

**SOUTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT**

Annual Financial Report and Single Audit Report

For the Year Ended June 30, 2010

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2010**

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**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
South Orange County Community College District
Mission Viejo, California

We have audited the accompanying financial statements of the business-type activity, the aggregate discretely presented component units and the fiduciary funds of the South Orange County Community College District (the District) as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the aggregate discretely presented component units and the fiduciary funds of the District as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof 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 22, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 11, the schedule of postemployment healthcare funding progress and schedule of employer contributions on pages 40 and 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Fini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
November 22, 2010

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**



through the District.

This section of the Financial Report of the South Orange County Community College District (the “District”) presents a narrative overview and analysis of the District’s financial activities for the fiscal year that ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District’s financial statements. The information in the Management Discussion and Analysis is related to the primary government only; separate financial information for the Foundations may be obtained

Introduction to the Basic Financial Statements

The South Orange County Community College District continues to experience record enrollment. Now, over 43,000 students attend Saddleback College in Mission Viejo, Irvine Valley College in Irvine and the Advanced Technology & Education Park (ATEP) in Tustin. Because of prudent management and conservative fiscal policies, our district has prepared for the challenging budget times by creating reserves, retiring debt, fully funding the retiree liability, and implementing efficiencies throughout all operations. Strategic planning, investments in technology and increasing online services to students ensure we can meet the current and growing demands of transfer to four-year colleges, workforce training and career technical preparation. Over 2,600 employees in the South Orange County Community College District are committed to providing the best educational foundation possible for our students with respect for taxpayers. We invite you to learn more about us and our services to students and the community at www.socccd.edu.

Accounting Standards

In June 1999, the Governmental Accounting Standards’ Board (GASB) released Statement No. 34, “Basic Financial Statement and Management’s Discussion and Analysis for State and Local Governments,” which changed the reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, “Basic Financial Statement and Management’s Discussion and Analysis for Public Colleges and Universities,” which applies these reporting standards to public colleges and universities. The South Orange County Community College District continues to present its financial statements in this reporting format.

The following discussion and analysis provides an overview of the financial position and activities of the South Orange County Community College District’s Financial Report for the fiscal year that ended June 30, 2010. The previous year’s financial information is also provided for comparison. 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 Revenues, Expenses and Changes in Net Assets
- The Statement of Cash Flows

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets will be reviewed and significant events discussed.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Statement of Net Assets

Statement of Net Assets presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

	(in thousands)	
	2010	2009
Current and other assets	\$ 204,756	\$ 181,919
Capital assets, net	225,431	217,128
Total Assets	<u>\$ 430,187</u>	<u>\$ 399,047</u>
Current and other liabilities	\$ 18,579	\$ 20,427
Long-term liabilities	5,448	7,221
Total Liabilities	<u>24,027</u>	<u>27,648</u>
Net Assets:		
Invested in capital assets, net of related debt	222,345	213,617
Restricted	158,313	121,586
Unrestricted	25,502	36,196
Total Net Assets	<u>406,160</u>	<u>371,399</u>
Total liabilities and net assets	<u>\$ 430,187</u>	<u>\$ 399,047</u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Assets

Total Assets increased approximately \$31.1 million, a percentage increase of 7%. The major changes affecting Total Assets are listed below:

- Current and other assets increased \$22.8 million over the prior year primarily due to: a \$25 million cash increase in the Capital Outlay Fund. This is the result of funds committed for future maintenance projects at Saddleback College such as upgrading the HVAC system in the Math, Science and Engineering building, replacing the pool deck, roof replacements, and bridge repairs. For IVC additional funds were committed for the new Life Sciences Building. Funds were also committed for various maintenance projects such as main water valves, gas piping, brick building facades, and HVAC for the Student Services building.
- Net Capital Assets increased by approximately \$8.3 million primarily due to continued development of the Student Information Software System; the completion of the expansion and remodel of the Saddleback College Village area; and completion of the Science Lab Annex at Irvine Valley College 2009-10.

Liabilities

Total liabilities decreased by \$3.6 million; a decrease of 13%. Changes affecting total liabilities include:

- A decrease to accounts payable of approximately \$2 million. In April 2009 the District settled its contract with the Faculty association. The new contract included a salary increase retroactive to 2007-2008. That increase was accrued as a liability at the end of 2008-2009. The liability was paid in 2009-2010 reducing accounts payable.
- Deferred Revenue decreased \$329 thousand due to the conclusion of categorical projects for scheduled maintenance, instructional equipment, and career technical education in which the funds were received in 2008-2009 and expended in 2009-2010.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Statement of Revenues, Expenses and Changes in Net Assets

Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as revenues pertaining to receivables and expenses pertaining to earned, but unused, compensated balances.

	(in thousands)	
	<u>2010</u>	<u>2009</u>
Operating Revenues		
Net tuition and fees	\$ 24,204	\$ 20,314
Grants and contracts, noncapital	13,177	14,680
Sales	<u>850</u>	<u>828</u>
Total operating revenues	<u>38,231</u>	<u>35,822</u>
Operating Expenses		
Salaries and employee benefits	136,735	133,014
Supplies, materials, depreciation & other operating expenses	<u>44,523</u>	<u>42,700</u>
Total operating expenses	<u>181,258</u>	<u>175,714</u>
Operating loss	<u>(143,027)</u>	<u>(139,892)</u>
Nonoperating revenues		
State apportionments, noncapital	4,225	5,959
Local property taxes	149,389	153,631
Federal grants and contracts, noncapital	10,055	6,138
State taxes and other revenues	6,302	5,839
Interest and investment income, noncapital, & other operating revenues, net	<u>368</u>	<u>1,063</u>
Total nonoperating revenues, net	<u>170,339</u>	<u>172,630</u>
Income before capital contributions	<u>27,312</u>	<u>32,738</u>
State apportionments, Interest & investment income, & local revenues, grants and gifts	<u>7,449</u>	<u>4,148</u>
Change in net assets	34,761	36,886
Net assets - beginning of year, restated	<u>371,399</u>	<u>334,513</u>
Net assets - end of year	<u>\$ 406,160</u>	<u>\$ 371,399</u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Operating Revenues

Total Operating Revenues increased approximately \$2.4 million, a percentage increase of 6%.

- Net Tuition and Fees experienced a \$3.9 million, 16% increase in revenue mainly due to legislative action increasing enrollment fees to \$26 per unit from \$20 per unit. Other factors contributing to the increase include a slight increase in enrollment for resident and non-resident students. Also non-resident fees were increased over the prior year. The revenue was offset by a 35% increase, \$1.3 million, in scholarship discounts and allowances due the increased demand for student financial aid with the BOGG waivers. Non Capital Grants and Contracts decreased \$1.5 million, 10%. Funds received from the American Recovery and Reinvestment Act (ARRA) and the Community College Initiative for Egypt, a grant allowing Egyptian students to study at California community colleges account for increases in federal revenue. However that increase was offset by a \$2.7 decrease in state funding the result of severe budget cuts to programs such as EOPS, Disabled Students, Matriculation, and Part Time Faculty compensation.

Operating Expenses

Total operating expenses increased by 3%, approximately \$5.5 million. The components of operating expenses are shown in the Statement of Revenues, Expenses, and Changes in Net Assets of the financial statements on page 13 of the financial statements. Issues of significance affecting the changes include:

- Salaries increased by approximately \$1.3 million, a percentage increase of 1%. This increase reflects a 1% salary increase for faculty and classified bargaining unit employees in accordance with their contracts. Administrators, Managers, and Police Officers received no increase in salary.
- Employee benefits increased \$2.4 million due to an increase in the cost of retiree health and welfare benefits.
- Financial Aid expenses increased \$4 million, 37%, due to increase student demand and increases in student fees.

Non- Operating Revenues

Non-Operating Revenues decreased approximately \$2.3 million.

