

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

ORANGE COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2007**

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2007

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, CA 92706-1640

We have audited the accompanying basic financial statements of the Rancho Santiago Community College District, as of and for the year ended June 30, 2007 as listed in the table of contents. 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. The financial statements of Rancho Santiago Community College District as of June 30, 2006 were audited by other auditors whose report dated October 20, 2006, expressed an unqualified opinion on these statements.

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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Rancho Santiago Community College District as of June 30, 2007, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2007 on our consideration of the Rancho Santiago Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Board of Trustees
Rancho Santiago Community College District

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting 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.

Our audit was conducted for the purpose of forming an opinion on the Rancho Santiago Community College District's financial statements. The management's discussion and analysis section, supplementary section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The supplementary information, including the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The management's discussion and analysis section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

November 9, 2007

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

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, 2007. 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 at various locations throughout our communities. The mission of the District is to respond to the educational needs of an ever-changing community and to provide programs and services that reflect academic excellence. The District's two colleges promote open access and celebrate the diversity of both its students and staff, as well as the community. Santa Ana College and Santiago Canyon College offer associate degrees, vocational certificates and transfer education, as well as developmental instruction and a broad array of specialized training. The continuing education programs offer non-college credit programs including high school diploma completion, basic skills, vocational certificates and self-development courses. Specific activities in both the colleges and continuing education will be directed toward economic development within the community.

BASIC FINANCIAL STATEMENTS

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

The following condensed financial information provides an overview of the District's financial activities as of and for the fiscal years ended June 30, 2007 and 2006. 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

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

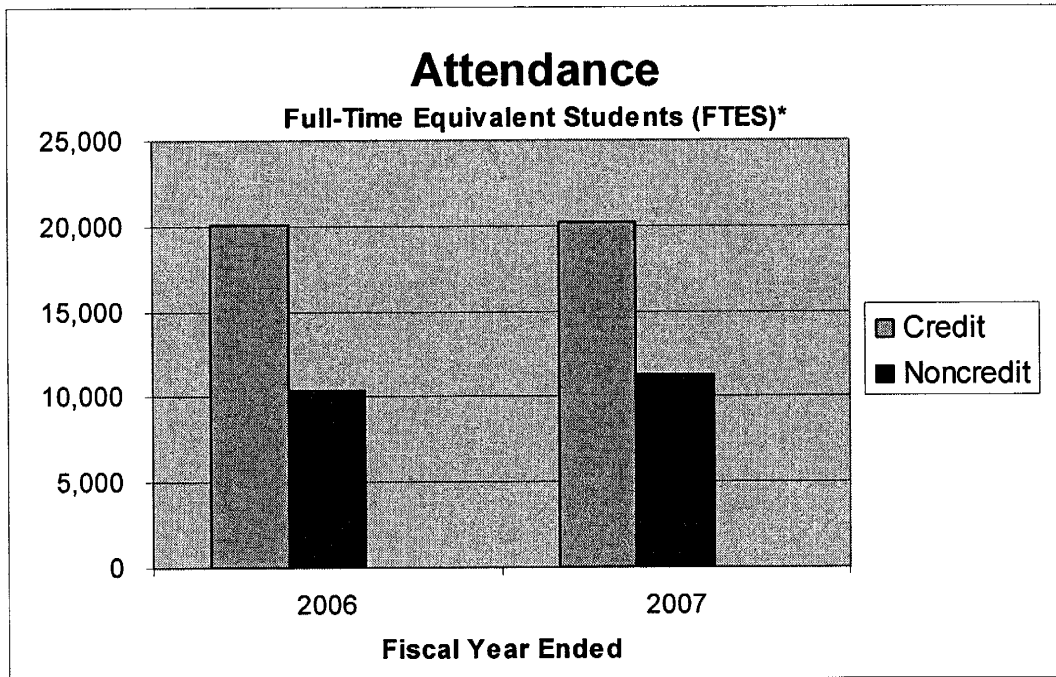
- The Statement of Net Assets
- The Statement of Revenue, Expenses and Changes in Net Assets
- The Statement of Cash Flows

Each one of these statements will be discussed.

Attendance Highlights

Fiscal year ended 2007 compared to 2006

- Total attendance at Santa Ana College and Santiago Canyon College increased by 3.5%. The increase came mainly from noncredit attendance, which increased by 8.7%. Credit attendance increased by 0.8%.



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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2007**

The Statement of Net Assets as of June 30, 2007 and 2006 is summarized below:

	(in thousands)		2006 to 2007
ASSETS	2007	2006*	Change
Current Assets:			
Cash and cash equivalents	\$260,458	\$162,374	60%
Receivables	18,733	13,680	37%
Inventory & other assets	2,441	2,106	16%
Total current assets	<u>281,632</u>	<u>178,160</u>	58%
Noncurrent Assets:			
Restricted cash and cash equivalents	13,233	13,282	0%
Other assets	3,958	3,360	18%
Capital assets, net	266,030	228,468	16%
Total noncurrent assets	<u>283,221</u>	<u>245,110</u>	16%
Total assets	<u>\$564,853</u>	<u>\$423,270</u>	33%
 LIABILITIES			
Current Liabilities:			
Accounts payables & accrued liabilities	\$ 22,652	\$ 25,050	-10%
Deferred revenue	8,705	3,445	153%
Long-term liabilities-current portion	9,748	646	1409%
Bonds payable	3,796	7,496	-49%
Amounts held in trust for others	519	915	-43%
Total current liabilities	<u>45,420</u>	<u>37,552</u>	21%
Noncurrent Liabilities:			
Long-term liabilities, noncurrent portion	30,097	30,106	0%
Bonds payable	341,025	215,451	58%
Total noncurrent liabilities	<u>371,122</u>	<u>245,557</u>	51%
Total liabilities	<u>416,542</u>	<u>283,109</u>	47%
 NET ASSETS			
Invested in capital assets, net of related debt	108,518	108,034	0%
Restricted	16,075	17,474	-8%
Unrestricted	23,718	14,653	62%
Total net assets	<u>148,311</u>	<u>140,161</u>	6%
Total liabilities and net assets	<u>\$564,853</u>	<u>\$423,270</u>	33%

*2006 balances were restated to conform with current year presentation

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

Fiscal year ended 2007 compared to 2006

- Cash and cash equivalents increased by \$98 million from the prior year mainly due to proceeds from bond Series C less cash outflows on bond construction projects.
- Capital assets, net increased by \$38 million primarily due to construction in progress and the completion of building and improvement projects at the colleges.
- Bonds payable, long-term increased by \$122 million due to the issuance of Series C less the scheduled payments for all series.

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 non-operating 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. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, state appropriations while budgeted for operations, are considered non-operating revenue according to generally accepted accounting principles because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Year Ending June 30, 2007

The Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended June 30, 2007 and 2006 is summarized below:

	(in thousands)		2006 to 2007
REVENUES	2007	2006*	Change
Operating revenues:			
Net tuition and fees	\$ 9,701	\$ 11,071	-12%
Grants and contracts, non-capital	41,488	34,130	22%
Auxiliary enterprise, net	7,518	7,317	3%
Total operating revenues	58,707	52,518	12%
EXPENSES			
Operating expenses:			
Salaries	111,684	100,790	11%
Employee benefits	32,874	30,425	8%
Supplies, materials, other operating expenses and services	34,125	32,671	4%
Financial aid	7,651	7,220	6%
Utilities	4,181	3,509	19%
Depreciation	9,655	7,555	28%
Total operating expenses	200,170	182,170	10%
Operating income (loss)	(141,463)	(129,652)	9%
NONOPERATING REVENUES (EXPENSES)			
State apportionments, noncapital	92,275	62,767	47%
Local property taxes	39,168	50,804	-23%
State taxes and other revenues	5,358	5,244	2%
Investment income	12,136	7,818	55%
Other nonoperating revenues/(expenses), net	(10,068)	(8,282)	22%
Total nonoperating revenues (expenses)	138,869	118,351	17%
Income before other revenues, expenses, gains or losses	(2,594)	(11,301)	-77%
Apportionments & property taxes, capital	11,773	20,118	-41%
Investment & other income, capital	1,091	1,017	
Increase (decrease) in net assets	10,270	9,834	4%
NET ASSETS			
Net assets-beginning of year (2007 as restated)	138,041	130,327	6%
Net assets-end of year	\$148,311	\$140,161	6%

*2006 balances were restated to conform with current year presentation

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

Fiscal year ended 2007 compared to 2006

- Grants and contracts, non-capital increased by \$7 million due to approximately \$5 million in one-time allocations from the State Chancellor's Office for scheduled maintenance, career tech, instructional materials and basic skills grants, plus other new state, federal and local grants.
- Salaries increased 11% mainly due to annual step increases, raises for most employees and new positions.
- State apportionment represents total apportionment earned less enrollment fees and property taxes. The increase of \$29 million is due to COLA and growth increases and due to decreased local property taxes, which is made up for by state apportionment.
- Local property taxes decreased \$12 million mainly due to no ERAF revenue received in 2006-07.

