

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

JUNE 30, 2015



San Diego

Los Angeles

San Francisco
Bay Area

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION
associates

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
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FOR THE YEAR ENDED June 30, 2015

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the business-type activity, aggregate discretely presented component units and fiduciary funds of the South Orange County Community College District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the South Orange County Community College District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, the aggregate discretely presented component units and the fiduciary funds of South Orange County Community College District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1 to the financial statements, in 2015 South Orange County Community College District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, schedule of funding progress, schedules of proportionate share of net pension liability, and schedules of District contributions for pensions be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Orange County Community College 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 State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of South Orange County Community College 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Orange County Community College District's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
October 28, 2015

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

INTRODUCTION TO THE BASIC FINANCIAL STATEMENTS

The South Orange County Community College District serves over 40,000 students who attend Saddleback College in Mission Viejo, Irvine Valley College in Irvine, and the Advanced Technology & Education Park (ATEP) in Tustin. Due to the 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, career technical preparation, and basic skills. Over 3,000 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 management's 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 year ended June 30, 2015. The previous year's financial statements that provide information on the District as a whole:

The Statement of Net Position
The Statement of Revenues, Expenses and Changes in Net Position
The Statement of Cash Flows

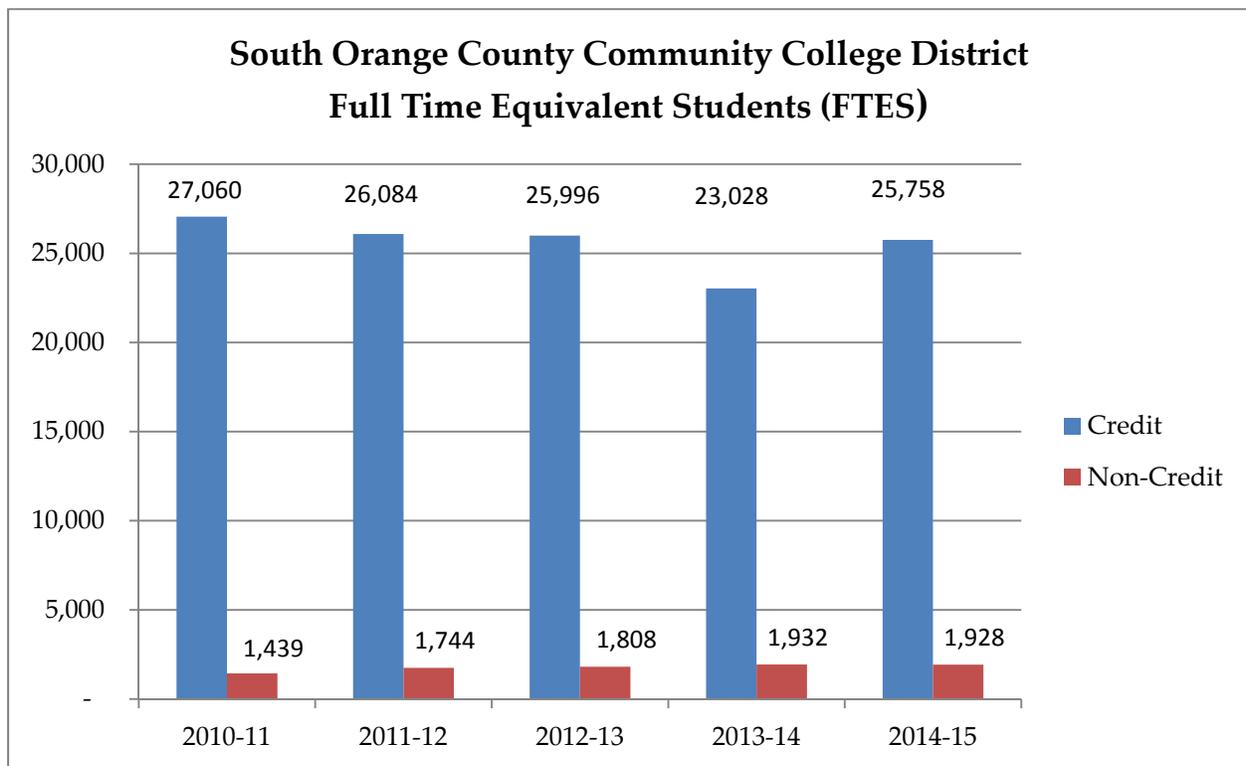
Each of these statements will be reviewed and significant events discussed.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL AND ENROLLMENT HIGHLIGHTS

The District ended the year with a strong fund balance. The ability to maintain a prudent reserve of 7.5% affords cash flow stability for the District without external borrowing. Property taxes continue to provide a reliable revenue source that allows the District some protection from state budget cuts and forced workload reductions.