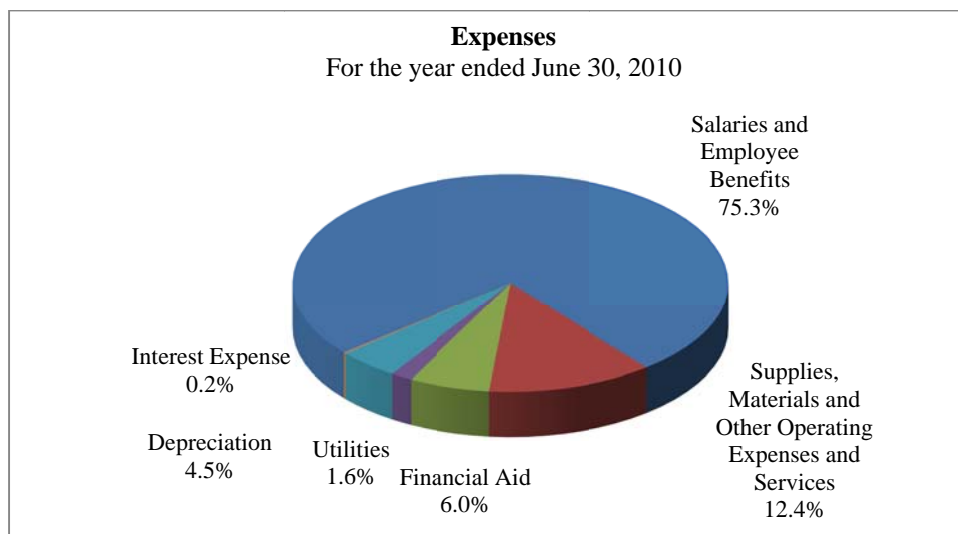
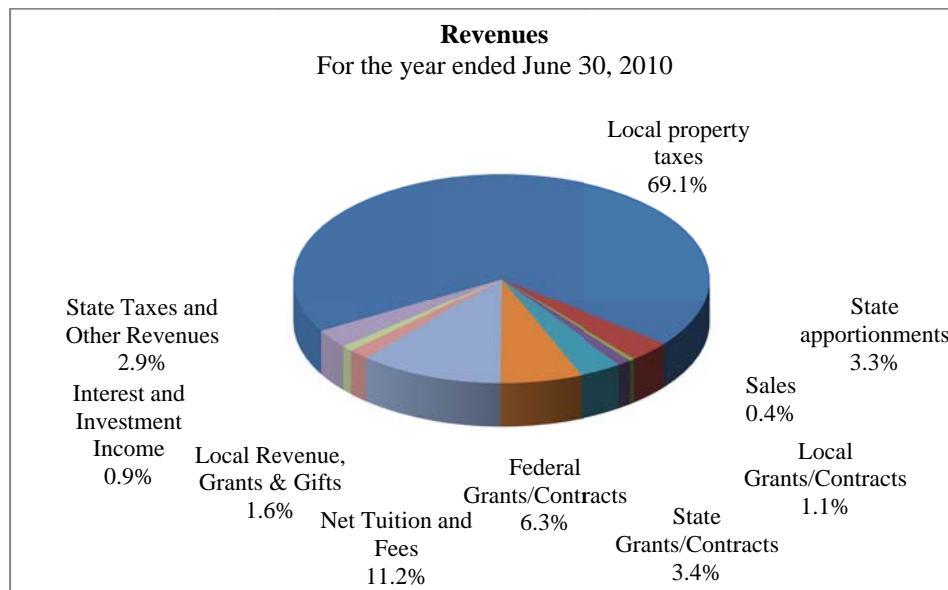
- Local property taxes decreased \$4.2 million, 2.8%, primarily due to reduced collections for supplement and prior year's taxes.
- Financial Aid receipts increased \$3.9 million due to the increase in student need and the increase in student fees.
- State apportionments decreased \$1.7 million. A 29% decrease over the prior year the result of severe cuts by the state.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Capital contributions

Capital contributions increased by 44%, approximately \$3.3 million.

- State capital apportionments increased \$2.1 million. This revenue is received from the state as a match for capital projects. In 2009-2010 the District received state funds for the Saddleback College Library renovation, the IVC Business Technology Innovation Center, and the new IVC Sciences building.
- Investment income decreased 34%, approximately \$630 thousand. This decrease is a result of reduced interest earnings at both Orange County Schools Pool and the Local Agency Investment Fund (LAIF) as discussed above.



**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the District's other financial statements because these assets cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the District had approximately \$225 million invested in net capital assets. Total capital assets of \$325.4 million consist of land, buildings and improvements, vehicles, data processing equipment, and other office equipment; these assets have accumulated depreciation of \$99.9 million. In the 2009-10 fiscal year, there were capital asset additions in the amount of \$44.8 million which includes \$23.5 million in site improvements, \$4.8 million in buildings, \$1.7 million in equipment, and \$14.8 million in construction in progress. Depreciation expense of \$8.2 million was recorded for the 2009-10 fiscal year with net retirements totaling \$254 thousand for disposals.

Note 4 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	(in thousands)	
	2010	2009
Land	\$ 41,762	\$ 41,762
Buildings and improvements	147,960	126,177
Equipment	5,934	5,929
Construction in progress	29,776	43,260
Net capital assets	\$ 225,432	\$ 217,128

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Debt

At June 30, 2010, the District had \$7 million in debt. Notes 5, 6, 9, and 11 of the financial statements provide additional information on long-term liabilities. A comparison of long-term debt is summarized below:

	(in thousands)	
	2010	2009
Long-term debt		
Financing lease agreements	\$ 3,087	\$ 3,511
Compensated absences	3,683	3,976
Estimated liability for open claims and IBNR's	259	270
Other postemployment benefits other than pensions (OPEB) obligation	35	-
Total long-term debt	7,064	7,487
Less current portion	(1,617)	(1,659)
Long-term portion	\$ 5,447	\$ 5,828

* Certain reclassifications have been made to the summarized financial statements for the year 2008-09 to conform to the 2009-10 summarized financial statement presentation.

Economic Outlook and Factors Affecting Next Year's Budget

The 2010-2011 state budget for community colleges included no COLA on general purpose apportionments and restored some growth funding statewide. District enrollment continues to grow reflecting the current economic condition of the state and the nation. Students appreciate the affordability of community colleges as they enhance their skills or prepare for transfer to four year institutions. Demand for classes remains high.

The District has been identified as a "basic aid" district since 1999-2000 meaning its primary source of revenue comes from property taxes rather than state apportionment. The 2010-2011 adopted budget assumes a decrease of 1% for secured property taxes due to the downturn in the housing market. Although property tax receipts have lessened in recent years the District continues to experience sufficient revenue to address the needs of the colleges the same as would be experienced with apportionment and allow for future capital projects. Excess funds over what would be received from the state funding formula are used to pay for one time expenditures and capital projects.

The state again eliminated funding for scheduled maintenance in its 2010-2011 fiscal year budget. To address the maintenance and capital needs of the colleges the District is preparing a twenty year capital outlay and scheduled maintenance plan. The goal of the plan is to address most of the needs of the District through existing funding sources. Additional funding sources are being explored for the development of the Advanced Technology and Education Park located in Tustin.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

The District is currently negotiating its contracts with the Faculty Association and the Police Officer Employee unions. The contracts for both bargaining unit groups expired on June 30, 2010. The contract with the California School Employees Association will end on June 30, 2011.

Requests for Information

The financial report is designed to provide a general overview of the District's finances. Questions concerning this report or requests for additional financial information should be addressed to the South Orange County Community College District, Office of the District Director of Fiscal Services, 28000 Marguerite Parkway, Mission Viejo, CA 92692-3635.

BASIC FINANCIAL STATEMENTS

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Business-Type Activity	
	Primary Government	Component Units
Assets		
Current assets:		
Cash and cash equivalents	\$ 167,907,527	\$ 804,374
Investments	25,621,884	3,002,765
Investments with the Foundation for California Community Colleges (FCCC)	-	700,427
Accounts receivable:		
Federal and State	4,534,184	-
Local	5,455,582	-
Due from fiduciary funds	406,706	-
Inventory	93,764	-
Prepaid expenses	688,058	6,007
Total current assets	<u>204,707,705</u>	<u>4,513,573</u>
Noncurrent assets:		
Restricted cash and cash equivalents	10,786	-
Restricted student loan receivable	36,544	-
Capital assets, net of accumulated depreciation	225,431,479	-
Total noncurrent assets	<u>225,478,809</u>	<u>-</u>
Total Assets	<u>\$ 430,186,514</u>	<u>\$ 4,513,573</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,276,232	\$ 435,029
Accrued liabilities	8,641,365	-
Deferred revenue	7,044,534	-
Trust account liabilities	-	78,267
Financing agreements	287,524	-
Compensated absences	1,252,343	-
Estimated liability for open claims and IBNR's	76,857	-
Total current liabilities	<u>18,578,855</u>	<u>513,296</u>
Noncurrent liabilities:		
Financing agreements	2,799,031	-
Compensated absences	2,431,020	-
Estimated liability for open claims and IBNR's	182,286	-
Other postemployment benefits other than pensions (OPEB) obligation	35,145	-
Total noncurrent liabilities	<u>5,447,482</u>	<u>-</u>
Total Liabilities	<u>24,026,337</u>	<u>513,296</u>
Net Assets		
Invested in capital assets, net of related debt	222,344,924	-
Restricted for:		
Capital projects	152,627,278	-
Scholarships	45,224	237,796
Other special purposes	5,640,562	1,824,851
Restricted non-expendable	-	1,812,793
Unrestricted	25,502,189	124,837
Total Net Assets	<u>406,160,177</u>	<u>4,000,277</u>
Total Liabilities and Net Assets	<u>\$ 430,186,514</u>	<u>\$ 4,513,573</u>

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	Business-Type Activity	
	Primary Government	Component Units
Operating Revenues		
Tuition and fees (gross)	\$ 27,897,775	\$ -
Less: Scholarship discounts and allowances	(3,694,261)	-
Net tuition and fees	24,203,514	-
Grants and contracts, noncapital:		
Federal	3,605,818	-
State	7,287,826	-
Local	2,283,229	2,680,153
Sales	850,237	214,651
Total operating revenues	<u>38,230,624</u>	<u>2,894,804</u>
Operating Expenses		
Salaries	103,217,776	539,545
Employee benefits	33,517,172	195,627
Supplies, materials and other operating expenses and services	22,452,190	1,058,572
Financial aid	10,975,972	482,965
Utilities	2,919,278	-
Depreciation	8,175,254	-
Total operating expenses	<u>181,257,642</u>	<u>2,276,709</u>
Operating income (loss)	<u>(143,027,018)</u>	<u>618,095</u>
Nonoperating revenues (expenses)		
State apportionments, noncapital	4,224,375	-
Local property taxes	149,389,354	-
Federal grants and contracts, noncapital	10,054,420	-
State taxes and other revenues	6,302,485	-
Interest and investment income, noncapital, net	671,172	84,642
Loss on disposal of capital assets	(6,572)	-
Interest expense	(296,324)	-
Total nonoperating revenues, net	<u>170,338,910</u>	<u>84,642</u>
Income before capital contributions	<u>27,311,892</u>	<u>702,737</u>
Capital contributions:		
State apportionments	2,820,305	-
Investment and interest income	1,240,669	-
Local revenues, grants and gifts	3,388,039	-
Total capital contributions	<u>7,449,013</u>	<u>-</u>
Change in net assets	<u>34,760,905</u>	<u>702,737</u>
Net assets - beginning of year, restated	<u>371,399,272</u>	<u>3,297,540</u>
Net assets - end of year	<u>\$ 406,160,177</u>	<u>\$ 4,000,277</u>