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 non-operating, non-investing and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash provided/(used) to the ending cash balance reflected on the Statement of Net Assets.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ending June 30, 2007

Statement of Cash Flows	(in thousands)	
	Fiscal year ended June 30,	
	2007	2006
Cash Provided By (Used In):		
Operating activities	\$(126,326)	\$(116,808)
Noncapital financing activities	144,194	122,525
Capital financing activities	68,156	(37,270)
Investing activities	13,860	7,348
Net increase (decrease) in cash	99,884	(24,205)
Cash - Beginning of year (restated)	173,807	199,861
Cash - End of year	\$ 273,691	\$ 175,656

- 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.
- Non-capital financing activities are primarily state apportionment and property taxes.
- Capital financing activities consist of purchases of capital assets (land, buildings and equipment) and bond interest payments and receipts from federal and state grants for capital purposes as well as property tax revenue for bond repayments.
- Cash from investing activities is interest earned on investments through the Orange County Investment Pool and the Local Agency Investment Fund (LAIF).

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	(in thousands)	
	Balances for fiscal year ended June 30,	
	2007	2006
Land	\$ 84,857	\$ 84,838
Buildings & improvements	119,288	105,299
Equipment	56,810	52,739
Construction in progress	82,000	55,029
Capital assets, gross	342,955	297,905
Less: accumulated depreciation	76,925	69,437
Capital assets, net	<u>\$ 266,030</u>	<u>\$ 228,468</u>

Fiscal year ended 2007 compared to 2006

As of June 30, 2007, the District had \$342.9 million in capital assets, less \$76.9 million accumulated depreciation for net capital assets of \$266.0 million. The District continues to work on the facilities projects that are part of the \$337 million bond master plan. The District spent approximately \$42.9 million of bond proceeds in 2006-07. Depreciation charges totaled \$9.7 million in 2006-07.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

Some of the major capital additions during the 2006-07 fiscal year included:

(in thousands)

1. Construction, Digital Media Center	\$ 1,359
2. Various athletics related projects at Santa Ana College	9,353
3. Construction, Santa Ana College – Orange County Regional Sheriff's Training Academy	18,391
4. Construction and remodeling in progress, various Santa Ana College buildings	4,050
5. Mass grading, relocation of portables and construction in progress, Santiago Canyon College	7,531
6. Technology equipment purchases	1,023

Debt Administration

Long-Term Debt

	(in thousands)	
	balances for fiscal year ended June 30	
	<u>2007</u>	<u>2006*</u>
Notes payable	\$ 136	\$ 166
Bond obligations	344,821	210,699
Compensated balances	6,162	3,836
Other accrued liabilities	<u>32,773</u>	<u>28,332</u>
Total	383,892	243,033
Less: due within one year	<u>12,769</u>	<u>14,555</u>
Total long-term liabilities	<u>\$ 371,123</u>	<u>\$ 228,478</u>

*2006 balances were restated to conform with current year presentation

Fiscal year ended 2007 compared to 2006

At June 30, 2007, the District had \$371.1 million in outstanding long-term debt compared to \$228.5 million at June 30, 2006. The majority of the increase was due the issuance of Series C bonds.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

State Economy

- The financial position of the Rancho Santiago Community College District is closely tied to that of the State of California. The District receives over half of its funding through state apportionments and local property taxes. These two sources with student paid enrollment fees essentially make up the District's general apportionment, the main funding support for California community colleges.
- The State budget for fiscal year 2007-08 provides an overall increase for community colleges of 6.4%.
- According to the 2007-08 State budget, student enrollment fees will remain at \$20 per unit for 2007-08.

RSCCD Budget

Assumptions:

- The 2007-08 State budget for community colleges contains a 4.53% Cost of Living Allowance (COLA) increase.
- The 2007-08 RSCCD adopted budget includes resources to enable the District to meet its FTES goal of base apportionment plus 0.714% growth.
- The District has budgeted the employer's share of the PERS contribution at 9.306% for 2007-08, an increase from 9.124%.
- Salary negotiations for 2007-08 have settled. All District Bargaining Units have agreed to a 5% on schedule increase effective July 1, 2007. This applies to all classified, faculty and management employees, which is included in the District's 2007-08 adopted budget.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ending June 30, 2007

Capital Improvements:

- The District will commence construction on the science building at Santiago Canyon College during 2007-08.
- The District plans to begin work on the fine and performing arts building and the humanities and social sciences building at Santiago Canyon College during 2007-08.
- The District will commence construction of a new classroom building and a new maintenance and operations building at Santa Ana College during 2007-08.
- The District will bid and commence construction of a new child development facility at Santa Ana College during 2007-08.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Primary Government</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 260,321,679	\$ 1,110,607
Investments in local agency investment fund	136,476	
Investments		7,129,041
Accounts receivable, net	18,732,601	124,684
Due from fiduciary funds	198,913	
Inventory	1,944,537	
Prepaid expenses	98,692	5,599
Capitalized fees	199,307	
Total Current Assets	<u>281,632,205</u>	<u>8,369,931</u>
Non-Current Assets:		
Restricted cash and cash equivalents	13,232,582	
Capitalized fees	3,958,767	
Capital assets, net of accumulated depreciation	266,029,925	
Total Non-Current Assets	<u>283,221,274</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 564,853,479</u>	<u>\$ 8,369,931</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 11,881,441	\$ 14,411
Accrued liabilities	10,770,178	
Due to District		113,379
Due to organizations		9,800
Due to fiduciary funds	519,499	
Deferred revenue	8,705,181	20,600
Compensated absences	6,162,545	
Bonds payable	3,795,833	
Estimated liability for open claims and IBNR's	773,836	
Other post-employment benefits	2,781,286	
Notes payable	30,222	
Total Current Liabilities	<u>45,420,021</u>	<u>158,190</u>
Non-Current Liabilities:		
Bonds payable	341,024,996	
Other post-employment benefits	29,991,833	
Notes payable	105,667	
Total Non-Current Liabilities	<u>371,122,496</u>	<u>-</u>
TOTAL LIABILITIES	<u>416,542,517</u>	<u>158,190</u>
NET ASSETS		
Invested in capital assets, net of related debt	108,518,352	
Restricted for:		
Capital projects	6,977,142	
Debt service	8,825,174	
Scholarships and loans		1,559,246
Other special purposes	272,649	6,009,932
Unrestricted	23,717,645	642,563
TOTAL NET ASSETS	<u>148,310,962</u>	<u>8,211,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 564,853,479</u>	<u>\$ 8,369,931</u>

See the accompanying notes to the financial statements.

RANCHO SANTIAGO COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2007

	Primary Government	Component Units
OPERATING REVENUES		
Tuition and fees (gross)	\$ 13,510,361	\$
Less: Scholarship discounts and allowances	<u>(3,809,354)</u>	<u> </u>
Net tuition and fees	9,701,007	
Grants and contracts, non-capital:		
Federal	16,472,149	113,779
State	20,135,984	
Local	4,880,258	1,882,055
Sales	<u>7,517,752</u>	<u> </u>
TOTAL OPERATING REVENUES	<u>58,707,150</u>	<u>1,995,834</u>
OPERATING EXPENSES		
Salaries	111,684,306	
Employee benefits	32,873,818	
Supplies, materials, and other operating expenses and services	34,124,813	1,778,303
Financial aid	7,651,039	
Utilities	4,181,660	
Depreciation	<u>9,654,677</u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>200,170,313</u>	<u>1,778,303</u>
OPERATING INCOME (LOSS)	<u>(141,463,163)</u>	<u>217,531</u>
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	92,274,716	
Local property taxes	39,168,270	
State taxes and other revenue	5,357,914	
Interest and investment income, non-capital	12,136,122	269,751
Interest expense	(12,330,803)	
Other non-operating revenues	<u>2,263,082</u>	<u>579,633</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>138,869,301</u>	<u>849,384</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>(2,593,862)</u>	<u>1,066,915</u>
OTHER REVENUES, EXPENSES, GAINS AND LOSSES		
State apportionments, capital	1,147,359	
Interest and investment income, capital	1,091,218	
Local property taxes and other revenues	<u>10,625,422</u>	<u> </u>
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>12,863,999</u>	<u>-</u>
INCREASE IN NET ASSETS	<u>10,270,137</u>	<u>1,066,915</u>
NET ASSETS, BEGINNING OF YEAR, AS ORIGINALLY STATED	140,160,576	7,144,826
Adjustment for restatement (see note 15)	<u>(2,119,751)</u>	<u> </u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>138,040,825</u>	<u> </u>
NET ASSETS, END OF YEAR	<u>\$ 148,310,962</u>	<u>\$ 8,211,741</u>