Reported resident enrollments at the colleges increased in FY 2014-2015 by 10.9% from the prior year. This is primarily the result of the timing of reporting FTES (full-time equivalent students) for strategic planning rather than an actual increase in students served. A history of resident student enrollments is provided below.



Non-resident enrollment increased significantly. In FY 2013-2014 the District reported 1,517 FTES and in FY 2014-2015 it increased to 1,782 FTES, a 17% increase.

STATEMENT OF NET POSITION

The Statement of Net Position presents information on the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF NET POSITION (continued)

	2015	2014	Net Change
ASSETS			
Current assets	\$ 311,364,910	\$ 297,998,318	\$ 13,366,592
Non-current assets	317,683,276	272,410,136	45,273,140
Total Assets	629,048,186	570,408,454	58,639,732
DEFERRED OUTFLOWS OF RESOURCES			
	13,216,852	-	13,216,852
LIABILITIES			
Current liabilities	27,786,777	23,864,444	3,922,333
Non-current liabilities	117,391,540	149,260,641	(31,869,101)
Total Liabilities	145,178,317	173,125,085	(27,946,768)
DEFERRED INFLOWS OF RESOURCES			
	32,300,914	-	32,300,914
NET POSITION			
Net investment in capital assets	317,647,700	272,362,270	45,285,430
Restricted	28,709,535	28,524,832	184,703
Unrestricted	118,428,572	96,396,267	22,032,305
Total Net Position	\$ 464,785,807	\$ 397,283,369	\$ 67,502,438

Assets

Total Assets increased approximately \$58.6 million, a percentage increase of 10.3%. The major changes affecting total assets are listed below:

- Current assets increased approximately \$13.3 million. This was due primarily to an increase in cash for categorical funding for Physical Plant & Instructional Support and Student Success programs, and increased property tax revenues.
- Non-current assets increased \$45.3 million over the prior year primarily due to increases in capital assets such as Irvine Valley College (IVC) A-400 renovation, construction for the Saddleback College new Science building, and District technology projects.

Liabilities

Total liabilities decreased by approximately \$27.9 million; an decrease of 16.1%. The major changes affecting total liabilities are listed below:

- Current liabilities increased approximately \$3.9 million. This was primarily an increase in deferred revenue for Physical Plant & Instructional Support and Student Success programs.
- Non-current liabilities decreased by \$31.8 million as a result of GASB 68 Net Pension Liability as described in Note 11.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF NET POSITION (continued)

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements. Refer to Note 17 for the District's deferred outflows and inflows of resources related to pensions.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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.