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010**

	Business-Type Activity	
	Primary Government	Component Units
Cash Flows From Operating Activities		
Tuition and fees	\$ 23,872,066	\$ -
Federal grants and contracts	3,605,818	-
State grants and contracts	7,287,826	-
Local grants and contracts	2,355,575	2,680,153
Sales	849,941	214,651
Payments to suppliers	(26,914,336)	(889,688)
Payments to employees	(137,204,324)	(735,173)
Payments on-behalf of students	(10,975,972)	(482,965)
Net amounts due from fiduciary funds	(245,862)	-
Net cash (used) provided by operating activities	<u>(137,369,268)</u>	<u>786,978</u>
Cash Flows From Noncapital Financing Activities		
State apportionments and receipts	4,224,375	-
Property taxes	151,926,340	-
State taxes and other revenues	6,302,485	-
Federal grants and contracts	10,050,591	-
Net cash provided by noncapital financing activities	<u>172,503,791</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities		
State apportionments for capital purposes	1,972,092	-
Local revenues, grants and gifts for capital purposes	3,388,039	-
Purchase of capital assets	(16,485,080)	-
Principal and interest paid on capital debt	(565,884)	-
Net cash used by capital and related financing activities	<u>(11,690,833)</u>	<u>-</u>
Cash Flows From Investing Activities		
Interest on investments	1,816,628	99,264
Purchase of investments	-	(5,277,247)
Proceeds from sale of investments	-	3,769,615
Net cash provided (used) by investing activities	<u>1,816,628</u>	<u>(1,408,368)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>25,260,318</u>	<u>(621,390)</u>
Cash and Cash Equivalents - Beginning of Year	<u>168,279,879</u>	<u>1,425,764</u>
Cash and Cash Equivalents - End of Year	<u>\$ 193,540,197</u>	<u>\$ 804,374</u>

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR YEAR ENDED JUNE 30, 2010**

	Business-Type Activity	Component Units
	Primary Government	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:		
Operating income (loss)	\$ (143,027,018)	\$ 618,095
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	8,175,254	-
Changes in assets and liabilities:		
Receivables, net	69,974	-
Due from fiduciary funds	(245,862)	-
Inventory	(19,412)	-
Prepaid expense	461,447	2,939
Accounts payable and accrued liabilities	(2,599,395)	167,825
Deferred revenue	(329,372)	-
Trust account liabilities	-	(1,881)
Compensated balances	(293,094)	-
Estimated liability for open claims and IBNR's	(11,224)	-
Other postemployment benefits other than pensions (OPEB) asset	414,289	-
Other postemployment benefits other than pensions (OPEB) obligation	35,145	-
Net cash (used) provided by operating activities	\$ (137,369,268)	\$ 786,978

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

	<u>Associated Student Government Funds</u>	<u>Retiree (OPEB) Trust</u>	<u>Agency Funds</u>
Assets			
Cash and cash equivalents	\$ 433,597	\$ -	\$ 1,644,873
Investments:			
Common stock	-	23,123,579	-
Equity mutual funds	-	28,183,821	-
Other investments	48,442	-	-
Accounts receivable	282,516	-	-
Accrued interest receivable	-	35,019	-
Prepaid expenses	2,295	-	-
Total Assets	<u>\$ 766,850</u>	<u>\$ 51,342,419</u>	<u>\$ 1,644,873</u>
Liabilities			
Accounts payable	\$ 339	\$ -	\$ -
Accrued liabilities	106,140	-	1,644,873
Due to other funds	16,819	389,887	-
Funds held in trust	65,558	-	-
Total Liabilities	<u>188,856</u>	<u>389,887</u>	<u>\$ 1,644,873</u>
Net Assets Held in Trust for			
Associated Student Government	577,994	-	
Other Postemployment Benefits	-	50,952,532	
Total Net Assets	<u>577,994</u>	<u>50,952,532</u>	
Total Liabilities and Net Assets	<u>\$ 766,850</u>	<u>\$ 51,342,419</u>	

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Associated Student Government Funds</u>	<u>Retiree (OPEB) Trust</u>
Additions		
Contributions	\$ -	\$ 4,394,791
Investment earnings:		
Interest income	-	1,785,415
Net gain on fair value of investments	-	5,105,033
Less: Investment operating expenses	-	(397,664)
Local sources	469	-
Sales	1,425,307	-
Other income	946	-
Total Additions	<u>1,426,722</u>	<u>10,887,575</u>
Deductions		
Benefit payments	-	4,641,257
Salaries	58,367	-
Employee benefits	14,549	-
Supplies, material, and other operating expenses and services	1,187,981	-
Financial aid	114,663	-
Total Deductions	<u>1,375,560</u>	<u>4,641,257</u>
Change in net assets	<u>51,162</u>	<u>6,246,318</u>
Net assets - beginning of year	<u>526,832</u>	<u>44,706,214</u>
Net assets - end of year	<u>\$ 577,994</u>	<u>\$ 50,952,532</u>

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The South Orange County Community College District (District) is the level of government primarily accountable for activities related to higher 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 of 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.
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 component units have been included through discrete presentation:

The Foundation for the South Orange County Community College District, the Foundation for Advanced Technology and Education Park (ATEP), Saddleback College Foundation and Irvine Valley College Foundation - Each Foundation is a separate not-for-profit corporation.

The Board of Directors are elected independent of any District Board of Trustee's appointments. The Boards are responsible for approving their own budgets and accounting and finance related activities; however, the District's governing board has fiscal responsibility over each Foundation.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (continued)

Separate financial information for the Foundations may be obtained through the District.

In addition, the District maintains fiduciary funds which are composed of two trust funds and one agency fund as follows:

Associated Student Government Funds – These funds are held on behalf of students of the District under a formal trust agreement between the associated student government and the District.

South Orange County CCD Retiree (OPEB) Trust - The Trust is an irrevocable governmental trust pursuant to Section 115 of the Internal Revenue Code for the purpose of funding certain post-employment benefits. The Trust Board of Authority, comprised of the Deputy Chancellor; Vice Chancellor of Human Resources, District; District Director of Fiscal Services; Director of Fiscal Services, Saddleback College; and Director of Fiscal Services, Irvine Valley College provide oversight over Trust investments and plan administration. As such, the District acts as the fiduciary of the Trust.

Agency Funds – These funds are held by the District on behalf of students, clubs and donors for student loans and scholarships.

Separate financial statements are not prepared for trust and agency funds.

B. Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis - for State and Local Governments* and including Statement No. 35, *Basic Financial Statements and Management 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, are excluded from the basic financial statements.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses 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.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (continued)

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 Chancellor's Office of the California Community College's *Budget and Accounting Manual*.

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. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets 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.

D. 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 and investments in the Local Agency Investment Fund are recorded at fair value in accordance with the requirements of GASB Statement No. 31.

E. 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 grants and contracts.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Inventories

Inventories are presented at the lower of cost or market using the average cost method and are expensed when used. Inventory consists of expendable instructional, custodial, health and other supplies held for consumption.

G. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2010, 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 expense is reported in the year in which goods or services are consumed.

H. 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.

I. 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 \$5,000 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 over the estimated useful lives of the assets, generally 50 years for buildings, 10 years for site improvements, 8 years for equipment and vehicles and 3 years for technology.

J. Accounts Payable

Accounts payable consists of amounts due to vendors.

K. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable, deferred summer pay and load banking.

L. Deferred Revenue

Tuition and fees received prior to June 30 for classes and programs offered in the subsequent fiscal year are reported as deferred revenue.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Revenue (continued)

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.

M. 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 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 which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. 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; 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.

N. 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 for: capital projects, scholarships, and other special purposes: 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 or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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. However, the component units do have nonexpendable restricted net assets.

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. The Board of

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets (continued)

Trustees has designated \$544,735 of the unrestricted net assets balance of \$25,502,189 for the specific purposes listed below:

Golf driving range	\$ 455,308
Instructional equipment	59,769
Basic aid technology needs	29,658
	<u>\$ 544,735</u>

O. State Apportionments

Certain current year apportionments from the state are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2011 will be recorded in the year computed by the State.

P. Property Taxes

Property taxes are assessed and levied by the County of Orange. Secured property taxes attach as an enforceable lien on property as of January 1. These taxes are payable in two installments on November 1 and February 1. Secured property taxes are considered delinquent after December 10 for the 1st installment and April 10 for the 2nd installment. Unsecured property taxes are payable in one installment on or before August 31 and are delinquent after August 31.

The District reports real and personal property tax revenues in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2010.

Q. 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 Retirement System (STRS) on behalf of all Community Colleges in California. The amount of on-behalf payments made for the District is estimated at \$1,102,000 for STRS for the year ended June 30, 2010. This amount has been reflected in the basic financial statements as a component of non-operating revenue and employee benefit expense.

R. Classification of Revenues

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

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Classification of Revenues (continued)

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, property taxes, state taxes, non-capital federal grants and contracts, investment income, and other revenue sources.

S. 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 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 for the Board of Governors (BOG) waivers.