See the accompanying notes to the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007**

	<u>Primary Government</u>	<u>Component Units</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 9,602,878	\$
Federal grants and contracts	16,699,250	
State grants and contracts	23,173,528	
Local grants and contracts	8,775,892	1,979,669
Sales	8,571,283	
Payments to suppliers	(40,030,997)	(750,568)
Payments to/on-behalf of employees	(144,305,308)	
Payments to/on-behalf of students	(8,595,880)	(562,663)
Net amounts due to fiduciary funds	<u>(217,027)</u>	
Net cash provided (used) by operating activities	<u>(126,326,381)</u>	<u>666,438</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State apportionments and receipts	90,035,368	
Property taxes	48,197,366	
State tax and other revenues	<u>5,961,048</u>	
Net cash provided by non-capital financing activities	<u>144,193,782</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital investments	1,096,364	
State apportionment for capital purposes	3,261,598	
Local revenue, grants and gifts for capital purposes	128,693,286	
Purchases of capital assets	(57,929,605)	
Principal and interest paid on capital debt	<u>(6,965,222)</u>	
Net cash provided by capital and related financing activities	<u>68,156,421</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	13,860,461	
Reinvested interest and dividends		(105,328)
Purchase of investments		(2,903,758)
Proceeds on the sale of investments		<u>1,619,832</u>
Net cash provided (used) by investing activities	<u>13,860,461</u>	<u>(1,389,254)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	99,884,283	(722,816)
CASH BALANCE - Beginning of Year	<u>173,806,454</u>	<u>1,833,423</u>
CASH BALANCE - End of Year	<u>\$ 273,690,737</u>	<u>\$ 1,110,607</u>

* Beginning cash has been restated, see note 15.

See the accompanying notes to the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2007

RECONCILIATION OF OPERATING INCOME (LOSS) TO
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	<u>Primary Government</u>	<u>Component Units</u>
CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (141,463,163)	\$ 217,531
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	9,654,677	
Investment income		849,384
Unrealized gain on investments		(370,248)
Changes in assets and liabilities:		
Receivables, net	135,400	(49,470)
Inventory	(10,710)	
Prepaid expense	(80,192)	(959)
Accounts payable and accrued liabilities	2,374,055	(34,878)
Deferred revenue	3,049,536	20,600
Trust account liabilities	(16,426)	(78,901)
Compensated absences	30,442	
Due to District		113,379
Net cash provided (used) by operating activities	<u>\$ (126,326,381)</u>	<u>\$ 666,438</u>

See the accompanying notes to the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Trust and Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 2,007,361
Accounts receivable:	
Miscellaneous	8,749
Due from district	<u>519,499</u>
TOTAL ASSETS	<u>\$ 2,535,609</u>
LIABILITIES	
Accounts payable	\$ 2,089
Deferred revenue	4,427
Due to district	198,913
Funds held in trust	<u>1,134,164</u>
TOTAL LIABILITIES	1,339,593
TOTAL NET ASSETS	<u>1,196,016</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,535,609</u>

See the accompanying notes to the financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, The Financial Reporting Entity. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. REPORTING ENTITY (continued)

3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component units have been included in the District's reporting entity:

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

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

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles 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 including Statement No. 35, Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities, issued in June and November 1999 and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are excluded from the basic financial statements.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

For internal accounting purposes, the budgetary and financial accounts of the District have been recorded and maintained in accordance with the California Community College Systems Office Budget and Accounting Manual.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By state law, the District's Governing Board must approve a budget no later than September 15. However, for the fiscal year 2007-08 this deadline was extended until November 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superseded or rescinded. 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 to not apply FASB pronouncements issued after the applicable date.

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County treasury is recorded at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The District recognized for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year.

3. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

4. Inventories

Inventories are presented at the lower of cost or market on an average basis and are expensed when used. Inventory consists of expendable instructional, custodial, health and other supplies held for consumption, as well as items held for resale through the bookstore.

5. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts, and debt service requirements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$1,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings and building improvements, 15 years for portable buildings, 10 years for land improvements, 8 years for equipment and vehicles and 3 years for technology equipment.

7. Accounts Payable

Accounts payable consists of amounts due to vendors.

8. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable and deferred summer pay of \$10,770,178.

9. Deferred Revenue

Cash received for Federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

10. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Assets. The entire compensated absences liability is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirement.

The District has accrued a liability for the amounts attributable to load banking hours within accrued liabilities. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

Accumulated employee sick leave benefits are not recognized as a liability 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 when the employee retires and within the constraints of the appropriate retirement systems.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

11. Net Assets

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net assets – nonexpendable.

Unrestricted net assets: Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

12. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year. The District has recorded a receivable of approximately \$9.3 million for apportionment for the year ended June 30, 2007. \$5.1 million is to accrue the District's share of the State-wide deferral allocation established by Assembly Bill No. 1802. \$4.2 million is projected as additional apportionment revenue based on annual reporting of FTES, property tax revenues and enrollment fee revenues. The actual amount recalculated by the Chancellor's Office could differ due to the impact of system-wide funding requirements for all workload measures, inflation and growth. The District has reserved \$9.3 million in their 2007-08 budget until payment is received from the State.

Any additional prior year corrections due to the recalculation in February of 2008 will be recorded in the year computed by the State.

13. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Finance. This is generally on a cash basis. A receivable has not been accrued in these financial statements because it is not material.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

14. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory was issued instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$1,240,000 for STRS.

15. Classification of Revenues

The District has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most state and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB No. 33, such as investment income.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

16. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

17. Estimates

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2007, \$841,176 of the District's bank balance of \$1,082,891 was exposed to credit risk as follows:

Uninsured and collateral held by pledging bank's trust department not in District's name	<u>\$841,176</u>
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Cash in County

In accordance with the Budget and Accounting manual, the District maintains substantially all of its cash in the Orange County Treasury as part of the common education investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2007, as provided by the pool sponsor, was \$257,544,269.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments

The District maintains investments with the State of California Local Agency Investment Fund (LAIF) amounting to \$136,476 as of June 30, 2007. LAIF pools these funds with other governmental agencies and invests in various investment vehicles. These pooled funds approximate fair value. Regulatory oversight is provided by the State Pooled Money Investment Board and the Local Investment Advisory Board. LAIF is not subject to categorization as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the District at year end.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2007 consists of the following:

Federal and State	\$16,213,644
Miscellaneous	2,518,957

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity within the government funds has been eliminated in the basic financial statements.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>
Land	\$ 84,837,670	\$ 19,150	\$	\$ 84,856,820
Buildings and improvements	105,299,174	13,988,617		119,287,791
Equipment	52,738,946	6,309,968	(2,238,788)	56,810,126
Construction in progress	55,028,960	38,841,288	(11,870,287)	81,999,961
Totals	<u>297,904,750</u>	<u>59,159,023</u>	<u>(14,109,075)</u>	<u>342,954,698</u>
 <u>Accumulated Depreciation</u>				
Less accumulated depreciation for:				
Buildings and improvements	33,389,542	2,712,463		36,102,005
Equipment	36,047,288	6,942,214	(2,166,734)	40,822,768
Total of accumulated depreciation	<u>69,436,830</u>	<u>9,654,677</u>	<u>(2,166,734)</u>	<u>76,924,773</u>
 Net Capital Assets	 <u>\$ 228,467,920</u>	 <u>\$ 49,504,346</u>	 <u>\$ (11,942,341)</u>	 <u>\$ 266,029,925</u>

NOTE 6 - LEASES:

A. Operating Leases

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

<u>Fiscal Year</u>	<u>Lease Payment</u>
2007-08	\$1,704,154
2008-09	515,093
2009-10	297,729
2010-11	203,750
2011-12	<u>106,282</u>
 Total	 <u>\$2,827,008</u>

Current year expenditures for operating leases is approximately \$1,470,100. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS:

On November 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling \$337,000,000. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities. On March 21, 2003, the District issued General Obligation Bonds, Election of 2002, Series 2003A of \$96,125,000 of current interest bonds. Interest ranges from 2.5% to 5.0% payable semiannually on March 1 and September 1.

On March 10, 2005, the District issued General Obligation Bonds, Election 2002, Series B of \$111,175,000 of current interest and \$8,824,867 of capital appreciation bonds. Interest ranges from 3.0% to 5.125% payable semiannually on March 1 and September 1.

On September 21, 2006, the District issued the General Obligation Bonds, Election 2002, Series C of \$86,255,000 of current interest bonds and \$34,619,329 of capital appreciation bonds. Interest ranges from 3.375% to 5.0% payable semiannually March 1 and September 1.