	2015	2014	\$ Change	% Change
OPERATING REVENUES				
Student Tuition and Fees	\$ 48,034,731	\$ 45,526,759	\$ 2,507,972	5.5%
Less: Scholarship discount & allowance	(13,594,522)	(12,630,385)	(964,137)	7.6%
Net tuition & fees	34,440,209	32,896,374	1,543,835	4.7%
Grants and Contracts, noncapital:				
Federal	2,558,497	1,514,722	1,043,775	68.9%
State	13,186,235	9,754,679	3,431,556	35.2%
Local	2,633,212	2,743,502	(110,290)	-4.0%
Internal Service Sales and Charges	660,190	626,538	33,652	5.4%
Subtotal	19,038,134	14,639,441	4,398,693	30.0%
Total Operating Revenues	53,478,343	47,535,815	5,942,528	12.5%
OPERATING EXPENSES				
Salaries	115,923,715	109,230,200	6,693,515	6.1%
Benefits	37,727,801	41,045,899	(3,318,098)	-8.1%
Financial aid	28,134,293	26,734,682	1,399,611	5.2%
Supplies, materials, & other operating expenses	23,371,747	19,524,252	3,847,495	19.7%
Utilities	3,437,208	3,100,022	337,186	10.9%
Depreciation	12,109,518	12,084,998	24,520	0.2%
Total Operating Expenses	220,704,282	211,720,053	8,984,229	4.2%
OPERATING LOSS	(167,225,939)	(164,184,238)	(3,041,701)	1.9%
NONOPERATING REVENUES/(EXPENSES)				
State apportionments, non-capital	760,210	689,832	70,378	10.2%
Local property taxes	172,568,128	160,508,591	12,059,537	7.5%
Federal grants and contracts, noncapital	26,487,886	24,921,480	1,566,406	6.3%
State taxes & other revenues	15,490,443	12,560,520	2,929,923	23.3%
Investment income/(loss) - noncapital	989,041	718,180	270,861	37.7%
Total Nonoperating Revenues (Expenses)	216,295,708	199,398,603	16,897,105	8.5%
GAIN BEFORE OTHER REVENUES AND LOSSES	49,069,769	35,214,365	13,855,404	39.3%
OTHER REVENUES AND (LOSSES)				
State apportionments, capital	725,000	725,000	-	0.0%
Local revenues, grants and gifts, capital	8,800,737	7,432,563	1,368,174	18.4%
Loss on disposal of equipment	(100,996)	(212,390)	111,394	-52.4%
Total Other Revenues and Losses	9,424,741	7,945,173	1,479,568	18.6%
CHANGE IN NET POSITION	58,494,510	43,159,538	15,334,972	35.5%
NET POSITION - BEGINNING, AS RESTATED (Note 18)	406,291,297	499,667,878	(93,376,581)	-18.7%
NET POSITION - ENDING	\$ 464,785,807	542,827,416	(78,041,609)	-14.4%

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)

Operating Revenues

Total Operating Revenues increased approximately \$5.9 million, a percentage increase of 12.5%.

- Net tuition and fees experienced an increase of \$1.5 million, approximately 4.7%. Fee revenue increased by \$2.5 million primarily as a result of higher non-resident tuition. This revenue was offset by a \$964 thousand increase in scholarship discounts and allowances from the increased demand for student financial aid including BOGG fee waivers.
- Non capital grants and contracts increased \$4.4 million, an increase of 31.2%. Factors contributing to this include \$2.3 million of new funding for Physical Plant & Instructional Equipment Support, \$586.8 thousand of increased funding for Student Success programs, and \$641.7 thousand for the Trade Adjustment Assistance Community College & Career Training Grant programs.
- Internal Service Sales and Charges increased by \$33.6 thousand, an increase of 5.4%, primarily for finger printing and scanning services offered to the community.

Operating Expenses

Total Operating Expenses increased by 4.2%, approximately \$9.0 million. Items of significance affecting the changes include:

- Salaries and benefits increased by approximately \$3.4 million, an increase of 2.2%. Salaries increased by \$6.7 million due to pay increases and filling vacant positions. Benefits decreased by \$3.3 million; \$3.5 million of this variance was a result of no contributions for other post-employment benefits (OPEB).
- Financial Aid increased by \$1.4 million. This was due primarily to more Pell grants being awarded in FY 2014-2015.
- Supplies, materials and other operating expenses increased by \$3.8 million, an increase of 19.7%. The increase was primarily for capital outlay related contract service costs.

Non-Operating Revenues (Expenses)

Non-Operating Revenues increased by \$16.9 million, a 8.5% increase, mainly due to the following:

- The increase of \$12.1 million, 7.5%, in local property tax reflects the moderate growth trend of the local property tax base.
- Federal grants and contracts increased by \$1.6 million, 6.3%, primarily as a result of increased Pell grant awards at both colleges.
- State taxes and other revenues increased \$2.9 million, 23.3%, which represents the amount the state contributes to the STRS retirement system on behalf of the District.