T. 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.

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 credit risk. However, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. As of June 30, 2010, the District's bank balances of \$3,417,386, including fiduciary accounts and component units, were entirely insured and collateralized as described above.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

B. Pooled Funds

Cash in County

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Orange County Treasury as part of the common investment pool. The County Treasury is sponsored and administered by the County of Orange and oversight is conducted by the County Treasury Oversight Committee. The fair value of the position in the pool is the same as the value of the pool shares. The Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2010, the District had \$166,468,446 deposited with the County Treasury. The weighted average maturity of investments in the Orange County Educational Pool was .83 years at June 30, 2010. The Orange County Educational Pool does not maintain a credit rating.

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 U.S. government securities, municipal debt, money market mutual funds, asset-backed securities, bankers' acceptances, commercial paper, negotiable certificates of deposit, medium-term notes, and repurchase or reverse repurchase agreements. The deposits maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

C. Investments

The District's Board Policy 3102 authorizes the District and the Associated Student Government to invest funds in accordance with California Government Code Section 53600, et seq., which includes U.S. Treasury Obligations, federal agency securities, municipalities securities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of deposit, medium-term notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, shares of beneficial interest issued by diversified management companies known as money market mutual funds (MMF), registered with SEC, and the State's Local Agency Investment Fund (LAIF). The policy is not more or less restrictive than the California Government Code. The District and the Associated Student Government did not violate any provisions of the California Government Code during the year ended June 30, 2010.

The District and the Associated Student Government are voluntary participants in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment and the Associated Student Government's investment in this pool amounted to \$25,621,884 and \$2,360, respectively, as of June 30, 2010, which is based on the pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on LAIF accounting records, recorded on an amortized basis.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments (continued)

The total amount invested by all public agencies in LAIF as of June 30, 2010 was \$23.3 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2010 has a balance of \$69.4 billion. The weighted average maturity of LAIF investments was .56 years as of June 30, 2010. LAIF is unrated as to credit quality.

The Board of Authority of the Retiree Benefit (OPEB) Trust has established an investment policy under provisions of California Government Code Sections 53216.1, 53216.5 and 53216.6 which allows investment in any form or type of investment deemed prudent by the Board of Authority and not otherwise expressly restricted by law.

The investment policy authorizes the Trust to invest funds in certain types of investments including publicly traded common stocks, American Depository Receipts (ADRs), SEC-registered open-end mutual funds and Bank, Insurance Company or Trust Company commingled funds, closed-end SEC-registered mutual funds, Exchange Traded Funds (ETF), obligations of the U.S. Government and its agencies, bonds issued by U.S. Corporations or U.S. subsidiaries of foreign companies that are incorporated within the U.S., certificates of deposit, money market funds, foreign bonds, asset-back securities, and U.S. Agency mortgage-backed pass-through securities.

In addition, the component units' investment policies authorize the component units to invest in certain types of investments including publicly traded common stocks, SEC-registered open-end and closed-end mutual funds, Exchange Traded Funds (ETF), obligations of the U.S. Government and its agencies, bonds issued by U.S. Corporations or U.S. subsidiaries of foreign companies that are incorporated within the U.S., certificates of deposit, money market funds, foreign bonds, asset-back securities, U.S. Agency mortgage-backed pass-through securities, investment partnerships, and future, options, puts, short sales, or other derivative investments.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments (continued)

Investments held by the Retiree Benefit (OPEB) Trust and the component units at June 30, 2010 are presented below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Interest Rate % Range</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
OPEB Trust				
Common stock	\$ 23,123,579	N/A	N/A	N/A
Equity mutual funds	<u>28,183,821</u>	N/A	N/A	N/A
Total for OPEB Trust	<u>\$ 51,307,400</u>			
Component Units				
Common stock and options	\$ 457,808	N/A	N/A	N/A
Equity mutual funds	2,382,272	N/A	N/A	N/A
Mortgage and asset backed securities	71,922	5.00% - 6.00%	02/01/36 - 10/01/38	27.51
U.S. treasury notes	<u>90,763</u>	0.88% - 4.00%	04/15/11 - 02/15/15	2.2
Total for Component Units	<u>\$ 3,002,765</u>			
Associated Student Government Funds				
Certificates of deposit	<u>\$ 46,082</u>	1.25%	11/03/10	0.35
Total for Associated Student Government Funds	<u>\$ 46,082</u>			

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of an investment. Equity mutual funds are not subject to interest rate risk. The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The component units' investment guidelines limit the maximum average bond maturities to 10 years and the maximum individual bond maturities to 30 years.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Equity mutual funds are not subject to credit risk. The Trust investment policy establishes minimum acceptable credit ratings for investments from any Nationally Recognized Statistical Rating Organization (NRSROs).

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments (continued)

Credit Risk (continued)

The following is a summary of the credit quality distribution for the securities with credit exposure held by the OPEB Trust and component units as of June 30, 2010:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Ratings</u>	
		<u>AAA</u>	<u>Not Rated</u>
OPEB Trust			
Equity mutual funds	\$ 28,183,821	\$ -	\$ 28,183,821
Component Units			
Equity mutual funds	\$ 2,382,272	\$ -	\$ 2,382,272
Mortgage and asset backed securities	71,922	71,922	-
U.S. treasury notes	90,763	90,763	-
Associated Student Government Funds			
Certificates of deposit	\$ 46,082	-	\$ 46,082

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust and component units' investment policies limit investments to no more than 5% of assets invested in any single equity security, any single debt security or investment in any mutual fund that holds more than 5% of its portfolio in any single issue or issuer. The foregoing limitation is not intended to apply to the percentage of assets invested in a single diversified mutual fund, obligations of the U.S. Government and its agencies, U.S. agency mortgage-backed pass-through securities, or to a mutual fund that invests in such obligations or securities. The Trust and the component units did not violate any provisions of the California Government Code or its investment policy during the year ended June 30, 2010.

D. Investments with the Foundation for California Community Colleges

The component units have entered into a partnership arrangement with the California Community Colleges Scholarship Endowment (Endowment) through the Foundation for California Community Colleges (FCCC). The Endowment has been set up to provide matching scholarship funds for California community colleges. The endowment was formed through a generous \$50 million matching commitment from the Bernard Osher Foundation and an initial contribution of \$25 million. The California Community Colleges and the FCCC have until June 2011 to raise an additional \$50 million, for which the Osher Foundation will provide a 50 percent match up to \$25 million. Beginning with the 2009-10 year, the Endowment will distribute scholarship funding from the initial \$25 million gift to each participating community college. The allocation will be based on each colleges FTES and each scholarship will be valued at \$1,000 for a school year. The investments held with the FCCC amounts to \$700,427 as of June 30, 2010.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 3 - INTERFUND TRANSACTIONS

Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity within the funds has been eliminated in the basic financial statements, except for balances that are reflected between the business-type activity and fiduciary funds.

NOTE 4 - CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not depreciated:				
Land	\$ 41,762,154	\$ -	\$ -	\$ 41,762,154
Construction in progress	43,260,336	14,825,282	(28,309,235)	29,776,383
Total capital assets, not depreciated	<u>85,022,490</u>	<u>14,825,282</u>	<u>(28,309,235)</u>	<u>71,538,537</u>
Capital assets, depreciated:				
Buildings and improvements	209,751,465	28,309,235		238,060,700
Equipment	14,365,034	1,659,798	(260,633)	15,764,199
Subtotal capital assets, depreciated	<u>224,116,499</u>	<u>29,969,033</u>	<u>(260,633)</u>	<u>253,824,899</u>
Less accumulated depreciation for:				
Buildings and improvements	83,574,341	6,527,140	-	90,101,481
Equipment	8,436,423	1,648,114	(254,061)	9,830,476
Subtotal of accumulated depreciation	<u>92,010,764</u>	<u>8,175,254</u>	<u>(254,061)</u>	<u>99,931,957</u>
Total capital assets, depreciated	<u>132,105,735</u>	<u>21,793,779</u>	<u>(6,572)</u>	<u>153,892,942</u>
Total capital assets, net	<u>\$ 217,128,225</u>	<u>\$ 36,619,061</u>	<u>\$ (28,315,807)</u>	<u>\$ 225,431,479</u>

Depreciation expense for the year ended is \$8,175,254.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 5 - LEASES

A. Financing Lease Agreements

The District has financing agreements for the acquisition of cogeneration plants. Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Lease Payment
2011	\$ 417,502
2012	424,096
2013	430,822
2014	437,682
2015	444,679
2016-2019	1,583,614
Total	3,738,395
Less amount representing interest	(651,840)
Present value of net minimum lease payments	\$ 3,086,555

The net book value of the site improvements under the financing lease agreements at June 30, 2010 was \$3,238,745.

B. Operating Leases

The District has entered into various operating leases for the rental of facilities 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:

Fiscal Year Ending June 30,	Lease Payment
2011	\$ 178,139
2012	96,647
2013	68,160
2014	60,966
Total	\$ 403,912

Current year expenditures for operating leases are approximately \$337,404. The District will receive no sublease rental revenues nor pay any contingent rentals for these facilities or equipment.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 5 – LEASES (CONTINUED)

C. Sublease

In March 2004, the District entered into a sublease with the City of Tustin for lease of 30.71 acres of the former Marine Corps Air Station (MCAS) Tustin. The property is being used for the Advanced Technology Educational Campus. The lease will end on the earlier of December 31, 2050 or the effective date of conveyance of that portion of the leased property to the District. Future minimum lease payments under this agreement are as follows:

Fiscal Year Ending June 30,	Lease Payment
2011	\$ 6,600
2012	6,600
2013	6,600
2014	6,600
2015	6,600
2016-2020	33,000
2021-2025	33,000
2026-2030	33,000
2031-2035	33,000
2036-2040	33,000
2041-2045	33,000
2046-2050	29,700
Total	\$ 260,700

The base rent for this property consists of payment for all protection and maintenance for the leased premises as well as the reimbursement of operating expenses. For the year ended June 30, 2010 the District incurred expenditures for the property in the amount of \$6,600.