On August 5, 2005, the District issued 2005 General Obligation Refunding Bonds of \$49,925,000 of current interest bonds and \$3,634,299 of capital appreciation bonds. Interest rates range from 3.57% to 5.25% payable semiannually on March 1 and September 1.

Capital appreciation bonds were issued for Series B, C and the Refunded Bond with maturity dates from September 1, 2007 through September 1, 2025, September 1, 2024 through September 1, 2031, and September 1, 2010 through September 1, 2013 respectively.

The refunding proceeds were issued to pay off a portion of the Series A general obligation bonds. The refunding proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding is a savings of cash outflow of approximating \$3,500,000. The present value of the economic gain to the District amounts to approximately \$3,077,000. The net carrying value of the bonds refunded was \$1,924,935 less than the amount paid into the escrow account. This amount has been netted against the new debt and amortized over the life of the new debt which is shorter than the life of the old debt. The amount of debt that remains outstanding at June 30, 2007 for the original Series A issuance is \$30,205,000. The amount of refunded debt to be paid from the escrow account at June 30, 2007 for Series A is \$49,170,000.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The outstanding bonded debt for Rancho Santiago Community College District at June 30, 2007 is:

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2007</u>
2003A	3/21/2003	2.5 - 5.0	2028	\$ 96,125,000	\$ 37,140,000	\$	\$ 6,935,000	\$ 30,205,000
Series B	3/10/2005	3.0 - 5.13	2029	119,999,867	119,999,867			119,999,867
Accreted Interest						782,633		782,633
Series C	9/21/2006	3.38 - 5.0	2032	120,874,329		120,874,329		120,874,329
Refunding Bond	8/5/2005	3.57 - 5.25	2024	53,559,299	53,559,299			53,559,299
Accreted Interest						145,033		145,033
				<u>\$ 390,558,495</u>	<u>\$ 210,699,166</u>	<u>\$ 121,801,995</u>	<u>\$ 6,935,000</u>	<u>325,566,161</u>
						Bond Premium		22,408,957
						Deferred Charge on Refunding		(3,154,289)
						Total Bonds Payable		<u>\$ 344,820,829</u>

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

Series A

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Current Interest Component</u>	<u>Total</u>
2008	\$ 1,500,000	\$ 1,102,763	\$ 2,602,763
2009	1,655,000	1,057,075	2,712,075
2010	1,800,000	1,009,388	2,809,388
2011	1,960,000	952,988	2,912,988
2012	2,125,000	886,400	3,011,400
2013-2017	10,445,000	3,143,988	13,588,988
2018-2022	2,500,000	1,972,500	4,472,500
2023-2027	7,120,000	728,531	7,848,531
2028	1,100,000	24,750	1,124,750
	<u>\$ 30,205,000</u>	<u>\$ 10,878,383</u>	<u>\$ 41,083,383</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

Series B

Year Ended June 30,	Principal	Current Interest Component	Accreted Interest Component	Total
2008	\$ 1,359,156	\$ 5,418,419	\$ 45,844	\$ 6,823,419
2009	1,709,268	5,417,232	80,732	7,207,232
2010	949,324	5,360,602	55,676	6,365,602
2011	1,218,440	5,365,310	86,560	6,670,310
2012	1,503,907	5,370,161	126,093	7,000,161
2013-2017	12,462,568	26,892,309	1,687,432	41,042,309
2018-2022	21,018,805	25,480,028	3,586,195	50,085,028
2023-2027	33,743,399	21,191,938	5,086,601	60,021,938
2028-2029	46,035,000	3,981,131		50,016,131
	<u>\$ 119,999,867</u>	<u>\$ 104,477,130</u>	<u>\$ 10,755,133</u>	<u>\$ 235,232,130</u>

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

Series C

Year Ended June 30,	Principal	Current Interest Component	Accreted Interest Component	Total
2008	\$	\$ 3,896,938	\$	\$ 3,896,938
2009	2,010,000	3,851,713		5,861,713
2010		3,806,488		3,806,488
2011		3,806,488		3,806,488
2012	255,000	3,802,185		4,057,185
2013-2017	3,890,000	18,636,100		22,526,100
2018-2022	17,435,000	16,635,490		34,070,490
2023-2027	63,667,622	16,430,450	1,617,378	81,715,450
2028-2032	33,616,707	76,937,925	83,393,293	193,947,925
	<u>\$ 120,874,329</u>	<u>\$ 147,803,777</u>	<u>\$ 85,010,671</u>	<u>\$ 353,688,777</u>

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

Refunding Bond

Year Ended June 30,	Principal	Current Interest Component	Accreted Interest Component	Total
2008	\$	\$ 2,552,713	\$	\$ 2,552,713
2009		2,552,713		2,552,713
2010		2,552,713		2,552,713
2011	569,282	2,552,713	110,718	3,232,713
2012	903,458	2,552,713	226,542	3,682,713
2013-2017	12,931,559	12,120,474	758,442	25,810,475
2018-2022	31,070,000	6,241,538		37,311,538
2023-2024	8,085,000	353,194		8,438,194
	<u>\$ 53,559,299</u>	<u>\$ 31,478,771</u>	<u>\$ 1,095,702</u>	<u>\$ 86,133,772</u>

NOTE 8 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2007 is shown below:

	Beginning Balance July 1, 2006*	Additions	Deductions	Ending Balance June 30, 2007	Amount Due in One Year
General Obligation Bond:					
Series 2003A - Current Interest	\$ 37,140,000	\$	\$ 6,935,000	\$ 30,205,000	\$ 1,500,000
Series 2003A - Bond Premium	1,064,095		59,116	1,004,979	59,116
Refunding Bond - Current Interest	49,925,000			49,925,000	
Refunding Bond - Capital Appreciation	3,634,299			3,634,299	
Refunding Bond - Capital Appreciation Accreted Interest		145,033		145,033	
Refunding Bond - Bond Premium	5,268,222		303,936	4,964,286	303,936
Deferred Charge on Refunding	(3,339,835)		(185,546)	(3,154,289)	(185,546)
Series B - Current Interest	111,175,000			111,175,000	1,060,000
Series B - Capital Appreciation	8,824,867			8,824,867	
Series B - Capital Appreciation Accreted Interest		782,633		782,633	
Series B - Bond Premium	9,255,612		399,524	8,856,088	399,523
Series C - Current Interest		86,255,000		86,255,000	
Series C - Capital Appreciation		34,619,329		34,619,329	299,156
Series C - Capital Appreciation Accreted Interest					45,844
Series C - Bond Premium		7,583,604		7,583,604	313,804
Total bond payable	222,947,260	129,385,599	7,512,030	344,820,829	3,795,833
Notes payable	166,111		30,222	135,889	30,222
Total Bond and notes payable	223,113,371	129,385,599	7,542,252	344,956,718	3,826,055
Other liabilities:					
Other Post-Employment Benefits (OPEB)	28,331,505	4,441,614		32,773,119	2,781,286
Total long term liabilities	<u>\$ 251,444,876</u>	<u>\$ 133,827,213</u>	<u>\$ 7,542,252</u>	<u>\$ 377,729,837</u>	<u>\$ 6,607,341</u>

*The July 1, 2006 balances were restated to conform with current year presentation

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS) and part-time, seasonal and temporary employees and employees not covered by STRS or PERS are members of the Public Agency Retirement System (PARS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension 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. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-07 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and 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 required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary; currently the District contributes the employees' portion for California School Employees Association and confidential staff members. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2006-07 was 9.124% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2005	\$4,251,691	100%	\$3,011,339	100%
2006	4,576,592	100%	3,026,013	100%
2007	5,063,576	100%	3,315,895	100%

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 9 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Agency Retirement System (PARS)

Plan Description

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

Funding Policy

Contributions of 7.5% of covered compensation of eligible employees are made by the employer and employee. Total contributions, employer and employee combined, were made in the amount of \$760,890 during the fiscal year. The total amount of covered compensation was \$10,171,862. Total contributions made is 100% of the amount of contributions required for fiscal year 2006-07.

NOTE 10 - RETIREE HEALTH BENEFITS:

Plan Description

The District currently provides retiree and dependent medical coverage to eligible academic and classified employees. Persons retiring with more than ten years but less than fifteen years of service are eligible to receive medical benefits on a self-pay basis. Persons retiring with fifteen years or more service are eligible to receive medical benefits up to \$24,606 for 2007. (The maximum for most employees is \$14,413 for fiscal year 2007). Currently 311 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.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 - RETIREE HEALTH BENEFITS: (continued)

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

Actuarial Valuation (UNAUDITED)

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

(i) the Entry Age Normal actuarial cost method, (ii) amortizing the unfunded accrued actuarial liability over 30 years as a level percentage of payroll, (iii) a 5.0% long-term expected rate of return on District funds, (iv) a 3.0% per annum payroll increase assumption, and (v) a 4.5% health inflation assumption. The Report estimates the actuarial accrued liability (the liability of obligation for benefits earned or allocated to past service at the valuation date calculated using the selected actuarial methods and assumptions) at approximately \$111,243,936, which due to current "pay-as-you-go" funding, is virtually all unfunded. The Report also determined that the Annual Required Contribution (ARC), the normal cost (value of benefits expected to be earned or allocated to the fiscal years) plus a 30-year level percentage of pay amortization of the unfunded liability for fiscal year 2006-07 would be \$7,535,015.

