTINUED)

The functional expenses classifications for fiscal year ended 2004 are:

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

A. State Teachers Retirement System (STRS)

Plan Description

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary for both fiscal years 2005 and 2004 and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Retirement Board. The required employer contribution rate for both fiscal years 2005 and 2004 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ended June 30, 2005, 2004, 2003 and 2002 were \$4,251,691, \$4,074,732, \$4,056,309, and \$3,253,475 respectively, and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

B. California Public Employees' Retirement System (CalPERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7% (7% of monthly salary over \$133.33 if the member participates in Social Security) of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute. The CalPERS required employer contribution rate for fiscal year 2005 was 9.952%, 2004 was 10.42%, 2003 was from 2.771% to 2.894% and 2002 was 0%. Contributions of \$3,011,339, \$3,034,389, \$821,257 and \$0 were made for the fiscal year ended June 30, 2005, 2004, 2003 and 2002, respectively. Contributions made were 100% of the required contributions for each year.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

C. Public Agency Retirement System (PARS)

Federal law requires that public sector employees who are not members of their employer's existing retirement system be covered by Social Security or an alternate plan. In fiscal years 2005 and 2004 PARS required employees to contribute 6.2% of their salary and the District was required to contribute 1.3%. As of June 30, 2005 and 2004, 761 and 716 employees participated in PARS, respectively. The District's contributions to PARS for the fiscal years ended June 30, 2005, 2004, 2003 and 2002 were \$104,055, \$79,144, \$116,132 and \$159,078 respectively.

NOTE 14 – RETIREE HEALTH BENEFITS

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than ten years but less than fifteen years of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with fifteen years or more service are eligible to receive medical benefits up to \$16,571 for 2005 and \$15,227 for 2004. (The maximum for most employees is \$12,643 for fiscal years 2005 and 2004). Currently 277 employees meet those eligibility requirements.

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

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

The following is a schedule of the unfunded future liability for retiree health benefits at June 30, 2005 and 2004:

	2005	2004
Actuarial computed present value of future benefits	\$ 79,053,017	\$ 73,490,000
Assets held by the District, at fair value	(16,162,073)	(13,152,556)
Present value of unfunded future liability	<u>\$ 62,890,944</u>	<u>\$ 60,337,444</u>

The District's actuarially required contribution for fiscal years 2005 and 2004 was \$7,576,000, and was expensed during the period. Payments in the amount of \$2,012,983 and \$1,729,717 were made for current retiree obligations in 2005 and 2004 respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
 FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Sick Leave

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

B. Lawsuits

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

C. State and Federal Allowances, Awards and Grants

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

D. Operating Leases

The District has operating leases for the rental of school facilities, office space and equipment. The operating lease expense for the fiscal years ended June 30, 2005 and 2004 totaled \$1,816,992 and \$1,945,133 respectively.

The future minimum lease payments are as follows:

Fiscal Year Ending June 30	Leases
2006	\$ 1,158,729
2007	806,399
2008	470,934
2009	109,502
2010	13,636
Total	\$ 2,559,200

E. Construction Contracts

The District has outstanding construction commitments of approximately \$21,582,480 and \$4,178,146 at June 30, 2005 and 2004, respectively.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

NOTE 16 – ENDOWMENTS – COMPONENT UNITS

RSCCDF received an Endowment Challenge Grant from the Department of Education in the amount of \$1,000,003 in fiscal year 1992. The corpus of the endowment is to be invested over a period of twenty years and the RSCCDF may not spend more than fifty percent of the aggregate income earned for allowable expenditures. At the end of twenty years, RSCCDF may use the corpus for any educational purpose. At June 30, 2005 and 2004, the fair value of the endowment grant is \$3,272,710 and \$3,159,103, respectively.

SACF received an endowment grant as part of the Title V, Hispanic Serving Institution Grant received by the District from the Department of Education in fiscal year 2003. At June 30, 2005 and 2004, the fair market value is \$180,300 and 145,556 respectively. In addition, the SACF received an endowment grant as part of the Title V, Hispanic Serving Institution Grant received by the District from the Department of Education in fiscal year 2003. At June 30, 2005 and 2004, the fair market value is \$180,300 and 145,556 respectively.