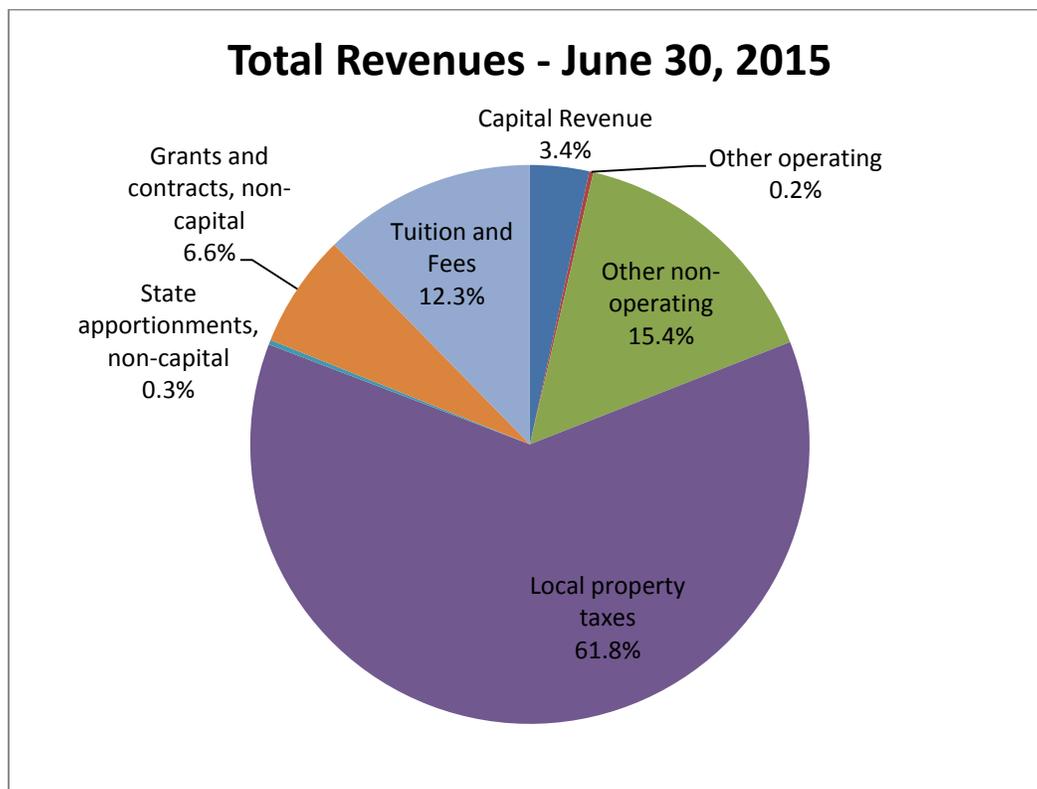
**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)

Capital contributions

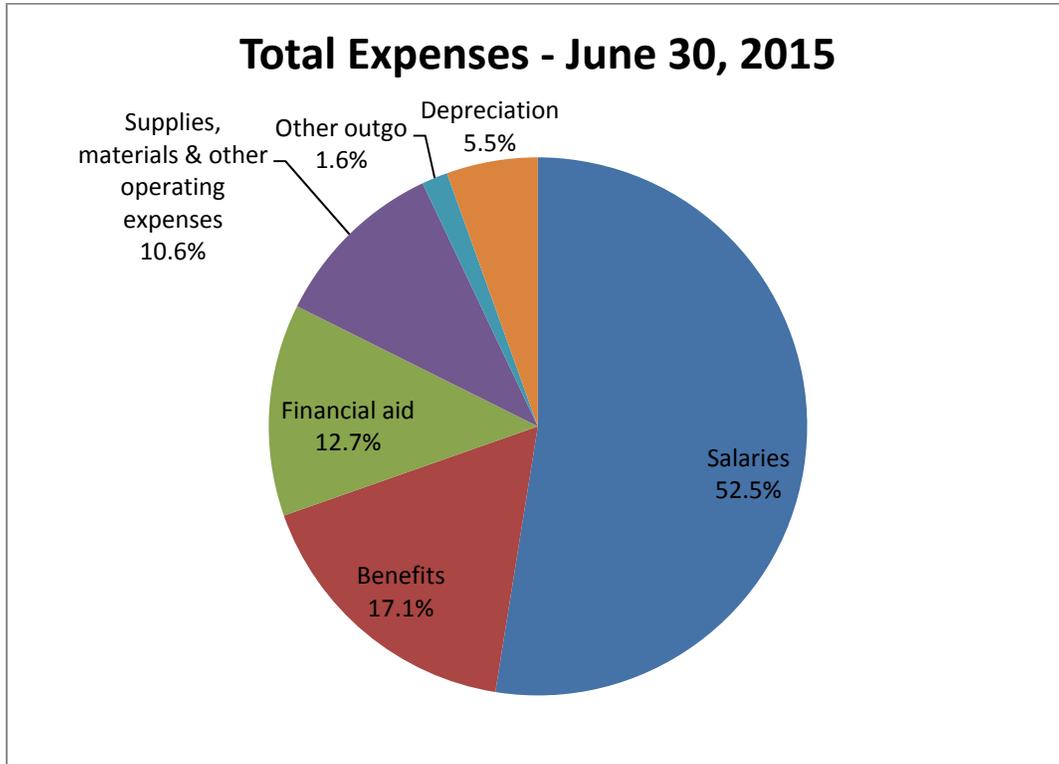
Capital contributions increased by 18.6%, approximately \$1.5 million.