NOTE 6 - LONG-TERM OBLIGATIONS

A schedule of changes in long-term obligations for the year ended June 30, 2010 is shown below:

	Balance July 1, 2009	Additions	Adjustments & Deductions	Balance June 30, 2010	Amount Due in One Year
Financing lease agreements	\$ 3,510,961	\$ -	\$ (424,406)	\$ 3,086,555	\$ 287,524
Compensated absences	3,976,457	2,558,040	(2,851,134)	3,683,363	1,252,343
Estimated liability for open claims and IBNR's	270,367	129,581	(140,805)	259,143	76,857
Other postemployment benefits other than pension (OPEB) obligation	-	35,145	-	35,145	-
Total	\$ 7,757,785	\$ 2,722,766	\$ (3,416,345)	\$ 7,064,206	\$ 1,616,724

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 7 - RENTAL INCOME

The District entered into a 55-year contract during 1985 to lease land owned by the District to a construction partnership for the purpose of building apartments. Annual lease payments through 2012 shall be adjusted by adding to the prior year's payment an increase of four and three-quarters percent. Thereafter, commencing with the payment due 2013, the prior payment shall be adjusted annually based upon the percentage change for the preceding calendar year as contained in the "Consumer Price Index For All Urban Consumers Los Angeles, Long Beach, Anaheim, Metropolitan Area" published by the Bureau of Labor Statistics of the United States Department of Labor; provided; however, that there shall be a minimum increase of three percent over the preceding annual rent and not more than six percent over such preceding year. Minimum annual lease receipts for the next five years and afterward are as follows:

Fiscal Year Ending June 30,	Lease Payment
2011	\$ 2,179,247
2012	2,282,761
2013	2,351,244
2014	2,421,781
2015	2,494,435
2016-2020	13,640,591
2021-2025	15,813,184
2026-2030	18,331,814
2031-2035	21,251,596
2036-2040	24,636,425
Total	\$ 105,403,078

NOTE 8 - 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).

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.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 8 - EMPLOYEE RETIREMENT PLANS (CONTINUED)

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute a statutorily 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 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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. 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 2009-10 was 9.709% 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 June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2008	\$4,040,714	100%	\$3,043,105	100%
2009	4,627,906	100%	3,223,692	100%
2010	4,509,082	100%	3,492,129	100%

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description

The District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides health, dental and vision benefits to eligible retirees and their spouses in accordance with provisions established through negotiations between the District and the bargaining unions representing employees. Plan provisions are renegotiated each three-year bargaining period. The District reports the financial activity of the plan as a trust fund in these financial statements and no separate financial report is prepared.

Eligibility

The District currently provides retiree and dependent health benefits to eligible academic, classified, classified leadership and administrators until retirees reach age 65. Eligibility requirements vary by employee classification. All participants must have a minimum service of 10 years and minimum required hours of 75% FTE. In addition, classified employees must be at least 60 years of age; and classified leadership, administrators and academic employees must retire under PERS or STRS. The District also pays for retiree only Medicare supplemental coverage for academic, classified leadership and administrative retirees beyond age 65. Membership of the plan consisted of the following at June 30, 2010.

Retirees and beneficiaries receiving benefits	241
Terminated plan members entitled to But not yet receiving benefits	0
Active plan members	858
Total	1,099

Funding Policy

The contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an annual adjustment to fully fund the actuarially determined annual required contribution. For fiscal year 2009-10, the District contributed \$2,415,159 to the plan for current year premiums. The District pays for 100% of coverage.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District has elected to amortize the unfunded actuarial liability over one year and did so in 2008. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the District's net OPEB obligation:

Annual required contribution (ARC)	\$	2,864,593
Interest on net OPEB obligation (1)		-
Adjustment to annual required contribution (1)		-
Annual OPEB cost (expense)		2,864,593
Contributions made		(2,415,159)
Change in net OPEB obligation (asset)		449,434
Net OPEB Obligation (asset)- beginning of year		(414,289)
Net OPEB obligation (asset) – end of year	\$	35,145

(1) No interest or adjustments were required as there was no Net OPEB Obligation (NOO) at the beginning of the year.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2008	\$ 53,040,168	100.0%	\$ -
6/30/2009	1,811,808	122.9%	(414,289)
6/30/2010	2,864,593	84.3%	35,145

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 9 - POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Funding Status and Funding Progress

As of February 1, 2010, the most recent actuarial valuation date, the funded ratio was 91.93%. The actuarial value of assets was \$56,250,666. The actuarial accrued liability was \$61,189,900, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,939,234. The covered payroll (annual payroll of active employees covered by the plan) was \$70,430,404, and the ratio of the UAAL to the covered payroll was 7.01%. In June 2008 the District established the South Orange County Community College District Retiree (OPEB) Trust. Irrevocable contributions to the trust of \$53,040,168 were made as of June 30, 2008, fully funding the UAAL.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of employer contributions also presented as required supplementary information, presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC).

Actuarial Methods and Assumptions

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

The actuarial cost method used in determining the benefit obligations is the Entry Age Normal Cost method. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4.0 percent which included a 3.0 percent inflation assumption. The UAAL is being amortized over 30 years.

NOTE 10 - JOINT POWERS AGREEMENT

The District participates in five joint powers agreement (JPA) entities: the Statewide Association of Community Colleges (SW ACC), the Schools Excess Liability Fund (SELF), the Protected Insurance Programs for Schools (PIPS), the Self-Insured Schools of California (SISC), and the Alameda County School Insurance Group. The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 10 - JOINT POWERS AGREEMENT (CONTINUED)

SWACC provides liability and property insurance for its member colleges. SWACC's membership consists of two joint power authority (JPA) members (which represent 21 districts) and 25 individual member districts for a total of 46 community college districts. A full Board of Directors comprised of one representative from each member governs SWACC. Each Board Member is allocated a number of votes determined by a weighted system that is based on the lottery average daily attendance (ADA) of each member. The Board elects from its members a President, Vice President, Secretary and Treasurer. Each member shares surpluses and deficits proportionately to its participation in SWACC.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund for 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.

PIPS provides a workers' compensation reinsurance protection to its membership for public schools and community colleges throughout California. SISC, Self Insured Schools of California, is a Joint Powers Agreement administered by the Kern County Superintendent of Schools Office. SISC's focus is on pooling resources to provide schools with a more stable long term insurance solution than purchasing from commercial carriers. South Orange Community College District has been a member since August 2003.

South Orange Community College District's Dental and Vision coverage is administered through ACSIG, Alameda County School Insurance Group, which the District joined in July 2003. The program offers both a fixed rate as well as a self-funded option for individual school districts or school JPA's throughout California. There are presently over 300 school districts covering 70,000 employees participating in the program. The large size of the group allows ACSIG to enjoy a very low administration rate with Delta Dental which results in reduced costs for all members.

Condensed financial information for each JPA for the most current information available is as follows:

	SWACC 6/30/2009 (Audited)	SELF 6/30/2009 (Audited)	PIPS 6/30/2009 (Audited)	SISC 6/30/2009 (Audited)	ACSIG 6/30/2009 (Audited)
Total assets	\$ 43,932,016	\$ 209,217,000	\$ 133,033,401	\$ 288,989,243	\$ 38,776,363
Total liabilities	17,901,413	161,555,000	89,749,713	98,615,380	46,526,674
Retained earnings	<u>\$ 26,030,603</u>	<u>\$ 47,662,000</u>	<u>\$ 43,283,688</u>	<u>\$ 190,373,863</u>	<u>\$ (7,750,311)</u>
Total revenues	10,816,989	26,645,000	63,047,653	966,881,157	124,189,138
Total expenditures	4,645,357	27,701,000	43,591,353	945,901,001	125,911,357
Net increase/(decrease) in retained earnings	<u>\$ 6,171,632</u>	<u>\$ (1,056,000)</u>	<u>\$ 19,456,300</u>	<u>\$ 20,980,156</u>	<u>\$ (1,722,219)</u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 11 – SELF-INSURANCE

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. The District is self-insured for coverage up to a maximum of \$25,000 for each general liability claim and \$5,000 for each property damage claim. In 1995, the District became fully insured for workers' compensation benefits. The ending claims liabilities balance for workers compensation at June 30, 2010, represents estimated liabilities incurred prior to 1995, both reported and unreported, which are actuarially determined. The District participates in JPA's to provide excess insurance coverage above the self-insured retention level for workers compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

At June 30, 2010, the District accrued the claims liability in accordance with GASB Statements No. 10 and No. 30, 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 \$259,143. Changes in the reported liability as of June 30, 2010 and June 30, 2009 are shown below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability	Amount Due in One year
June 30, 2010					
Worker's Compensation	\$ 56,878	\$ -	\$ (32,350)	\$ 24,528	\$ 7,115
Property and Liability	213,489	129,581	(108,455)	234,615	69,742
Total	<u>\$ 270,367</u>	<u>\$ 129,581</u>	<u>\$ (140,805)</u>	<u>\$ 259,143</u>	<u>\$ 76,857</u>
June 30, 2009					
Worker's Compensation	\$ 30,308	\$ 53,765	\$ (27,195)	\$ 56,878	\$ 32,350
Property and Liability	200,886	77,681	(65,078)	213,489	108,455
Total	<u>\$ 231,194</u>	<u>\$ 131,446</u>	<u>\$ (92,273)</u>	<u>\$ 270,367</u>	<u>\$ 140,805</u>