SCCF received endowment funds from employees through payroll deductions to support future foundation operating activity. At June 30, 2005 and 2004, the fair market value is \$7,252 and \$5,887.

NOTE 17 – RELATED PARTIES

The District provides administrative services to the Foundations. The District pays salaries and benefits of the executive director, secretary and accountant. In addition, working space for employees who perform administrative services for the Foundations are provided by the District at no charge. The donated services for fiscal years 2005 and 2004 were \$217,593 and \$371,926, respectively and \$11,862 for donated facilities for fiscal years 2005 and 2004, and have been reflected in the financial statements as donated services and facilities.

The RSCCDF distributes scholarship funds to the Foundations. The amount of scholarship funds distributed for fiscal years 2005 and 2004 were \$2,000 and \$3,900, respectively. In addition, the RSCCDF distributed in equal shares the net proceeds from a special event to SACF and SCCF with the amount of \$71,414 and \$21,690 in fiscal year 2005 and 2004, respectively.

NOTE 18 – SUBSEQUENT EVENTS

On August 23, 2005, \$53,559,229 of General Obligation Refunding Bonds were issued to refund the Series 2003A general obligation bonds. The refunding bonds have a final maturity date of September 1, 2023 and interest rates ranging from 4.25% to 5.25%, depending on the maturity of the related bonds. Interest accrues from March 31, 2006 and is payable semiannually on March 1 and September 1 of each year commencing on September 1, 2006.



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INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2005. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

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

Massar Jini & Company LLP

Certified Public Accountants

Los Angeles, California
November 11, 2005

SUPPLEMENTARY INFORMATION

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Federal Awards	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
Federal Agency/Passthrough Entity/Program Name			
U.S. Department of Education (USDE):			
Direct:			
Financial Aid Cluster			
Federal Work-Study	84.033		\$ 243,315
Perkins Loan	84.038		41,356
Pell Grants	84.063		6,337,469
Pell Grants Administrative Allowance	84.063		12,025
Supplemental Education Opportunity Grants (S.E.O.G.)	84.007		227,570
Total Student Financial Aid Cluster			<u>6,861,735</u>
Adult Basic Education (ABE)			
Adult Basic Education	84.002		22,044
ABE - English Literacy/Civics Education	84.002		511,637
ABE - Citizen Participation/Preparation	84.002		133,640
ABE - ESL	84.002		1,704,921
ABE - ST Literacy RSRC Staff Development	84.002		60,001
ABE - 231 Vocational Literacy	84.002		15,526
ABE - P4 Family Literacy	84.002		294,492
ABE - Secondary Education	84.002		119,532
ABE - 225 Adult Basic Education	84.002		30,201
ABE - 225 County Jail P1-P3	84.002		49,480
ABE - 225 County Jail Program	84.002		66,885
Total ABE			<u>3,008,359</u>
Fund For Improvement of Post Secondary Education - BETA	84.116		1,690
Job Development Training (Workability III)	84.126		222,574
Business and International Education Program	84.153	P153A030032	55,627
Upward Bound	84.047	P047A990608	355,546
Talent Search II	84.044	P044A990005	309,470
Student Support Services	84.042	P042A020212	248,145
Title V - Developing Hispanic Serving Institutions	84.031	P031S010038	1,089,336
Total direct from U.S. Department of Education			<u>12,152,482</u>
Passed through California Department of Education (CDE):			
Vocational and Technical Education Act (VTEA)			
Tech-Prep VTEA, Education	84.048	99-TP-62	142,953
Title I-C VTEA	84.048	00-C01-042	1,050,764
AEC-VTEA Minigrant	84.048		8,500
Total VTEA			<u>1,202,217</u>
Total passed through CDE			<u>1,202,217</u>
Passed through Santa Ana Unified School District (SAUSD):			
Gear Up Program	84.334	P334A990398	232,948
Total passed through SAUSD			<u>232,948</u>
Passed through University of California, Irvine (UCI):			
Gear Up II Program	84.334	P334A020290	49,665
Total passed through UCI			<u>49,665</u>
Total U.S. Department of Education			<u>\$ 13,637,312</u>