- Local capital revenues increased \$1.4 million, a 18.4% increase, primarily due to additional redevelopment revenues.



**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (continued)



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 position. 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.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had approximately \$317.6 million invested in net capital assets. Total capital assets of \$471.9 million consist of land, construction in progress, buildings and improvements, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$154.3 million. In FY 2014-2015, there were capital asset additions in the amount of \$66.3 million. Deletions of \$9.3 million include \$8.3 million of completed construction in progress moved to buildings and equipment assets and \$528 thousand of disposals. Depreciation expense of \$12.1 million was recorded for FY 2014-2015.

Note 5 to the financial statements provides additional information on capital assets. A comparison of capital assets net of depreciation is summarized below:

	2015	2014	Net Change
Land and construction in progress	\$ 156,702,061	\$ 110,103,028	\$ 46,599,033
Buildings and equipment	315,274,585	304,905,536	10,369,049
Accumulated depreciation	(154,328,946)	(142,646,294)	(11,682,652)
Total Capital Assets	317,647,700	272,362,270	45,285,430

Debt

At June 30, 2015, the District had \$119 million in debt. Note 9 provides additional information on long-term liabilities. A comparison is summarized below:

	2015	2014	Net Change
Compensated absences	\$ 4,065,449	\$ 3,939,375	\$ 126,074
Claims liability	365,061	281,500	83,561
Net OPEB obligation	445,822	1,059,378	(613,556)
Net pension liability	114,205,343	145,544,047	(31,338,704)
Total Long-term Liabilities	\$ 119,081,675	\$ 150,824,300	\$ (31,742,625)

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
FOR THE YEAR ENDED JUNE 30, 2015**

ECONOMIC OUTLOOK AND FACTORS AFFECTING NEXT YEAR'S BUDGET

The FY 2015-16 state budget for community colleges included a cost of living adjustment (COLA) of 1.02% on general purpose apportionments and 3% for growth funding statewide. The District's calculated growth rate is 1.2%. While the District does not receive these funds from the state, these amounts were funded in the allocation model with property tax revenues. The colleges are prepared to earn the additional growth funds while containing enrollments to available funding levels.

The District has been identified as a "locally funded" district since 1999-2000, meaning its primary source of revenue comes from local property taxes, not state apportionment. The FY 2015-2016 adopted budget assumes an increase in property tax revenue of 3% from FY 2014-2015 actual receipts. This assumption is based on prior years' history and conservative estimations provided by the county auditor/controller's office. Property tax receipts have been a stable revenue source with moderate growth in recent years. The District continues to experience sufficient revenue to maintain funding of the colleges and allow for future capital projects. Excess funds over what would be received from the state funding formula are used to pay for long-term debt, one-time expenditures, and capital outlay needs.

The most recent actuarial study was completed for OPEB liability in January 2015. Due to prior year funding and better than anticipated healthcare costs, the trust is adequately funded to meet future obligations. The District has budgeted sufficient funds to meet the actuarial required contribution for FY 2015-2016. The next actuarial study will be completed in January 2016.

The state provided a consistent funding for instructional equipment and scheduled maintenance in its FY 2015-2016 budget. The District allocation of \$3.3 million will greatly assist with the college's backlog of scheduled maintenance and instructional needs. The state budget also provided a large allocation of one time funds to address the outstanding mandated cost claims.

Last year, the legislature approved increases in the employer STRS contribution rate through FY 2020-2021 in order to address the large unfunded liability. For FY 2015-2016, the rate increased from 8.88% to 10.73%. Projected rate increases for PERS are also expected to be significant in the coming years. While the state budget included a 4.65% base allocation increase to partially fund these increased costs, the District will still need to plan a funding strategy for these costs as well as anticipated increases in medical benefits that will outpace new revenue sources.