NOTE 12 - DEFICIT NET ASSETS

The Irvine Valley College Community Education Program ended the fiscal year with a deficit net assets balance of \$(188,319). This program is reported on the financial statements as part of the District's Business-Type Activity.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 13 - ADJUSTMENT FOR RESTATEMENT OF NET ASSETS

Beginning net assets were restated for Saddleback College Foundation, a discretely presented component unit, to reflect salaries and employee benefits costs not previously accrued at fiscal year end. The following summarizes the adjustment to beginning net assets at June 30, 2009:

Net assets as previously reported:	\$ (3,385,696)
Add accrual of salaries and employee benefits	88,156
Restated net assets at June 30, 2009	\$ (3,297,540)

NOTE 14 - FUNCTIONAL EXPENSE

	Salaries	Employee Benefits	Supplies, Materials, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional Activities	\$ 65,644,621	\$ 19,054,127	\$ 4,817,740	\$ -	\$ -	\$ 89,516,488
Academic Support	2,116,447	890,950	114,957	-	-	3,122,354
Student Services	10,517,028	3,080,979	1,396,525	-	-	14,994,532
Operation and Maintenance of Plant	5,443,928	2,538,240	4,786,805	-	-	12,768,973
Institutional Support Services	13,030,770	5,827,222	5,779,187	-	-	24,637,179
Community Services and Economic Development	1,874,797	553,776	926,498	-	-	3,355,071
Ancillary Services and Auxiliary Operations	4,590,185	1,571,878	712,967	-	-	6,875,030
Student Aid	-	-	-	10,975,972	-	10,975,972
Other Outgo	-	-	6,836,789	-	-	6,836,789
Depreciation Expense	-	-	-	-	8,175,254	8,175,254
Total	\$ 103,217,776	\$ 33,517,172	\$ 25,371,468	\$ 10,975,972	\$ 8,175,254	\$ 181,257,642

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. 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.

B. Purchase Commitments

As of June 30, 2010, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$17 million, Projects will be funded by State funds and Basic Aid funds.

C. Litigation

The District is a defendant in various pending liability lawsuits arising in the ordinary course of business. The outcome of the litigation is unknown at the present time; however, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2/1/2008	\$ -	\$ 51,228,360	\$ 51,228,360	0.0%	\$ 62,858,006	81.5%
2/1/2010	56,250,666	61,189,900	4,939,234	91.9%	70,430,404	7.0%

Note: Fiscal year 2008 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively. In future years, as valuations are performed, three year valuation trend information will be presented.

In June 2008, the District established the South Orange County Community College District Retiree (OPEB) Trust. Irrevocable contributions to the trust of \$53,040,168 were made as of June 30, 2008.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2010**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2008	\$ 53,040,168	100.0%
2009	1,811,808	122.9%
2010	2,864,593	84.3%

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Postemployment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the two most recent actuarial valuations and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Government Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

B. Schedule of Employer Contributions

This schedule is prepared in accordance with Statement No. 43 of the Government Accounting Standards Board, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The schedule is intended to show trends about the percentage of the annual required contribution made to the plan.

SUPPLEMENTARY INFORMATION

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
HISTORY AND ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2010**

The South Orange County Community College District was established in 1967. The District currently operates two colleges; Saddleback College located in Mission Viejo and Irvine Valley College located in Irvine; and a satellite location, Advanced Technology and Education Park (ATEP), located in Tustin.

Board of Trustees

Member	Office	Term Expiration
Mr. Donald P. Wagner	President	December 2010
Ms. Nancy M. Padberg	Vice-President	December 2010
Ms. Marcia Milchiker	Clerk	December 2010
Dr. William O. Jay	Member	December 2012
Mr. Thomas Fuentes	Member	December 2012
Mr. David B. Lang	Member	December 2012
Mr. John Williams	Member	December 2012

District Executive Officers

Name	Title
Dr. Raghu Mathur	Chancellor
Mr. Gary Poertner	Deputy Chancellor
Dr. Tod Burnett	President, Saddleback College
Dr. Glenn Roquemore	President, Irvine Valley College
Dr. Robert Bramucci	Vice Chancellor, Technology and Learning Services
Dr. David Bugay	Vice Chancellor, Human Resources
Ms. Beth Mueller	Director, Fiscal Services

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

	Federal Catalog Number	Pass-Through Entity Identifying Number (Note 1)	Total Program Expenditures
<u>U.S. Department of Education</u>			
<i>Direct Program</i>			
Federal Supplemental Educational Opportunity Grant	84.007	N/A	\$ 231,007
Federal Work Study Program	84.033	N/A	249,365
ARRA-Federal Work Study Program	84.033	N/A	30,593
Federal Pell Grant	84.063	N/A	10,073,568
Academic Competitiveness Grant	84.375	N/A	139,100
<i>Subtotal Student Financial Assistance Cluster</i>			10,723,633
<i>Passed Through the California Department of Education</i>			
Perkins Title I-C	84.048	07-C01-062	344,826
Tech Prep, Saddleback	84.243	07-139-071	67,750
Tech Prep, Irvine Valley	84.243	07-139-070	67,750
Tech Prep VTEA - Work-Based Learning, Saddleback	84.243	C09-0387	38,000
<i>Subtotal 84.243</i>			173,500
ARRA-State Fiscal Stabilization Fund	84.394	S394A090005	460,245
Total U.S. Department of Education			11,702,204
<u>U.S. Department of Agriculture</u>			
<i>Passed through Orange County Department of Education</i>			
Forest Reserve	10.665	018032-7211	2,631
Total U.S. Department of Health and Human Services			2,631
<u>U.S. Department of Health and Human Services</u>			
<i>Passed Through the California Department of Education</i>			
Temporary Assistance for Needy Families	93.558	6870-111-0001	81,357
Total U.S. Department of Health and Human Services			81,357
<u>U.S. Department of Labor</u>			
<i>Passed through the Workforce Initiative Act of the State Chancellor's Office</i>			
Nursing and Allied Health Unit - Medical Lab Tech	17.258	09-115-026	233,512
Fostering Student Success Nursing Grant	17.258	05-0108	148,500
<i>Subtotal 17.258</i>			382,012
Total U.S. Department of Labor			382,012
<u>U.S. Department of State Bureau of Educational and Cultural Affairs</u>			
<i>Passed through the Foundation for California Community Colleges</i>			
Community College Initiative for Egypt	19.012	N/A	373,320
Total U.S. Department of State Bureau of Educational and Cultural Affairs			373,320
<u>National Science Foundation</u>			
<i>Direct Program</i>			
National Science Foundation Rapid Technology	47.076	N/A	1,108,882
<i>Passed through the Center for Occupational Research and Development (CORD)</i>			
Op-Tec: The National Center for Optics & Photonics Education	47.076	N/A	13,085
<i>Subtotal 47.046</i>			1,121,967
Total National Science Foundation			1,121,967
Total Federal Program Expenditures			\$ 13,663,491

Note 1 - Certain awards do not have a pass-through entity ID number.

See the accompanying notes to the supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS
FOR THE YEAR ENDED JUNE 30, 2010**

Program Name	Program Revenues				Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income	Accounts Payable		
State Categorical Aid Programs						
Articulation Certification Expenses	\$ 5,554		\$ 2,047		\$ 3,507	\$ 3,507
Basic Skills 07/08 Allocation	86,269				86,269	86,269
Basic Skills 08/09 Allocation	231,707		150,746		80,961	80,961
Basic Skills 09/10 Allocation	183,379		90,000		93,379	93,379
Center for Applied Competitive Technologies (C.A.C.T.)	117,967	16,267			134,234	134,234
CAL-B Student Grants	329,328		1,012		328,316	328,316
CAL-C Student Grants	12,204				12,204	12,204
CalWORKS	202,500	15,000			217,500	217,500
CalWORKS Regional Effort Allocation	10,000		428		9,572	9,572
Cooperative Agencies Resources for Education (CARE)	77,365		5,338		72,027	72,027
Career Tech Education Community Collaborative	264,347	600			264,947	264,947
CCCD Community Collaborative	16,110				16,110	16,110
CTE Career Development Work Based Learning Link	-	117,271			117,271	117,271
CTE Community Collaborative	605,976	3,689	28,072		581,593	581,593
CTE Pathways Community Collaborative 09/10	310,000		303,816		6,184	6,184
CTE Professional Organizations 10/11	551,724		551,724		-	-
CTE State Articulation, District	96,069			96,069	-	-
Community Collaborative Supplement	79,000		79,000		-	-
Disabled Student Program Services (DSP&S)	1,402,015		30,235		1,371,780	1,371,780
Equipment for Nursing & Allied Health Program	1,039				1,039	1,039
Enrollment Growth for AA Nursing 08/10	249,369	11,596			260,965	260,965
Extended Opportunities Program and Services (EOPS)	1,001,633		49,508		952,125	952,125
Foster and Kinship Care Education	182,244	60,748			242,992	242,992
Instructional Equipment 08/09 Allocation	240,348				240,348	240,348
Instructional Equipment & Library Materials	131,888		126,190		5,698	5,698
MAP Feasibility Study	11,078		9,488		1,590	1,590
Credit Matriculation	872,366		163,442		708,924	708,924
Noncredit Matriculation	51,546		19,345		32,201	32,201
Part-time Faculty Compensation Fund	509,463				509,463	509,463
Scheduled Maintenance & Repairs 08/09 Allocation	255,964				255,964	255,964
SB1133 Settle Up Funds	125,288				125,288	125,288
Staff Development	2,525		2,525		-	-
Staff Diversity	29,040		17,555		11,485	11,485
State Block Grant	81,486				81,486	81,486
Teacher Preparation Pipeline Grant	165,108	52,499			217,607	217,607
Teacher Preparation Pipeline 09/10	180,000	84,344	39,626		224,718	224,718
Infrastructure Program (TTIP)	132,133		112,054		20,079	20,079
Total State Programs	\$ 8,804,032	\$ 362,014	\$ 1,782,151	\$ 96,069	\$ 7,287,826	\$ 7,287,826