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

U.S. Department of Health and Human Services (HHS):

Passed through CDE:

Head Start	93.600	\$	25,254
Child Development Instr Materials	93.575		3,851
SAC Infant and Toddler	93.575		8,139
Temporary Assistance for Needy Families (TANF)	93.558		170,506
Nursing Workforce Diversity	93.178		165,600

Passed through County of Orange:

Temporary Assistance for Needy Families (TANF)	93.558		16,164
Total U.S. Department of HHS			<u>389,514</u>

U.S. Department of Housing and Urban Development (HUD):

HUD-HSIAC	14.514		20,482
Total direct from HUD			<u>20,482</u>

U.S. Department of Commerce:

Digital Media Incubator *	11.307		155,865
Total U.S. Department of Commerce			<u>155,865</u>

U.S. Department of Labor (DOL):

Workforce Investment Act	17.258		41,077
Geospatial Tech Assessment Program	17.260		46,983
Total U.S. Department of Labor:			<u>88,060</u>

U.S. Department of Agriculture (USDA):

Child Care Food Program	10.558		223,240
Total U.S. Department of Agriculture			<u>223,240</u>

U.S. Department of Veterans Affairs:

Business Operations	64.120		2,752
Total U.S. Department of Veterans Affairs			<u>2,752</u>

Corporation of National and Community Service (CNCS):

Learn and Serve America	94.005		124,456
Americorps:Foster Youth Mentor	94.006		42,112
Total CNCS			<u>166,568</u>

U.S. Department of Small Business Administration:

Passed through State of California Trade and Commerce:

California Small Business Development Center (SBDC)	59.037		327,167
Total U.S. Department of Small Business Administration			<u>327,167</u>

National Science Foundation (NSF):

Passed through City College of San Francisco:

Bridge to Biotech	47.074		4,139
Total National Science Foundation			<u>4,139</u>

Total Federal Awards		\$	<u>15,015,099</u>
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* Capital project grant listed as "Federal grant and contract, capital" under the Statement of Revenue, Expenses and Changes in Net Assets.

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

State Financial Assistance

Program Name	Program Entitlements			Program Revenues				Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Receivable (Payable)	Deferred Revenue	Total	
AB1725 - Faculty and Staff Diversity	\$ 27,934	\$ 24,758	\$ 52,692	\$ 52,693	\$ -	\$ 13,084	\$ 39,609	\$ 39,609
AB1725 - Staff Development	-	22,752	22,752	22,971	-	14,020	8,951	8,951
Associate Degree Nursing Program	49,882	-	49,882	41,901	7,981	-	49,882	49,882
Disabled Student Program and Services (DSPS)	1,650,363	14,789	1,665,152	1,666,508	-	-	1,666,508	1,666,508
Mathematic, Engineering, Science Achievement II	131,500	-	131,500	61,703	70,287	-	131,990	131,990
California Articulation Number System	10,000	-	10,000	10,000	-	-	10,000	10,000
Cal Grant	940,000	15,000	955,000	820,956	88,178	-	909,134	909,134
CalWorks	844,799	-	844,799	844,799	-	-	844,799	844,799
Care Program	127,485	4,265	131,750	131,750	-	10,727	121,023	121,023
Center for International Trade Development	186,722	-	186,722	158,102	28,620	-	186,722	186,722
Chancellors Office Center for Excellence	193,875	51,186	245,061	214,041	-	20,475	193,566	193,566
Child Development Center	2,785,332	-	2,785,332	2,564,634	233,047	-	2,797,681	2,797,681
Economic Development Regional Marketing	-	-	-	(9,947)	-	-	(9,947)	(9,947)
Economic Development Program Workplace Learning Resource Center	216,611	-	216,611	187,991	-	23,452	164,539	164,539
Funds for Student Success	6,110	-	6,110	6,110	-	-	6,110	6,110
Hazardous Substance	245,650	45,307	290,957	-	35,321	-	35,321	35,321
MDTP-California Mathematics Diagnostic Testing Project	47,084	-	47,084	45,806	-	-	45,806	45,806
Matriculation	4,032,064	5,556	4,037,620	4,032,063	-	43,556	3,988,507	3,988,507
O C Small Business Development Center-EDP	-	-	-	(1,500)	-	-	(1,500)	(1,500)
O C Small Business Development Center-EDP	140,550	-	140,550	118,062	22,488	-	140,550	140,550
Playground Compliance Grant	70,040	-	70,040	70,040	-	-	70,040	70,040
Santa Ana Middle College High School	127,000	113,007	240,007	173,046	30,399	95,250	108,195	108,195
Extended Opportunity Program and Services (EOPS)	1,748,072	1,205	1,749,277	1,749,277	-	33,677	1,715,600	1,715,600
State Fund for Instructional Materials	661,705	113,121	774,826	762,041	-	132,622	629,419	629,419
Student Financial Aid Administration	1,473,816	-	1,473,816	1,449,147	-	32,768	1,416,379	1,416,379
Telecommunication Technology Infrastructure Program (TTIP)	122,612	487,339	609,951	609,951	-	499,501	110,450	110,450
Total State Programs	\$ 15,839,206	\$ 898,285	\$ 16,737,491	\$ 15,782,145	\$ 516,321	\$ 919,132	\$ 15,379,334	\$ 15,379,334