REQUEST 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 Executive Director of Fiscal Services, 28000 Marquerite Parkway, Mission Viejo, CA 92692-3635.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF NET POSITION – PRIMARY GOVERNMENT
JUNE 30, 2015**

	<u>Business-Type Activity</u> <u>Primary Government</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 878,284
Investments	300,562,420
Accounts receivable	9,054,757
Prepaid expenses	836,507
Inventory	32,942
Total Current Assets	<u>311,364,910</u>
NONCURRENT ASSETS	
Restricted cash and cash equivalents	5,352
Restricted student loan receivable	30,224
Capital assets, net of accumulated depreciation	317,647,700
Total Noncurrent Assets	<u>317,683,276</u>
TOTAL ASSETS	<u>629,048,186</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	13,216,852
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>13,216,852</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	15,737,204
Unearned revenue	10,359,438
Current portion - long-term liabilities	1,690,135
Total Current Liabilities	<u>27,786,777</u>
NONCURRENT LIABILITIES	
Noncurrent portion - long-term liabilities	117,391,540
TOTAL LIABILITIES	<u>145,178,317</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	32,300,914
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>32,300,914</u>
NET POSITION	
Net investment in capital assets	317,647,700
Restricted for:	
Capital projects	24,292,212
Educational programs	1,093,374
Other purposes	3,323,949
Unrestricted	118,428,572
TOTAL NET POSITION	<u>\$ 464,785,807</u>

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2015**

	Business-Type Activity
	Primary Government
OPERATING REVENUES	
Student Tuition and Fees	\$ 48,034,731
Less: scholarship discount & allowance	(13,594,522)
Net tuition & fees	34,440,209
Grants and Contracts, noncapital:	
Federal	2,558,497
State	13,186,235
Local	2,633,212
Internal Service Sales and Charges	660,190
Subtotal	19,038,134
TOTAL OPERATING REVENUES	53,478,343
OPERATING EXPENSES	
Salaries	115,923,715
Benefits	37,727,801
Financial aid	28,134,293
Supplies, materials, & other operating expenses	23,371,747
Utilities	3,437,208
Depreciation	12,109,518
TOTAL OPERATING EXPENSES	220,704,282
OPERATING LOSS	(167,225,939)
NONOPERATING REVENUES/(EXPENSES)	
State apportionments, non-capital	760,210
Local property taxes	172,568,128
Federal grants and contracts, non-capital	26,487,886
State taxes & other revenues	15,490,443
Investment income, non-capital	989,041
TOTAL NONOPERATING REVENUES (EXPENSES)	216,295,708
GAIN BEFORE OTHER REVENUES AND LOSSES	49,069,769
OTHER REVENUES AND (LOSSES)	
State apportionments, capital	725,000
Local revenues, grants and gifts, capital	8,800,737
Loss on disposal of equipment	(100,996)
TOTAL OTHER REVENUES AND GAINS	9,424,741
CHANGE IN NET POSITION	58,494,510
NET POSITION - BEGINNING	542,827,416
ADJUSTMENT FOR RESTATEMENT (see Note 18)	(136,536,119)
NET POSITION - BEGINNING, AS RESTATED	406,291,297
NET POSITION - ENDING	\$ 464,785,807

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Business-Type Activity</u>
	<u>Primary Government</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 34,440,209
Federal grants and contracts	2,332,384
State grants and contracts	12,694,863
Local grants and contracts	5,378,288
Payments to or on behalf of employees	(155,995,838)
Payments to vendors for supplies and services	(27,438,327)
Payments to students for scholarships and grants	(28,133,524)
Auxiliary enterprise sales and charges	660,190
Net Cash Used by Operating Activities	<u>(156,061,755)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments	760,210
Property taxes	172,568,128
State taxes and other revenues	15,490,443
Federal grants and contracts	26,487,886
Net Cash Provided by Non-capital Financing Activities	<u>215,306,667</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(57,495,944)
State apportionments, capital projects	725,000
Local revenues, grants and gifts, capital	8,800,737
Net Cash Used by Capital Financing Activities	<u>(47,970,207)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	989,041
Net Cash Provided by Investing Activities	<u>989,041</u>
NET INCREASE IN CASH & CASH EQUIVALENTS	12,263,746
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>289,182,310</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 301,446,056</u>