See the accompanying notes to the supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURE(S) FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Reported Data</u>	<u>Audit Adjustment</u>	<u>Revised Data</u>
A. Summer Intersession (Summer 2009 only)			
1. Noncredit*	366.40	-	366.40
2. Credit	2,182.34	-	2,182.34
B. Summer Intersession (Summer 2010 - Prior to July 1, 2010)			
1. Noncredit*	N/A	-	N/A
2. Credit	26.38	-	26.38
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedures Courses			
(a) Weekly Census Contact Hours	16,416.98	-	16,416.98
(b) Daily Census Contact Hours	1,364.66	-	1,364.66
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit*	1,518.26	-	1,518.26
(b) Credit	1,456.69	-	1,456.69
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	995.33	-	995.33
(b) Daily Census Procedure Courses	1,905.76	-	1,905.76
(c) Noncredit Independent Study/Distance Education Courses	N/A	-	N/A
D. Total FTES	<u>26,232.80</u>	<u>-</u>	<u>26,232.80</u>
Supplemental Information (subset of above information)			
In-Service Training Courses (FTES)	N/A		
Basic Skills Courses and Immigrant Education			
(a) Noncredit	230.19		
(b) Credit	1,422.20		
CCFS 320 Addendum			
CDCP Noncredit FTES	166.68		

* Including Career Development and College Preparation (CDCP) FTES
N/A - Workload Measure is not applicable.

See the accompanying notes to the supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (CCFS-311) WITH DISTRICT ACCOUNTING RECORDS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>
June 30, 2010 Annual Financial and Budget Report (CCFS-311) Fund Balance	\$32,509,540
Adjustments and Reclassifications:	
Understatement of Accounts Receivable for:	
Local Property Taxes	<u>4,982,843</u>
June 30, 2010 Fund Balance per the District's Accounting Records	<u><u>\$37,492,383</u></u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

	Budget (2011)		2010		2009		2008	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>GENERAL FUND:</u>								
<u>Revenues</u>								
Federal	\$ 2,564,525	1.21	\$ 3,238,965	1.65	\$ 1,958,752	0.99	\$ 1,608,149	0.86
State	16,296,621	7.67	16,045,499	8.19	20,017,263	10.07	21,027,328	11.21
County and Local	173,259,570	81.58	177,278,292	90.46	175,128,431	88.14	173,826,515	92.69
Other Financing Sources	-	-	-	-	687,852	0.35	756,617	0.40
Total Revenue	<u>192,120,716</u>	<u>90.46</u>	<u>196,562,756</u>	<u>100.30</u>	<u>197,792,298</u>	<u>99.55</u>	<u>197,218,609</u>	<u>105.16</u>
<u>Expenditures</u>								
Academic Salaries	63,929,116	30.10	63,071,395	32.18	63,484,901	31.95	55,897,087	29.81
Classified Salaries	40,299,840	18.98	37,711,975	19.24	35,875,257	18.06	34,056,944	18.16
Employee Benefits	32,778,731	15.43	29,189,188	14.89	28,678,541	14.43	25,883,740	13.80
Supplies and Materials	5,896,551	2.78	2,806,359	1.43	2,489,947	1.25	2,526,401	1.35
Other Operating Expenses and Services	20,432,292	9.62	12,910,563	6.59	14,149,333	7.12	13,142,070	7.01
Capital Outlay	11,594,750	5.46	4,996,375	2.55	4,789,554	2.41	7,890,466	4.21
Other Uses	37,441,936	17.63	45,297,752	23.12	49,217,254	24.78	48,131,866	25.66
Total Expenditures	<u>212,373,216</u>	<u>100.00</u>	<u>195,983,607</u>	<u>100.00</u>	<u>198,684,787</u>	<u>100.00</u>	<u>187,528,574</u>	<u>100.00</u>
Change in Fund Balance	<u>\$ (20,252,500)</u>	<u>(9.54)</u>	<u>\$ 579,149</u>	<u>0.30</u>	<u>\$ (892,489)</u>	<u>(0.45)</u>	<u>\$ 9,690,035</u>	<u>5.16</u>
Ending Fund Balance	<u>\$ 17,239,884.0</u>	<u>8.12</u>	<u>\$ 37,492,383.0</u>	<u>19.13</u>	<u>\$ 39,787,898.0</u>	<u>20.03</u>	<u>\$ 40,874,174.0</u>	<u>21.80</u>
Full-Time Equivalent Students	<u>26,523</u>		<u>26,162</u>		<u>25,952</u>		<u>24,190</u>	
Total Long-term Debt	<u>\$ 5,447,482</u>		<u>\$ 6,805,063</u>		<u>\$ 7,487,418</u>		<u>\$ 8,199,493</u>	

IMPORTANT NOTES:

The California Community Colleges 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.

Full-Time Equivalent Students (FTES) includes resident factored FTES.

All percentages are a total unrestricted and restricted expenditures combined.

The 2011 budget is the Plan and Budget adopted by the Board of Trustees on August 30, 2010.

See the accompanying notes to the supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE 1 – PURPOSE OF SCHEDULES

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

The audit of the South Orange County Community College District (District) for the year ended June 30, 2010 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 South Orange County Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the District's annual source of funding for many of its programs. The District is unique in that its main source of funding is provided through property taxes rather than apportionment as a Basic Aid district.

C. 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.

D. 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.

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

Board of Trustees
South Orange County Community College District
Mission Viejo, California

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units and the fiduciary funds of South Orange County Community College District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 10-01 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 22, 2010.

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

This report is intended solely for the information and the use of the District's management, the Board of Trustees, 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.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
November 22, 2010

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
South Orange County Community College District
Mission Viejo, California

Compliance

We have audited the South Orange County Community College District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2010. 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 program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 10-02 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding reporting that are applicable to its Student Financial Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District's management, the Board of Trustees, 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.



Certified Public Accountants

Los Angeles, California
November 22, 2010

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

Board of Trustees
South Orange County Community College District
Mission Viejo, California

We have audited the basic financial statements of the South Orange County Community College District (the District) for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, 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 referred to above, we have selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's California Community Colleges Contacted District Manual (CDAM):

<u>Program Area Tested</u>	<u>Compliance Requirement</u>
Salaries of Classroom Instructors	Each District's salaries of classroom instructors shall equal or exceed 50 percent of the District's current expense of education (CEE) in accordance with Education Code Section 84362.
Apportionment for Instructional Service Agreements/Contracts	The District can claim FTES for classes given through instructional service agreements/contracts provided certain requirements are met. These requirements include a written agreement, instruction of approved programs, publishing of courses, qualification of instructors and control, supervision and responsibility over the educational programs.
State General Apportionment Funding System	Each District shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment: Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hours of attendance and Apprenticeship courses and Noncredit FTES in actual hour of attendance and distance education courses.
Residency Determination for Credit Courses	Districts internal fiscal controls should ensure the state apportionment for credit courses is only claimed for student attendance allowed by the State statute and regulation.

<u>Program Area Tested</u>	<u>Compliance Requirement</u>
Students Actively Enrolled	Each District shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).
Concurrent Enrollment	Districts may claim FTES for the attendance of K-12 pupils who take courses offered by the District if certain requirements are met.
Uses of Matriculation Funds	Districts are required to use local funds to support at least 75 percent of the credit matriculation activities with the remaining expenditures claimable against the State credit matriculation allocation. All expenditures related to the allocation, both State and local funded portions, must be consistent with the District's State approved matriculation plan and identifiable within the ten activities claimable against State matriculation funds.
Gann Limit Calculation	Each District's adopted annual financial and budget report shall include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code Division 9 (commencing with Section 7900).
Enrollment Fees	Districts are required to report the total amount the students should have paid for enrollment fees for purposes of determining their share of apportionments annually.
CalWORKS	Districts are required to expend CalWORKS Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
Scheduled Maintenance Program	Funds provided by the State must be used to supplement, not supplant, district deferred maintenance funds. This is defined as the amount in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and the District's match for the Scheduled Maintenance Program for the year being audited.
Open Enrollment	Districts shall adopt by resolution a policy related to open courses, in addition a statement of this policy shall be published in the official catalog, and/or schedule of classes, and addenda to the schedules of classes for which full-time equivalent students is reported for State apportionment.
Student Fees – Instructional Materials and Health Fees	Education Code Section 76365 allows Districts to require students to provide various types of instructional materials. Districts that require students to provide instructional materials or other materials for a course must have adopted policies or regulations that specify the conditions under which such materials will be required.

Management is responsible to the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included 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 examination provides a reasonable basis for our opinions. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2010.