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM BASED
FUNDING AND ANNUAL APPRENTICESHIP HOURS OF INSTRUCTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Full Time Equivalent Students</u>	<u>Residents</u>	<u>Non- Residents</u>	<u>Total Reported Annual FTES</u>
A. Credit Full-Time Equivalent Students (FTES)			
1. Weekly census	13,251	475	13,726
2. Daily census	910	28	938
3. Actual hours of attendance	3,179	93	3,272
4. Independent study/work experience			
a. Weekly	534	8	542
b. Daily	138	2	140
5. Summer intersession	1,788	66	1,854
Total	19,800	672	20,472
B. Noncredit FTES			
1. Actual hours of attendance	8,297	3	8,300
2. Summer intersession	1,639	-	1,639
Total	9,936	3	9,939
Total FTES	29,736	675	30,411

Gross Square Footage

C. Existing facilities 885,700

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	General Fund
June 30, 2005 Annual Financial and Budget Report (Form CCFS 311) Fund Balances	<u>\$ 17,155,723</u>
<u>Adjustments and reclassifications</u>	
Adjustment to federal revenue	184,634
Adjustment to state revenue	123,606
Adjustment to local revenue	11,515
Net adjustments and reclassifications	<u>319,755</u>
June 30, 2005 Fund Balances per the District's Accounting Records	<u><u>\$ 17,475,478</u></u>