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, continued
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Business-Type Activity</u>
	<u>Primary Government</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH	
USED BY OPERATING ACTIVITIES	
Operating loss	\$ (167,225,939)
Adjustments to Reconcile Operating Loss to Net Cash Used by	
Operating Activities:	
Depreciation expense	12,109,518
Changes in Assets and Liabilities:	
Accounts receivable	(1,236,166)
Inventory	14,133
Prepaid expense	131,477
Accounts payable and accrued liabilities	531,331
Unearned revenue	3,264,526
Compensated absences	126,074
Net pension liability	(3,246,714)
Claims liability	83,561
Net OPEB obligation	(613,556)
Total Adjustments	11,164,184
Net Cash Flows From Operating Activities	<u>\$ (156,061,755)</u>
CASH AND CASH EQUIVALENTS CONSISTS OF THE FOLLOWING:	
Cash on hand and in banks	\$ 883,636
Cash in county treasury	274,475,238
Cash in Local Agency Investment Fund (LAIF)	26,087,182
Total Cash and Cash Equivalents	<u>\$ 301,446,056</u>
NONCASH TRANSACTIONS	
On behalf payments for benefits	<u>\$ 3,026,930</u>

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Associated		
	Student Government	Retiree (OPEB)	
	Trust Funds	Trust	Agency Fund
ASSETS			
Cash and cash equivalents	\$ 206,059	\$ -	\$ 4,153,479
Investments	78,287	92,222,506	-
Accounts receivable	162,930	354,359	569
Prepaid expenses	13,500	-	-
Total Assets	460,776	92,576,865	4,154,048
LIABILITIES			
Agency obligations	-	-	4,154,048
Accounts payable	141,513	-	-
Unearned revenue	17,484	-	-
Total Liabilities	158,997	-	\$ 4,154,048
NET POSITION			
Restricted	301,779	92,576,865	
Total Net Position	\$ 301,779	\$ 92,576,865	

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	Associated Student Government Trust Funds	Retiree (OPEB) Trust
Additions		
Interest and investment income	\$ 203	\$ 843,969
Less: Investment operating expenses	-	(330,334)
Sales and other local revenues	917,662	-
Total Additions	917,865	513,635
Deductions		
Salaries	103,281	-
Benefits	31,430	3,474,015
Supplies and materials	56,487	-
Other operating expenses and services	468,383	-
Capital outlay	20,482	-
Student financial aid	130,655	-
Total Deductions	810,718	3,474,015
CHANGE IN NET POSITION	107,147	(2,960,380)
NET POSITION - BEGINNING	194,632	95,537,245
NET POSITION - ENDING	\$ 301,779	\$ 92,576,865

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS – STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015**

	<u>Component Units</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 778,188
Investments	8,059,401
Contributions receivable	250,848
Prepaid expense	5,051
Total Current Assets	<u>9,093,488</u>
NONCURRENT ASSETS	
Gift annuity receivable	39,862
Long-term contributions receivable	38,978
Investments with the Foundation for California Community Colleges	1,404,927
Total Noncurrent Assets	<u>1,483,767</u>
TOTAL ASSETS	<u>10,577,255</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 810,906
Accrued liabilities	3,467
Trust account liability	4,878
Total Current Liabilities	<u>819,251</u>
TOTAL LIABILITIES	<u>819,251</u>
NET ASSETS	
Unrestricted	702,417
Temporarily restricted	6,254,049
Permanently restricted	2,801,538
TOTAL NET ASSETS	<u>9,758,004</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,577,255</u>

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
DISCRETELY PRESENTED COMPONENT UNITS – STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	Component Units			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Contributions	\$ 71,737	\$ 1,712,665	\$ 145,586	\$ 1,929,988
Special events income- fundraisers (net of costs of direct benefits to donors of \$129,631)	125,359	190,476	-	315,835
In-Kind Donations	525,596	-	-	525,596
Donated services	830,777	-	-	830,777
Donated professional fees	7,473	-	-	7,473
Investment income	296,329	911,871	-	1,208,200
Sales & commission	58,383	130,978	-	189,361
Other contract services	26,348	69,074	-	95,422
Other revenue	11,450	399	-	11,849
Net assets released from restrictions				
Purpose restrictions satisfied	2,112,425	(2,112,425)	-	-
Total Support and Revenues	4,065,877	903,038	145,586	5,114,501
EXPENSES				
Program services	3,078,225	-	-	3,078,225
Supporting services				
Management and general activities	378,404	-	-	378,404
Fundraising	343,725	-	-	343,725
Total Expenses	3,800,354	-	-	3,800,354
CHANGE IN NET ASSETS	265,523	903,038	145,586	1,314,147
NET ASSETS - BEGINNING, AS RESTATED	436,894	5,351,011	2,655,952	8,443,857
NET ASSETS - ENDING	\$ 702,417	\$ 6,254,049	\$ 2,801,538	\$ 9,758,004

See accompanying notes to the financial statements.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, and thus are included in the financial statements of the District.