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

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
November 22, 2010

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued on the basic financial statements of the Auxiliary:	Unqualified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	No
◆ Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
◆ Material weakness(es) identified?	No
◆ Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	

<u>CFDA number(s)</u>	<u>Name of Federal Program or Cluster</u>
47.076	National Science Foundation Rapid Technology
84.007, 84.033, 84.063, and 84.375	Student Financial Assistance Cluster
84.394	ARRA-State Fiscal Stabilization Fund

Dollar threshold used to distinguish between type A and type B programs:	\$409,905
Auditee qualified as a low-risk auditee?	No

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Section II Financial Statement Findings

Finding # 10-01 - Information Technology

The office of the Vice Chancellor of Technology and Learning Services has made significant progress in addressing the information technology control needs of the District in the areas of governance and computer operations. Through our audit procedures, we have identified some areas that could further enhance the information technology control environment of the District.

Issue: Network and Application Passwords Need to be Defined and Enforced.

General computer controls require that access to the IT network and applications be properly controlled. While the District has a draft User Control Policy, the Policy only applies to network access and not application or database access. The Policy also does not specify a minimum password expiration period.

Additionally, the core financial management system, Escape, is not currently capable of enforcing a minimum password expiration period or minimum password configuration standard. A password complexity and expiration period requirement is also not enforced in the Student Information System (SIS).

For CHRMS, the District Human Resources and Payroll application, passwords expire after 90 days and a six character password is required. The application, however, is not capable of enforcing a strong password complexity requirement.

Recommendation:

District Information Technology management should work with the software vendors for Escape, CHRMS and SIS on a request to implement additional functionality for a minimum password configuration requirement. Alternatively, the District could work to implement a single sign-on system, integrating the authorized financial application access to a user's network sign-on account.

Once completed, the User Control Policy should be enhanced so that a minimum password configuration and expiration policy applies to network, application, and database access.

Management's Response:

The South Orange County Community College District will work with software vendors to implement increased password security standards, and is in the process of enhancing its User Control Policy: a draft PCI/DSS Board Policy dealing with password security has been approved by the Board Policy/Administrative Regulation Committee and will go to the Board for approval.

Issue: System Acquisition, Development and Change Control Management Practices have not been Fully Documented.

IT general controls over system acquisition, development and change control management require that policies and procedures be implemented to ensure that all programs are sufficiently tested and application changes are managed to ensure that the accuracy and integrity of the financial data is maintained. Without this oversight, the District's financial data is at increased risk of loss, lack of integrity, and inaccurate processing. The District currently has developed a general draft policy and is working towards finalizing it.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Recommendation:

The District Vice Chancellor of Technology and Learning Services should ensure the draft Software Development Policy is finalized as soon as possible and ensures the following system acquisition and development controls are followed:

- System development and/or acquisitions are authorized by IT and business unit management.
- Program development is effectively managed to ensure the integrity of the program and data.
- Program testing is effectively managed to ensure the accuracy and integrity of the program and data.
- New program development is adequately documented.
- Data and program code integrity is maintained during the migration process.
- Adequate training is available for new programs.

Additionally, the draft Change Control Policy should be finalized to ensure the following change control management practices are followed:

- Procedures are utilized to determine the impact of program changes on security, data integrity, performance and availability of the application.
- Program testing is restricted to an environment separate from production for all financial-related applications.
- Program updates are effectively managed to ensure the integrity of the program and data.
- Procedures are in place to log emergency fixes and this log is regularly reviewed.
- All program changes are properly approved (by functional users and the IT Division) before they are moved to production.
- The process of moving programs into production is formal, well-documented, and has sufficient audit trails.
- Version control procedures properly document the current and a sufficient number of prior versions of each program in production.
- All program changes are appropriately documented.

Management's Response:

The South Orange County Community College District will continue to work towards finalizing its draft policy.

Issue: The District has not yet Adopted a Disaster Recovery Plan or Business Continuity Plan.

General computer operations controls require that an agency have developed and implemented disaster recovery and business continuity plans to provide contingency for unforeseeable events. The District is still in the process of adopting formal plans for how the financial information and systems would be recovered in the event of a disaster or how the District's business functions would continue to operate should the electronic data systems be unavailable for an extended period of time. The District's Business Continuity Planning Council currently plans to submit their draft plans to the District Board by February 2011.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Recommendation:

District Information Technology management, in conjunction with the Business Continuity Planning Council, should continue work towards Board adoption of the draft emergency operations plan. Once adopted, full testing of the plan should be budgeted for and scheduled.

Management's Response:

The South Orange County Community College District is finalizing its Business Continuity Plan.

Issue: Periodic Reviews of Application Authorization Roles Should be Performed.

Controls to ensure application user accounts are configured with appropriate authorization roles help agencies ensure that the electronic financial systems are enforcing a proper segregation of duties. The District currently reviews user account listings to ensure they are up-to-date, but there are no procedure established to ensure the user authorization roles are periodically reviewed and tested for appropriateness and assurance that they are enforcing the segregation of duties that is needed. Without this assurance, the District is at increased risk of fraud, waste and abuse.

Recommendation:

District Information Technology management should develop and implement formal written standards and procedures to ensure that user accounts and roles within the financial applications, Escape, SIS, and CHRMS are periodically reviewed and tested, particularly after any major update is applied, to ensure the user accounts and user roles enforce a proper segregation of duties.

Management's Response:

The South Orange County Community College District will codify its existing procedures for daily review of user accounts, and will also implement periodic audits of user roles and segregation of duties.

Issue: Policies and Procedures have not been Established to Ensure Remote Access to District IT Assets is Appropriately Controlled.

District College staff has the ability to install and use the application "GoToMyPC" to remotely access their office computers. The installation of this or other types of remote access software is not controlled to ensure that only authorized persons can remotely access the District's network and financial applications. This uncontrolled use of remote access software increases the risk of unauthorized persons gaining access to District computer resources and information.

Recommendation:

District Information Technology management, working with the college Directors of Information Technology, should immediately implement policy restricting the use of unauthorized remote access software within the colleges.

Management's Response:

The South Orange County Community College District will work with the colleges to implement a policy.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III Federal Award Findings and Questioned Costs

Finding # 10-02 - Reporting – Late Submission of Reports

Program Name: **Federal Supplemental Educational Opportunity Grant
Federal Work Study Program
ARRA-Federal Work Study Program
Federal Pell Grant
Academic Competitiveness Grant**

CFDA Titles and Numbers: **Student Financial Assistance Cluster CFDA #
84.007/84.033/84.063/84.375**

Federal Agency: **Department of Education**

Award Year: **June 30, 2010**

Condition:

The 1512 quarterly report for Irvine Valley College for the quarter ended December 31, 2009 was submitted on January 28, 2010, which was thirteen (13) days late.

Criteria:

Under Section 1512 Reporting Guidance issued by the Department of Education (funding agency), institutions that received \$25,000 or more in 2009-2010 Federal Work-Study funding from the American Recovery and Reinvestment Act (ARRA) are required to file quarterly reports. Generally, recipient's reports for a calendar quarter must be submitted no later than the 10th day of the month following the end of the quarter. This means that January 10, 2010 is the stated deadline for submission of reports by recipients for the quarter ending December 31, 2009. However, because of the holiday, reports submitted between the January 11 and January 15, 2010 will not be considered late.

Questioned Costs: N/A

Effect:

The late submission the 1512 quarterly report resulted in noncompliance with the OMB-A-133 Circular and specific requirements provided by the Department of Education, and may affect future ARRA funding.

Recommendation:

We recommend the 1512 report be submitted in a timely manner to ensure compliance with the OMB A-133 circular and specific requirements set forth by the Department of Education.

Management Response:

Filing the report thirteen (13) days late was an oversight. ARRA funding was not noted at the time and assumed that the report did not pertain to Irvine Valley College. Once the oversight was noted, the report submitted and accepted by Department of Education.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Finding #09-01 – Statement of Economic Interests (Form700)

Condition:

During the audit, it was noted that not all elected and appointed officials of the District completed a Statement of Economic Interest (Form 700); therefore, the District was not in compliance with its Conflict of Interest policy (Board Policy 154).

Recommendation:

Management must obtain a Statement of Economic Interest form from all Board members. We recommend that management revise the District's Conflict of Interest policy to require all elected and appointed officials, including employees, who have the ability to influence a governmental decision, obligate or commit their agency to any course of action, and/or enter into any contractual agreement on behalf of their agency, complete a Statement of Economic Interest (Form 700) and not limit the requirements to Board members.

Current Year's Management Response:

The recommendation to clarify government code 87306.5 is currently with the Acting Chancellor. Once it has been signed it will then be presented at the Board of Trustees meeting as an administrative regulation (not board policy as previously stated). All elected officials completed the Statement of Economic Interest form.

Status: Partially Implemented

CFDA # 47.076 – National Science Foundation Rapid Technology

Finding #09-02 – Subrecipient Monitoring

Condition:

During the testing of compliance requirements related to subrecipient monitoring over the NSF Grant, the auditor noted the following: the District has communicated the requirements related to subrecipient audits and reporting to its four-subawardees through the sub-award agreement. However, the District does not obtain annual audit reports from the four sub-awardees to verify the audits in accordance with OMB Circular A-133 are occurring when appropriate, that any non-compliance identified through the audit is communicated and that corrective action has been made by the subrecipient.

Recommendation:

The District should implement procedures to ensure that subrecipient audits are occurring when appropriate, that audit findings are communicated and that appropriate resolution to the finding is made in a timely manner. The monitoring process including the subrecipient's non-compliance and actions taken should be clearly documented in the District's records.

Status: Implemented