See accompanying note to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
AND RECONCILIATION WITH STATEMENT OF NET ASSETS AND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Description	General Fund	Special Revenue Funds		Bond Interest and Redemption Fund	Capital Projects Funds	Internal Services Funds		Fiduciary Funds			Total
		Child Development Fund	Bookstore Fund			Self-Insurance Fund	Other Internal Services Fund	Associated Students Trust Fund	Student Financial Aid Trust Fund	Other Trust Fund	
REVENUES:											
Federal Revenues	\$ 7,976,224	\$ 235,230	\$ -	\$ -	\$ 155,867	\$ -	\$ -	\$ -	\$ 6,647,775	\$ -	\$ 15,015,096
State Revenues	74,816,285	3,296,228	-	137,619	5,151,615	-	-	-	966,361	-	84,368,108
Local Revenues	57,808,388	300,785	7,443,247	12,491,056	2,332,281	3,005,420	5,286,590	128,079	47,615	1,304,385	90,147,846
TOTAL REVENUES	140,600,897	3,832,243	7,443,247	12,628,675	7,639,763	3,005,420	5,286,590	128,079	7,661,751	1,304,385	189,531,050
EXPENDITURES:											
Academic Salaries	55,267,655	1,504,999	-	-	-	-	-	-	-	-	56,772,654
Classified Salaries	33,744,745	801,225	909,700	-	-	-	-	25,105	-	385,821	35,866,596
Employee Benefits	26,805,217	831,158	283,501	-	-	-	7,576,000	2,512	-	107,432	35,605,820
Supplies and Materials	2,616,042	192,581	5,321,878	-	181,315	6,986	-	-	-	-	8,318,802
Other Operating Expenses and Services	17,665,767	46,112	219,919	-	377,074	2,623,610	4,998	91,983	34,242	993,039	22,056,744
Capital Outlay	2,587,334	113,545	2,957	-	34,208,497	18,593	-	-	-	38,802	36,969,728
TOTAL EXPENDITURES	138,686,760	3,489,620	6,737,955	-	34,766,886	2,649,189	7,580,998	119,600	34,242	1,525,094	195,590,344
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,914,137	342,623	705,292	12,628,675	(27,127,123)	356,231	(2,294,408)	8,479	7,627,509	(220,709)	(6,059,294)
NET OTHER FINANCING SOURCES (USES)	(1,989,203)	(182,402)	(200,600)	(418,922)	120,744,743	-	-	23,500	(7,595,954)	129,230	110,510,392
NET INCREASE (DECREASE) IN FUND BALANCE	(75,066)	160,221	504,692	12,209,753	93,617,620	356,231	(2,294,408)	31,979	31,555	(91,479)	104,451,098 A
BEGINNING FUND BALANCE:											
Net Beginning Balance, July 1	17,097,936	22,636	3,034,250	3,258,136	43,712,509	2,823,127	(4,717,366)	387,375	1,734,958	1,022,288	68,375,849
Prior Years Adjustments	132,853	-	-	4,522	(218,640)	-	-	-	-	-	(81,265)
Adjusted Beginning Balance	17,230,789	22,636	3,034,250	3,262,658	43,493,869	2,823,127	(4,717,366)	387,375	1,734,958	1,022,288	68,294,584
ENDING FUND BALANCE, JUNE 30, 2004	\$ 17,155,723	\$ 182,857	\$ 3,538,942	\$ 15,472,411	\$ 137,111,489	\$ 3,179,358	\$ (7,011,774)	\$ 419,354	\$ 1,766,513	\$ 930,809	172,745,682
RECONCILIATION TO INCREASE IN NET ASSETS											
A Net Increase in Fund Balance	104,451,098										
Capitalized assets	35,774,047										
Depreciation expense	(5,849,530)										
Loss on capital assets disposal	(76,617)										
Increase in compensated balances	(143,464)										
Adjustment of federal revenue	184,634										
Adjustment of state revenue	123,606										
Adjustment of local revenue	11,515										
Bond proceeds	(127,947,868)										
Principal debt payments	3,896,725										
Bond issuance costs	(89,226)										
Premium from sales of bond	254,652										
INCREASE IN NET ASSETS	\$ 10,589,572										
RECONCILIATION TO NET ASSETS											
Capital assets, net											182,443,899
Compensated balances, long-term											(2,940,347)
Capital lease											(231,564)
Bonds payable											(225,052,572)
Bond issuance cost											3,238,098
Adjustment of federal revenue											184,634
Adjustment of state revenue											123,606
Adjustment of local revenue											11,515
Notes payable balance											(196,333)
NET ASSETS, JUNE 30, 2005											\$ 130,326,618

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2005
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2004)**