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

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 - RETIREE HEALTH BENEFITS: (continued)

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

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

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

Based upon District projections, the pay-as-you-go costs for Plan benefits (the Grants and the lump sum severance payments), excluding the subsidy, are estimated to be \$3,678,745 for fiscal year 2007-08. Payments in the fiscal year 2007 in the amount of \$2,781,286 were made for current retiree obligations.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 11 - JOINT POWERS AGREEMENT:

The District participates in three joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); Schools Excess Liability Fund (SELF); and Schools Alliance for Worker's Compensation Excess II (SAWCXII).

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

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

SAWCXII arranges for and provides a self-funded or additional insurance for excess workers' compensation insurance for its member school districts. The District pays a premium commensurate with the level of coverage requested.

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

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

The relationships between the Rancho Santiago Community College District and the JPAs are such that neither JPA is a component unit of the District for financial reporting purposes.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 11 - JOINT POWERS AGREEMENT: (continued)

Condensed financial information of ASCIP, SELF and SAWCXII for the most current information available is as follows:

	ASCIP 6/30/2007 <u>(Unaudited)</u>	SELF 6/30/2006 <u>(Audited)</u>	SAWCXII 6/30/2006 <u>(Audited)</u>
Total assets	\$187,300,436	\$219,228,961	\$ 29,600,259
Total liabilities	<u>122,434,181</u>	<u>191,182,670</u>	<u>26,717,795</u>
Retained earnings	\$ <u>64,866,255</u>	\$ <u>28,046,291</u>	\$ <u>2,882,464</u>
Total revenues	\$162,002,583	\$ 66,347,032	\$ 2,959,219
Total expenditures	<u>132,225,055</u>	<u>41,523,839</u>	<u>2,267,240</u>
Net increase in retained earnings	\$ <u>26,777,528</u>	\$ <u>24,823,193</u>	\$ <u>691,979</u>

NOTE 12 - INTERNAL SERVICE FUND:

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

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

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 12 - INTERNAL SERVICE FUND: (continued)

At June 30, 2007, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of liability is estimated at \$773,836. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Property and Liability	\$ 297,142	\$ 99,337	\$ 99,338	\$ 297,141
Workers' Compensation	<u>539,153</u>	<u>1,553,782</u>	<u>1,491,324</u>	<u>476,695</u>
	<u>\$ 836,295</u>	<u>\$1,653,119</u>	<u>\$1,590,662</u>	<u>\$ 773,836</u>

NOTE 13 – 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, 2007 is \$549,998.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 14 - FUNCTIONAL EXPENSE:

	<u>Salaries & Benefits</u>	<u>Supplies, Materials & Other Expenses and Services</u>	<u>Student Financial Aid</u>	<u>Depreciation</u>	<u>Total</u>
Instructional Activities	\$ 63,560,286	\$ 3,891,940	\$	\$	\$ 67,452,226
Academic Support	16,969,264	582,930			17,552,195
Student Services	24,887,327	1,107,793			25,995,119
Operation and Maintenance of Plant	5,022,004	2,053,287			7,075,291
Institutional Support Services	22,687,662	3,916,890			26,604,552
Community Services and Economic Development	3,241,146	275,845			3,516,991
Ancillary Services and Auxiliary Operations	7,531,486	2,744,578			10,276,064
Physical Property and Related Acquisitions	658,949	15,636,138			16,295,087
Student Aid			7,651,039		7,651,039
Other Outgo		8,097,072			8,097,072
Depreciation Expense				9,654,677	9,654,677
Total	\$ 144,558,124	\$ 38,306,473	\$ 7,651,039	\$ 9,654,677	\$ 200,170,313

NOTE 15 – RESTATEMENT TO BEGINNING NET ASSETS:

The Governmental Fund beginning net assets was restated for \$2,119,751. \$775,535 was restated to recognize benefits in the determination of accrued vacation. \$1,344,216 was restated to exclude activity and balances of fiduciary funds that were inappropriately included in the prior year.

NOTE 16 - COMMITMENTS AND CONTINGENCIES:

A. Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

B. 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 terms of the grants, it is believed that any required reimbursement will not be material.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 16 - COMMITMENTS AND CONTINGENCIES: (continued)

C. Purchase Commitments

As of June 30, 2007, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$14,297,000. Projects will be funded through bond proceeds, state funds and general funds.

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 and donated facilities for fiscal year 2007 were \$453,771 and \$12,660, respectively. Both have been reflected in the financial statements as donated services and facilities.

The RSCCDF distributes scholarship funds to the Foundations. The amount of scholarship funds distributed for fiscal year 2007 was \$2,000. In addition, the RSCCDF distributed in equal shares the net proceeds from an annual fundraising event to SACF and SCCF in the amount of \$123,741 in fiscal year 2007.

SUPPLEMENTARY INFORMATION

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2007

The Rancho Santiago Community College District was established in 1971 and serves a resident population of approximately 600,000 and includes portions of Santa Ana, Orange, Anaheim, Anaheim Hills, Irvine, Garden Grove, Newport Beach, Villa Park, Costa Mesa, Fountain Valley, Tustin and Yorba Linda. The District currently operates two colleges – Santa Ana College and Santiago Canyon College as well as the Orange County Regional Sheriff’s Training Academy and four continuing education centers: Orange Education Center, Marketplace Education Center, Centennial Education Center and the Anaheim Hills Center.

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expiration</u>
John R. Hanna	President	December 2010
Phillip E. Yarbrough	Vice President	December 2010
R. David Chapel	Clerk	December 2008
Alfredo M. Amezcua	Member	December 2008
Brian E. Conley	Member	December 2008
Lawrence R. “Larry” Labrado	Member	December 2010
Lisa Woolery	Member	December 2008
Michele Hutchison	Student Trustee, Santiago Canyon College	

DISTRICT EXECUTIVE OFFICERS

Dr. Edward Hernandez, Jr.	Chancellor
Dr. Erlinda Martinez	President of Santa Ana College
Mr. Juan Vazquez	President of Santiago Canyon College
Mr. John Didion	Executive Vice Chancellor of Human Resources/ Educational Services
Mr. Peter Hardash	Vice Chancellor, Business Operations and Fiscal Services

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, 2007

Description	Special Revenue Funds				Bond Interest and Redemption Fund			Internal Service Funds			Total
	General Fund	Child Development Fund	Bookstore Fund		Redemption Fund	Capital Projects Funds	Student Financial Aid Fund	Self-Insurance Fund	Other Internal Service Fund		
REVENUES:											
Federal Revenues	\$ 9,814,246	\$ 371,512	\$	\$	\$	\$	\$ 6,286,392	\$	\$	\$	\$ 16,472,150
State Revenues	114,997,375	3,565,635			92,827	1,147,359	805,823				120,609,019
Local Revenues	52,172,506	375,486	8,311,752		11,111,638	11,918,080	94,619	3,149,918	5,328,658		92,462,657
TOTAL REVENUES	176,984,127	4,312,633	8,311,752		11,204,465	13,065,439	7,186,834	3,149,918	5,328,658		229,543,826
EXPENDITURES											
Academic Salaries	65,564,470	1,778,589									\$ 67,343,059
Classified Salaries	40,833,720	994,509	1,061,952					131,458			43,021,639
Employee Benefits	29,802,007	1,018,629	305,916					49,124	7,535,015		38,710,691
Supplies and Materials	3,169,437	173,501	5,965,568			2,136		3,144			9,313,786
Other Operating Expenses and Services	23,242,161	106,854	217,132			336,943		2,746,758	13,196		26,792,019
Capital Outlay	4,443,192	18,617	24,491			44,680,834		22,879			49,190,013
TOTAL EXPENDITURES	167,054,987	4,090,699	7,575,059			45,019,913		2,953,363	7,548,211		234,371,207
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	9,929,140	221,934	736,693		11,204,465	(31,954,474)	7,057,859	196,555	(2,219,553)		(4,827,381)
NET OTHER FINANCING SOURCES (USES)	(2,621,753)	(48,458)	(200,600)		(12,566,587)	122,157,491	(7,125,164)				99,594,929
NET INCREASE (DECREASE) IN FUND BALANCE	7,307,387	173,476	536,093		(1,362,122)	90,203,017	(67,305)	196,555	(2,219,553)		94,767,548
BEGINNING FUND BALANCE:	16,993,426	305,546	3,927,353		10,101,312	106,088,461	1,760,632	4,338,807	(9,767,583)		133,747,954
ENDING FUND BALANCE	\$ 24,300,813	\$ 479,022	\$ 4,463,446		\$ 8,739,190	\$ 196,291,478	\$ 1,693,327	\$ 4,535,362	\$ (11,987,136)		\$ 228,515,502
RECONCILIATION TO INCREASE IN NET ASSETS											
Net Increase in Fund Balance	\$ 94,767,548										266,029,925
Capitalized assets	47,288,736										(5,435,821)
Depreciation expense	(9,654,677)										(344,820,829)
Loss on capital assets disposal	(72,054)										4,158,074
Increase in compensated balances	(1,439,843)										(135,889)
Principal payments of notes payable	30,222										
Bond proceeds	(120,874,329)										
Principal debt payments	6,935,000										
Bond issuance costs	1,223,774										
Bond accreted interest	(927,666)										
Deferred amount for refunding	(185,546)										
Premium from sales of bond	(6,821,028)										
INCREASE IN NET ASSETS	\$ 10,270,137										\$ 148,310,962