	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	
				2005	2004
Assets					
Current assets					
Cash and cash equivalents	\$ 1,290,495	\$ 277,585	\$ 100,406	\$ 1,668,486	\$ 1,570,864
Accounts receivable	-	3,889	734	4,623	4,505
Pledges receivable	-	-	4,366	4,366	2,242
Investments	1,119,044	471,678	3,225,032	4,815,754	4,428,647
Prepaid expenses	-	-	-	-	4,598
Total current assets	<u>2,409,539</u>	<u>753,152</u>	<u>3,330,538</u>	<u>6,493,229</u>	<u>6,010,856</u>
Fixed assets, net	-	-	-	-	318
Total Assets	<u>\$ 2,409,539</u>	<u>\$ 753,152</u>	<u>\$ 3,330,538</u>	<u>\$ 6,493,229</u>	<u>\$ 6,011,174</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities					
Accounts payable	\$ 2,994	\$ 2,740	\$ 16,645	\$ 22,379	\$ 9,592
Due to organizations	<u>63,379</u>	<u>18,378</u>	<u>4,079</u>	<u>85,836</u>	<u>101,402</u>
Total liabilities	66,373	21,118	20,724	108,215	110,994
Net Assets					
Unrestricted	242,968	324,194	37,104	604,266	569,656
Temporarily restricted					
Programmatic support	964,921	327,353	-	1,292,274	1,041,542
Scholarships	954,977	73,235	-	1,028,212	984,323
Endowment	<u>180,300</u>	<u>7,252</u>	<u>3,272,710</u>	<u>3,460,262</u>	<u>3,304,659</u>
Total temporarily restricted	<u>2,100,198</u>	<u>407,840</u>	<u>3,272,710</u>	<u>5,780,748</u>	<u>5,330,524</u>
Total net assets	<u>2,343,166</u>	<u>732,034</u>	<u>3,309,814</u>	<u>6,385,014</u>	<u>5,900,180</u>
Total Liabilities and Net Assets	<u>\$ 2,409,539</u>	<u>\$ 753,152</u>	<u>\$ 3,330,538</u>	<u>\$ 6,493,229</u>	<u>\$ 6,011,174</u>

See accompanying note to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 2004)

	UNRESTRICTED NET ASSETS				TEMPORARILY RESTRICTED NET ASSETS				Total	
	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	Santa Ana College Foundation	Santiago Canyon College Foundation	Rancho Santiago Community College District Foundation	Total	2005	2004
	Support and revenue									
Support:										
Contributions	\$ 6,795	\$ 1,390	\$ -	\$ 8,185	\$ 395,614	\$ 101,864	\$ 6,000	\$ 503,478	\$ 511,663	\$ 472,852
Special event (net of expenses of \$105,189 for 2005 and \$109,823 for 2004)	-	17,050	83,109	100,159	41,155	20,537	-	61,692	161,851	152,542
Affiliated foundation:										
Contributions	35,737	35,737	-	71,474	6,943	6,943	-	13,886	85,360	25,590
Donated services	126,191	83,809	7,593	217,593	-	-	-	-	217,593	371,926
Donated facilities	5,532	6,330	-	11,862	-	-	-	-	11,862	11,862
Total support	174,255	144,316	90,702	409,273	443,712	129,344	6,000	579,056	988,329	1,034,772
Revenue:										
Interest and dividends	16,289	5,977	639	22,905	27,263	11,534	-	38,797	61,702	50,755
Unrealized gain (loss) on investments	(27,522)	(5,200)	2,397	(30,325)	6,832	3,719	-	10,551	(19,774)	82,862
Realized gain (loss) on investments	(1,038)	4,195	(2,387)	770	45,828	-	-	45,828	46,598	(2,346)
Management fees	-	967	-	967	-	-	-	-	967	1,644
Other revenue	-	392	12,524	12,916	-	-	-	-	12,916	15,838
Total revenue	(12,271)	6,331	13,173	7,233	79,923	15,253	-	95,176	102,409	148,753
Total support and revenue before net assets released from restrictions	161,984	150,647	103,875	416,506	523,635	144,597	6,000	674,232	1,090,738	1,183,525
Net assets released from restrictions	254,309	77,306	2,000	333,615	(254,309)	(77,306)	(2,000)	(333,615)	-	-
Total support and revenue after net assets released from restrictions	416,293	227,953	105,875	750,121	269,326	67,291	4,000	340,617	1,090,738	1,183,525
Expenses										
Program services	287,402	138,253	111,747	537,402	-	-	-	-	537,402	628,046
Supporting services:										
Management and general	51,887	6,433	2,836	61,156	-	-	-	-	61,156	192,288
Fundraising	66,151	42,883	7,919	116,953	-	-	-	-	116,953	130,067
Total expenses	405,440	187,569	122,502	715,511	-	-	-	-	715,511	950,401
Excess (deficit) of support and revenue over expenses	10,853	40,384	(16,627)	34,610	269,326	67,291	4,000	340,617	375,227	233,124
Capital additions/(reductions) on Endowment Grant										
Interest and dividends	-	-	-	-	-	-	70,660	70,660	70,660	58,068
Realized gain on investments	-	-	-	-	-	-	94,797	94,797	94,797	115,972
Unrealized gain (loss) on investments	-	-	-	-	-	-	(55,850)	(55,850)	(55,850)	305,294
Total capital additions (reductions)	-	-	-	-	-	-	109,607	109,607	109,607	479,334
Total support and revenue (under) over expenses after capital additions (reductions)	10,853	40,384	(16,627)	34,610	269,326	67,291	113,607	450,224	484,834	712,458
Net assets - beginning of year	232,115	283,810	53,731	569,656	1,830,872	340,549	3,159,103	5,330,524	5,900,180	5,187,722
Net assets - end of year	\$ 242,968	\$ 324,194	\$ 37,104	\$ 604,266	\$ 2,100,198	\$ 407,840	\$ 3,272,710	\$ 5,780,748	\$ 6,385,014	\$ 5,900,180

See accompanying note to the supplementary information.

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTE TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The audit of the District for the fiscal year ended June 30, 2005 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards was prepared by the District.

- General - The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the District. The District reporting entity is defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.
- Basis of Accounting - The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to the District's basic financial statements.
- Federal Family Education Loans (FFEL) – The District participates in the U.S. Department of Education (DOE) FFEL program where students obtain loans from eligible lenders (e.g. banks, savings, and loan institutions, etc.). These distributions are not included as revenue and expense in the accompanying basic financial statements or the Schedule of Expenditures of Federal Awards and the amount distributed in the fiscal year 2005 was \$1,190,120.
- Federal Perkins Loan Program - The District participates in the DOE federal Perkins loan program and distributed \$98,250 in fiscal year 2005. These distributions are not included as revenue and expense in the accompanying basic financial statements or the Schedule of Expenditures of Federal Awards. The loan receivable at June 30, 2005 was \$674,019.

Schedule of Expenditures of State Awards

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

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

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
NOTE TO THE SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - PURPOSE OF SCHEDULES (CONTINUED)

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

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

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

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

Combining Statements for Discretely Presented Component Units

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



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

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

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Massar Jini & Company LLP

Certified Public Accountants

Los Angeles, California

November 11, 2005



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Rancho Santiago Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

Mason Jini & Company LLP

Certified Public Accountants

Los Angeles, California
November 11, 2005



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

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

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the Rancho Santiago Community College District (the District) as of and for the fiscal year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

<u>Program Area Tested</u>	<u>Compliance Requirement</u>
Required Data Elements	Each District shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment: Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance and Apprenticeship courses, Noncredit FTES in actual hour of attendance courses, Credit Student Headcount Data (both new and continuing) and Gross Square Footage and FTES Growth in New Facilities.
Salaries of Classroom Instructors	Each District's salaries of classroom instructors shall equal or exceed 50% of the District's current expense of education (CEE) in accordance with Section 84362 of the Education Code.
Concurrent Enrollment	Districts are authorized to claim FTES for concurrent enrollment of K-12 pupils if certain requirements are met.
Residency Determination	Districts internal fiscal controls should ensure the state apportionment for credit courses is only claimed for student attendance allowed by the State statute and regulation.