RECONCILIATION TO NET ASSETS

Capital assets, net	266,029,925
Compensated balances, long term	(5,435,821)
Bond payable	(344,820,829)
Bond issuance cost	4,158,074
Notes payable balance	(135,889)
NET ASSETS	\$ 148,310,962

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF FINANCIAL POSITION**

June 30, 2007

	<u>Santa Ana College Foundation</u>	<u>Santiago Canyon College Foundation</u>	<u>Rancho Santiago Community College District Foundation</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 732,012	\$ 325,758	\$ 52,837	\$ 1,110,607
Accounts receivable		1,458	123,226	124,684
Prepaid expenses			5,599	5,599
Investments, at fair value	<u>2,475,037</u>	<u>559,813</u>	<u>4,094,191</u>	<u>7,129,041</u>
TOTAL ASSETS	<u>\$ 3,207,049</u>	<u>\$ 887,029</u>	<u>\$ 4,275,853</u>	<u>\$ 8,369,931</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$	\$ 50	\$ 14,361	\$ 14,411
Due to District			113,379	113,379
Due to organizations		9,800		9,800
Deferred revenue			<u>20,600</u>	<u>20,600</u>
TOTAL LIABILITIES	<u>-</u>	<u>9,850</u>	<u>148,340</u>	<u>158,190</u>
NET ASSETS				
Unrestricted	<u>228,284</u>	<u>386,867</u>	<u>27,412</u>	<u>642,563</u>
Temporarily restricted				
Scholarships	1,207,347	351,899		1,559,246
Programatic support	1,315,368	138,413	5,825	1,459,606
Endowment grant	<u>456,050</u>		<u>4,094,276</u>	<u>4,550,326</u>
Total temporarily restricted	<u>2,978,765</u>	<u>490,312</u>	<u>4,100,101</u>	<u>7,569,178</u>
TOTAL NET ASSETS	<u>3,207,049</u>	<u>877,179</u>	<u>4,127,513</u>	<u>8,211,741</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,207,049</u>	<u>\$ 887,029</u>	<u>\$ 4,275,853</u>	<u>\$ 8,369,931</u>

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COUNTY COMMUNITY COLLEGE DISTRICT

DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

	Unrestricted Funds				Temporarily Restricted Funds			
	Rancho Santiago		Rancho Santiago		Rancho Santiago		Rancho Santiago	
	Santa Ana College Foundation	Santiago Canyon College Foundation	Community College District Foundation	Total	Santa Ana College Foundation	Santiago Canyon College Foundation	Community College District Foundation	Total
Support and revenue								
Support:								
Contributions	\$ 4,172	\$ 39,305	\$ 92,060	\$ 135,537	\$ 647,810	\$ 79,901	\$ 58,129	\$ 785,840
Contributions from affiliated foundation	51,198			51,198	10,538	61,736		72,274
Fundraising	203,950	216,556	201,169	201,169	119,961	49,645		169,606
Donated services			33,265	453,771			113,779	
Federal grant	4,710	7,950						113,779
Donated facilities	264,030	263,811	326,494	12,660	778,309	191,282	171,908	1,141,499
Total support				854,335				1,995,834
Revenue								
Interest and dividends	47,577	7,975	1,025	56,577	69,334			69,334
Interest and dividends from investments	4,317	7,876		12,193	13,300	16,797		16,797
Realized gain on investments	23,054	27,290	40	50,384	23,045	14,632		13,300
Unrealized gain (loss) on investments			13,489	13,489				37,677
Other revenue	74,948	43,141	14,554	132,643	105,679	31,429		13,489
Total Revenue	338,978	306,952	341,048	986,978	883,988	222,711	171,908	1,278,607
Total support and revenue before net assets released from restrictions	393,298	195,067	232,457	820,822	(393,298)	(195,067)	(232,457)	(820,822)
Net Assets released from restrictions								
Total support and revenue after net assets released from restrictions	732,276	502,019	573,505	1,807,800	490,690	27,644	(60,549)	457,785
Expenses								
Program services	478,866	284,363	474,520	1,237,749				1,237,749
Supporting services:								
Management and general	197,847	75,043	13,500	286,390				286,390
Fundraising	75,673	99,871	78,620	254,164				254,164
Total expenses	752,386	459,277	566,640	1,778,303				1,778,303
Endowment Grant Revenue							579,633	579,633
Change in net assets	(20,110)	42,742	6,865	29,497	490,690	27,644	519,084	1,066,915
Net assets								
Net assets-beginning of year	248,394	344,125	20,547	613,066	2,488,075	462,668	3,581,017	6,531,760
Net assets-end of year	\$ 228,284	\$ 386,867	\$ 27,412	\$ 642,563	\$ 2,978,765	\$ 490,312	\$ 4,100,101	\$ 7,569,178
								\$ 8,211,741

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
U.S. Department of Education			
Direct:			
<i>Financial Aid Cluster</i>			
College Work Study	84.033		\$ 254,992
Perkins Loan	84.038		121,414
Pell Grant	84.063		5,881,248
Pell Grant - Financial Aid Administrative Allowance	84.063		12,525
S.E.O.G.	84.007		290,900
Total Financial Aid Cluster			<u>6,561,079</u>
<i>Adult Basic Education (ABE) Cluster</i>			
Adult Basic Education	84.002		13,826
ABE - English Literacy/Civics Education	84.002		1,223,606
ABE - ESL	84.002		1,499,777
ABE - Vocational Literacy	84.002		6,641
ABE - Family Literacy	84.002		305,550
ABE - Secondary Education	84.002		94,967
ABE - Correction Program	84.002		129,671
Total Adult Basic Education Cluster			<u>3,274,038</u>
<i>TRIO Cluster</i>			
Student Support Services	84.042		271,090
Talent Search	84.044		317,667
Upward Bound	84.047		409,145
Total TRIO Cluster			<u>997,902</u>
Academic Competitiveness Grant	84.375		25,750
Business & International Education Program	84.153		52,679
Child Care Access Means Parents in School	84.335		83,791
Gear Up III Program	84.334		395,789
Title III - Strengthening Institutions	84.031		263,253
Title V	84.031		855,399
			<u>\$ 12,509,680</u>
<i>Total direct from U.S. Department of Education</i>			
Passed through Program from American Institutes for Research (AIR)			
CALPRO - Regional Resource Center	84.002	CN077012	\$ 60,000
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Vocational and Technical Education Act (VTEA)			
VTEA - Tech Prep, Education	84.048	99-TP-62	134,293
VTEA - Title I-C	84.048	99-C01-046	937,704