Program Area Tested

Compliance Requirement

Enrollment Fees

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

Uses of Matriculation Funds

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

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

Apportionment for Instructional Service Agreements/Contracts

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

Allocation of Costs

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

EOP&S Administrator/Director Requirements

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

Gann Limit Calculation

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

Program Area Tested

Compliance Requirement

Disabled Student Programs and Services Program (DSP&S)

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

Scheduled Maintenance Program

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

Open Enrollment

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

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

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

Student Fees – Instructional Materials Fees and Health Fees

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

As described in items 05-1, 05-2 and 05-3 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding the concurrent enrollment, EOP&S and course repetition. Compliance with such requirement is necessary, in our opinion, for the District to comply with the requirements specified above.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied in all material respects, with the requirements specified above for the fiscal year ended June 30, 2005.

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

Maayan Dini & Company LLP

Certified Public Accountants

Los Angeles, California
November 11, 2005

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Part I - Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes No

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

Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes No

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

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

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

Identification of major programs:

CFDA Number(s)

84.048
 84.007
 84.033
 84.038
 84.063
 84.032

Name of Federal Program or Cluster

Vocational Education
 Student Financial Aid Cluster:
 Supplementary Educational Opportunity Grants
 Federal Work Study
 Federal Perkins Loan
 Pell Grants
 Federal Family Education Loans

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Dollar threshold used to distinguish between Type A and Type B programs:	\$450,453		
Auditee qualified as low-risk auditee?	<u> ✓ </u> Yes	<u> </u> No	
<i>State Awards</i>			
Internal control over state programs:			
Material weakness(es) identified?	<u> </u> Yes	<u> ✓ </u> No	
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> ✓ </u> None reported	
Type of Auditor's report issued on compliance for state programs:	<i>Qualified</i>		

Part II - Financial Statement Findings Section

No matters were reported.

Part III – Federal Award Findings Section

No matters were reported.

Part IV - State Findings Section

05-1. Concurrent Enrollment – Absence of Parental Consent

Condition

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

Of the forty (40) students selected for testing, the following exceptions were noted: a) Career Advanced Placement Program Forms and Application for Admission Forms could not be located for one (1) of the students at Santiago Canyon College; b) Of the remaining thirty-nine (39) students tested, there were no parent signatures on the Career Advanced Placement Program Forms for two (2) K-12 students at Santiago Canyon College.

Recommendation

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

05-1. Concurrent Enrollment – Absence of Parental Consent (Continued)

Management response

The Admissions Offices at both SAC and SCC have revised their procedures to alleviate future problems in the area. They have begun reviewing all CAP forms during the semester to ensure that they contain all of the required information.

05-2. Extended Opportunity Programs and Services (EOP&S) Advisory Committee Meeting

Condition

The EOP&S Advisory Committee did not conduct any meetings in the 2004-05 academic year.

Recommendation

We recommend that the EOP&S Advisory Committee meet at least once each academic year to comply with California Education Code Section 56208. Furthermore, minutes should be maintained to document the meetings.

Management response

Due to scheduling conflicts we failed to hold our EOPS/CARE Advisory Committee meeting. On October 26, 2005, we held our meeting for the 2005-06 fiscal year. We will continue to meet every fiscal year as required by California Education Code Section 56208.

05-3. Course Repetition

Condition

During our review of course repetition requirement, we found that the database of application program (GLINK) used by the District Student Admission and Records (A&R) Office has limited capacity to hold student records to the maximum of nine semesters only. This limitation prevents staff of A&R Office from identifying a student who attempts to register (i.e. repeat) for the same course that was taken prior to academic year 2002. In our detail transactions review, we found fifteen (15) out of the forty (40) students selected between two campuses are not in compliance with requirements under the Title 5 55763(d).

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

05-3. Course Repetition (Continued)

Recommendation

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

Management response

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

**RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Part IV – State Findings Section

04-1. Concurrent Enrollment

Career Advanced Placement Program Forms and Application for Admission Forms could not be located for three (3) of the students at Santiago Canyon College and there were no parent signatures on the Career Advanced Placement Program Forms for three (3) K-12 students at Santa Ana College and ten (10) K-12 students at Santiago Canyon College.

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

Partially implemented, see comment 05-1