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2007

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Program Expenditures
Passed through Program from Department of Rehabilitation Job Development Training Placement Program	84.126		334,648
Passed through Program from Regional Health Occupations Resource Center RHORC-NCLEX Course Revision	84.048		1,600
Passed through Program from Santa Ana Unified School District (SAUSD): Gear Up I Program	84.334	P334A990398	221,373
Passed through Program from University of California, Irvine (UCI): Gear Up II Program	84.344	P334A020290	179,692
<i>Total passed through from U.S. Department of Education</i>			<u>\$ 1,869,310</u>
U.S. Department of Health and Human Services (HHS):			
Direct:			
Head Start	93.600		\$ 165,255
Nursing Workforce Diversity	93.178		476,830
<i>Total direct from U.S. Department of Health and Human Services</i>			<u>\$ 642,085</u>
Passed through Program from California Department of Education (CDE):			
CCDF Capacity Project	93.575	CCAP6250	\$ 6,019
Child Development Instructional Materials	93.575	CIMS6386	3,758
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Temporary Assistance to Needy Families (TANF)	93.558		161,981
<i>Total passed through from Department of Health and Human Services</i>			<u>\$ 171,758</u>
U.S. Development of Housing and Urban Development (HUD):			
Direct:			
Hispanic Serving Institutions Assisting Communities (HSIAC)	14.514		\$ 27,760
<i>Total direct from Housing and Urban Development</i>			<u>\$ 27,760</u>
U.S. Department of Labor (DOL):			
Passed through Program from California Community College Chancellor's Office (CCCCO):			
Workforce Investment Act (WIA) - Nursing Grant	17.258		\$ 451,402
Passed through Program from the Employment Training Administration:			
Geospatial Technology Assess Program	17.260		(23,327)
<i>Total passed through from U.S. Department of Labor:</i>			<u>\$ 428,075</u>
Corporation for National and Community Service (CNCS)			
Direct:			
Learn & Serve America	94.005		\$ 33,541
Passed through Program from Foundation for California Community Colleges			
Americorps	94.006		175,298
<i>Total Corporation of National and Community Services</i>			<u>\$ 208,839</u>

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007**

<u>Program Name</u>	<u>Federal Catalog Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program Expenditures</u>
National Science Foundation (NSF):			
Passed through Program from City College of San Francisco:			
NSF - Bridge to Biotech	47.074		\$ 11,356
Passed through Program from Consulting for Environmental System Technology, Inc.:			
NSF - CFEST	47.041	0631394	9,946
<i>Total National Science Foundation</i>			<u>\$ 21,302</u>
U.S. Small Business Administration (SBA):			
Direct:			
Women's Business Center	59.043		\$ 113,779
Passed through Program from California State University, Fullerton			
California Small Business Development Center (SBDC)	59.037	03CBE006	324,490
<i>Total Small Business Administration</i>			<u>\$ 438,269</u>
Total Federal Awards			<u><u>\$ 16,317,078</u></u>
Reconciliation to Federal Revenue			
Total Federal Expenditures			\$ 16,317,078
Revenue in excess of federal expenditures for:			
U.S. Department of Agriculture - Childcare Food Program	10.558		152,295
Department of Veteran's Affairs - Business Operations	64.120		<u>2,776</u>
Total Federal Revenue			<u><u>\$ 16,472,149</u></u>
Student Financial Aid Loan Programs:			
<u>Loans Outstanding</u>			
Rancho Santiago Community College District had the following loan balance outstanding as of 6/30/07:			
Perkins Program			<u>\$ 493,482</u>

Note: (1) Pass-through entity identifying number not readily available.

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
For the Fiscal Year Ended June 30, 2007

Program Name	Program Revenues				Deferred Revenue	Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Accounts Payable				
State Categorical Aid Programs:							
AB1725-Faculty and Staff Diversity	\$ 29,009	\$ 365	\$	\$	\$ 19,076	\$ 29,374	\$ 29,374
AB1725-Staff Development	137,687				7,916	118,611	118,611
AB77-Handicapped	2,202,300	15,455			2,209,839	2,209,839	2,209,839
Associate Degree Nursing Program	216,357	97,124				313,481	313,481
Basic Skills-Reappropriation of Unused Funds	1,364,116				1,041,447	322,669	322,669
Cal Grant	803,070	1,208			45,314	758,964	758,964
California Math Diagnostic Testing	23,421					23,421	23,421
CalWorks	708,699	119			7,799	708,818	708,818
Care Program	129,899					122,100	122,100
Career Exploration and Development		9,926				9,926	9,926
Career Technical Education and Economic Development	90,000	102,350				192,350	192,350
Center for Nursing-Enrollment Growth	173,597					173,597	173,597
Child Development Center	3,002,525	674,720				3,677,245	3,677,245
Economic Development Program Workplace Learning Resource Center	672,473	114,859				787,332	787,332
Extended Opportunity Program and Services (EOPS)	1,982,851	1,371			51,464	1,932,758	1,932,758
Faculty and Counselor Work Experience		3,583				3,583	3,583
Instructional Material Trailer Bill	1,293,437				441,322	852,115	852,115
Matriculation-Credit	2,929,166				123,132	2,806,034	2,806,034
Matriculation-Non Credit	3,024,679				27,578	2,997,101	2,997,101
Santa Ana Middle College High School	95,738	16,995				112,733	112,733
Santiago Canyon College MESA CCP	73,350	26,650				100,000	100,000
State Fund for Instructional Equipment	450,742				249,205	201,537	201,537
Student Financial Aid Administration	1,010,579				21,061	989,518	989,518
Telecommunication Technology Infrastructure Program (TTIP)	495,326				261,256	234,070	234,070
Transfer and Articulation	10,000					10,000	10,000
Total State Programs	\$ 20,919,021	\$ 1,064,725	\$ -	\$ -	\$ 2,296,570	\$ 19,687,176	\$ 19,687,176

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2007**

<u>Categories</u>	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2006 only)			
1. Noncredit ¹	1,125.07		1,125.07
2. Credit	1,547.96		1,547.96
B. Summer Intersession (Summer 2007 - Prior to July 1, 2007)			
1. Noncredit ¹	382.81		382.81
2. Credit			
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	13,140.92		13,140.92
(b) Daily Census Contact Hours	1,089.47		1,089.47
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ¹	9,730.52		9,730.52
(b) Credit	3,613.40		3,613.40
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	591.50		591.50
(b) Daily Census Contact Hours	249.61		249.61
(c) Noncredit Independent Study/Distance Education Courses			
D. Total FTES	<u>31,471.26</u>		<u>31,471.26</u>
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	3,137.62		3,137.62
H. Basic Skills courses and Immigrant Education			
(a) Noncredit ¹	4,800.19		4,800.19
(b) Credit	743.68		743.68
<u>CCFS 320 Addendum</u>			
CDCP Noncredit FTES			
Centers FTES			
(a) Noncredit ¹	1,986.29		1,986.29
(b) Credit			

¹ Including Career Development and College Preparation (CDCP) FTES

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES
For the Fiscal Year Ended June 30, 2007

The audit resulted in no adjustments to the fund balances reported on the June 30, 2007 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30,**

	(Budget) 2008		2007		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%
Revenue								
Federal	\$ 10,920,947	5.63	\$ 9,814,246	5.78	\$ 9,530,372	6.31	\$ 8,160,858	5.88
State	117,080,633	60.37	114,997,375	67.70	80,047,658	53.02	74,939,891	54.04
County and Local	55,760,861	28.75	52,172,506	30.72	62,647,926	41.50	57,819,903	41.69
Other Financing Sources	141,595	0.07	166,506	0.10	-	-	-	-
Total Revenue	<u>183,904,036</u>	<u>94.82</u>	<u>177,150,633</u>	<u>104.30</u>	<u>152,225,956</u>	<u>100.83</u>	<u>140,920,652</u>	<u>101.61</u>
Expenditures								
Academic Salaries	65,759,740	33.91	65,564,470	38.60	59,594,877	39.48	55,267,655	39.85
Classified Salaries	46,462,506	23.95	40,833,720	24.04	37,018,259	24.52	33,744,745	24.33
Employee Benefits	34,386,998	17.73	29,802,007	17.55	28,678,237	19.00	26,805,217	19.33
Supplies and Materials	4,916,482	2.54	3,169,437	1.87	3,003,733	1.99	2,616,042	1.89
Other Operating Expenses and Services	32,666,870	16.84	23,242,161	13.68	20,662,702	13.68	17,665,767	12.73
Capital Outlay	5,654,643	2.92	4,443,192	2.62	2,008,098	1.33	2,587,334	1.87
Other Uses	4,088,552	2.10	2,788,259	1.64	-	-	-	-
Total Expenditures	<u>193,935,791</u>	<u>100.00</u>	<u>169,843,246</u>	<u>100.00</u>	<u>150,965,906</u>	<u>99.99</u>	<u>138,686,760</u>	<u>100.00</u>
Net Other Finance Sources (Uses)					(1,742,102)	(1.15)	(1,989,203)	(1.43)
Change in Fund Balance	<u>\$ (10,031,755)</u>	<u>(5.17)</u>	<u>\$ 7,307,387</u>	<u>4.30</u>	<u>\$ (482,052)</u>	<u>(0.32)</u>	<u>\$ 244,689</u>	<u>0.18</u>
Ending Fund Balance	<u>\$ 14,269,058</u>	<u>7.36</u>	<u>\$ 24,300,813</u>	<u>14.31</u>	<u>\$ 16,993,426</u>	<u>11.26</u>	<u>\$ 17,475,478</u>	<u>12.60</u>
Full-Time Equivalent Students (Factored)	<u>31,696</u>		<u>31,471</u>		<u>31,192</u>		<u>30,411</u>	
Total Long-Term Debt	<u>\$ 371,122,496</u>		<u>\$ 377,729,837</u>		<u>\$ 245,556,991</u>		<u>\$ 243,304,985</u>	

IMPORTANT NOTES:

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of expenditures as a minimum, with a prudent ending fund balance being 5% of expenditures.

Fiscal years ended June 30, 2005 and 2006 were audited by another CPA firm.

See the accompanying notes to the supplementary information.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

For the Fiscal Year Ended June 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES:

A. 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 California Community College Systems 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.

B. 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.

C. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the Rancho Santiago Community College District for the year ended June 30, 2007 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 Federal Awards and the Schedule of State Financial Assistance was prepared for the Rancho Santiago Community College District on the modified accrual basis of accounting.

D. Schedule of Workload Measures for State General Apportionment and Annual Hours of Instruction

The Schedule of Workload Measures for State General Apportionment and Annual Hours of Instruction represents the basis of apportionment of the Rancho Santiago Community College District's annual source of funding.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2007**

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

E. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311.

F. Schedule of General Fund Financial Trends and Analysis

This report is prepared to show financial trends of the General Fund over the past three fiscal years as well as the current year budget. This schedule is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.



**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**

The Board of Trustees
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, CA 92706-1640

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Rancho Santiago Community College District (the District) as of and for the year ended June 30, 2007 which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 9, 2007. 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 Rancho Santiago Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

**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**

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, which is described in the accompanying schedule of findings and questioned costs as item 07-3.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rancho Santiago Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-2.

Rancho Santiago Community College District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

**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**

This report is intended solely for the information and use of management, the audit committee, Board, the California Department of Finance, the California Community College Systems Office and 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.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

November 9, 2007



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

The Board of Trustees
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, CA 92706-1640

Compliance

We have audited the compliance of 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, 2007. 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 of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

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

Internal Control Over Compliance

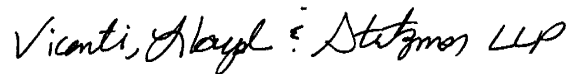
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, Board, the California Department of Finance, the California Community College Systems Office and 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.


VICENTI, LLOYD & STUTZMAN LLP

November 9, 2007



REPORT ON STATE COMPLIANCE

The Board of Trustees
Rancho Santiago Community College District
2323 North Broadway
Santa Ana, CA 92706-1640

We have audited the basic financial statements of Rancho Santiago Community College District, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 9, 2007.

Our examination was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the California Department of Finance's 2007 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to the Rancho Santiago Community College District is to determine with reasonable assurance:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.
- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.
- Whether the District has acted to ensure that the residency of each student is properly classified and that only the attendance of California residents is claimed for apportionment purposes.
- Whether the District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.

REPORT ON STATE COMPLIANCE

- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKS program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
- Whether the District spent an amount equal to or greater than the amount provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted regulations consistent with the "Standards of Scholarship" contained in the California Code of Regulations and has published statements of those regulations in the College catalog.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.

In our opinion, except for Findings 07-1 and 07-2 described in the accompanying schedule of findings and questioned costs, Rancho Santiago Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Rancho Santiago Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

REPORT ON STATE COMPLIANCE

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

This report is intended solely for the information and use of management, the audit committee, Board, the California Department of Finance, the California Community College Systems Office and 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.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

November 9, 2007

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS**

June 30, 2007

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? Yes X No
Reporting condition(s) identified not considered
to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes X No
Reporting condition(s) identified not considered
to be material weaknesses? Yes X 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 Circular A-133,
Section .510(a) Yes X No

Identification of major programs tested

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.038 and 84.063	Financial Aid Cluster
84.002	Adult Basic Education
93.178	Nursing Workforce Diversity
17.258	Workforce Investment Act Nursing Grant
84.126	Job Development Training
93.600	Head Start NSL1
84.031	Title III

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 489,512

Auditee qualified as low-risk auditee? X Yes No

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2007

FINDING 07-1 – HEALTH FEES

Finding: Per the Contract District Audit Manual, when the health fee is mandatory the method to apply for an exemption should be indicated in the course catalog or schedule of classes. At Santa Ana College and Santiago Canyon College, it was noted that the health fee is mandatory, however there is no place near the stated fee that indicates the method or means to file for an exemption.

Questioned Costs: Not Applicable

Recommendation: The course catalog should be revised for 2008-09, since 2007-08 has been issued, to describe the method and means to apply for exemption of this fee. Additionally, the Spring 2008 schedule of classes should include this information.

District Response: The course catalog and schedule of classes will be revised for 08-09 and the spring schedule of classes will be revised to include the method to file for an exemption for the mandatory health fee.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2007

FINDING 07-2 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

Finding: Districts may claim apportionment for one repetition for the attendance of a student repeating a course in which a student receives a grade if the student is repeating the course to alleviate substandard work, there were extenuating circumstances or there has been a significant lapse of time between attempts (CCR 58161). Districts may allow additional repetitions, however, they should not grant credit and should not report the students for apportionment purposes. Districts must establish a limit on the amount of remedial coursework a community college student may take. No student shall receive more than 30 semester units (or 45 quarter units) of credit in remedial coursework. Students that exhaust the unit limitation should be referred to appropriate adult noncredit education services. (CCR 55756.5).

We noted the following when reviewing course repetition procedures:

- There should be a policy in effect on the limitations of remedial course work. No policy related to this was noted in the course catalog and schedule of classes.
- Per discussion with personnel, the District does not have a method to track students taking remedial courses.
- At Santa Ana College and Santiago Canyon College, it was noted that the system currently being used is limited to three years or nine semesters of data. The District has been doing a separate reconciliation of those students. Differences noted were insignificant to the total FTES.

Questioned Costs: Not determined

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2007

FINDING 07-2 – MINIMUM CONDITIONS – “STANDARDS OF SCHOLARSHIP”

(continued)

Recommendation:

- The District should revise the catalog or schedule of classes to provide the policy on the limitations of remedial course work.
- The District should implement a procedure or method on the system to track students taking remedial courses to identify those that are close to exceeding or who have exceeded. A petition should be filed with admissions and records similar to those for substandard grade repetitions.
- The District is currently underway to implement a new system for their student information database.

District Response: The District will review its' policy and procedures on the amount of remedial course work a student can take for apportionment purposes.

The new Datatel system will provide an improved method of tracking students taking remedial courses.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS**

June 30, 2007

FINDING 07-3 – ANTI-FRAUD PROGRAMS

Finding: In accordance with the auditing standard (SAS 99) related to our consideration of fraud, we are required to assess the organization's anti-fraud program. Although the District has processes and procedures in place, we believe that additional controls and policies would strengthen the District's programs and bring it into alignment with the recommendations issued by the American Institute of Certified Public Accountants in their document entitled "Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud". The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.

Recommendation: We believe the District should consider the following:

- 1) Develop a training program to communicate the organizational-wide code of ethics (BP 7020) to all employees; the training should also include the red flags related to fraud and how to communicate such concerns. This demonstrates the District's commitment to fraud awareness throughout the entity. This program should be ongoing with training provided throughout the organization at least annually. Employees should complete an annual confirmation of the training.
- 2) Promote the use of the WeTIP program as an anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous.
- 3) Conduct an analysis of the role internal audit has in developing and implementing the anti-fraud program. To ensure objectivity and provide open communication with those charged with governance, internal audit should report to the audit committee. Additional items to consider include whether the current staff levels adequately meet the objectives of the District, whether the staff is receiving sufficient training, whether the organizational structure provides a sufficient level of authority and oversight of the operations of internal audit and whether tools are sufficient to enable the internal audit staff to analyze and utilize computer assisted techniques. In the review of objectives, we believe attention should be given to provide a greater emphasis on risk-assessment in the financial accounting system including the payroll and attendance accounting systems.

District Response: Currently the District has two full-time internal auditors that are dedicated almost entirely to the Datatel implementation process. Once implemented, the internal auditors will be refocused on developing training and internal anti-fraud programs.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FEDERAL AWARDS**

June 30, 2007

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2007.

RANCHO SANTIAGO COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007

FINDING 06-1 – COURSE REPETITION

Finding: During our review of course repetition requirement, we found that the database of application program (GLINK) used by the District Student Admission and Records (A&R) Office has limited capacity to hold student records to the maximum of nine semesters only. This limitation prevents staff of the A&R Office from identifying a student who attempts to register (i.e. repeat) for the same course that was taken prior to academic year 2003. In our detail transactions review, we found seventeen (17) out of the fifty (50) students selected between two campuses are not in compliance with requirements under the Title 555763(d).

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.

Current Status: Not implemented. See current year finding 07-2.