Based upon the application of the criteria listed above, the Facilities Corporation 2011 of the South Orange County Community College District (Corporation) has been included in the District's reporting entity as a blended component unit. Separate financial information may be obtained through 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 Foundation's Board of Governors are appointed independent of any District Board of Trustee's elections. 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.

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Reporting Entity (continued)

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 government 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 Vice Chancellor of Business Services, Vice Chancellor of Human Resources and Employer/Employee Relations, District Executive Director of Fiscal Services/Comptroller, Vice President of Administrative Services, Saddleback College, and the 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 Fund – 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. Measurement Focus

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

C. Basis of Accounting

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain Federal and State grants, entitlements, and donations. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges Chancellor's Office and includes reporting of full-time equivalent students (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated. Revenue from Federal and State grants and entitlements are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict.

E. Financial Statement Presentation

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statements of Net Position - Primary Government
 - Statements of Revenues, Expenses, and Changes in Net Position - Primary Government
 - Statements of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statements of Fiduciary Net Position
 - Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. 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 Orange 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, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

G. 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 expenses made pursuant to the District's grant and contracts.

H. Inventory

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

I. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2015, 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.

J. 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.

K. 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 vehicle, and 3 years for technology.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accounts Payable

Accounts payable consists of amounts due to vendors.

M. Accrued Liabilities

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

N. Unearned Revenue

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

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenses have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenses.

O. Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the District will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the District will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

P. Compensated Absences

In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, accumulated unpaid employee vacation benefits are recognized as a liability of the District as compensated absences in the Statement of Net Position.

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.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Pensions

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

R. Net Position

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

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

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

S. State Apportionments

The District does not receive state apportionments for the base calculation because it receives more than sufficient revenues from enrollment fees and property taxes. The excess property taxes above the base revenue calculations is referred to as basic aid funds.

The District does receive state apportionments for categorical programs. These allocations are based upon various financial and statistical information from the current and previous years.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. 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 on an accrual basis. A receivable has been accrued in these financial statements to reflect the amount of property taxes receivable as of June 30, 2015.

U. On-Behalf Payments

GASB Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, 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 expenditure by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement Systems (STRS) on behalf of all Community Colleges in California. The amount of on-behalf payments made for the District is estimated at \$2,626,816 for STRS for the year ended June 30, 2015. This amount has been reflected in the basic financial statements as a component of non-operating revenue and employee benefit expense.

V. Classification of Revenues

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as state apportionment, property taxes, state taxes, non-capital federal grants and contracts investment income, and other revenue sources.

W. Scholarship Discount 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 position. 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, included in the Board of Governors Grants (BOG) waivers.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

X. Estimates

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

Y. Foundation Financial Statement Presentation

The South Orange County Community College District, Advanced Technology and Education Park (ATEP) Foundation, Saddleback College Foundation and Irvine Valley College Foundation present their financial statements in accordance with Statement of Financial Accounting Codifications. Under these reporting requirements, the Foundations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the codification, the Foundations do not use fund accounting.

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

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

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

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

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

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

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Z. New Accounting Pronouncements

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014. The District has implemented GASB Statement No. 68 for the year ended June 30, 2015.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This standard seeks to clarify certain implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. The Statement is effective for periods beginning after June 15, 2014. The District has implemented GASB Statement No. 71 for the year ended June 30, 2015.

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This standard addresses accounting and financial reporting issues related to fair value measurements. The Statement is effective for periods beginning after June 15, 2015. The District has not yet determined the impact on the financial statements.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This standard establishes requirements for defined benefit pensions that are not within the scope of GASB Statement 68 and amends certain provisions of GASB Statements 67 and 68. The Statement is effective for periods beginning after June 15, 2016. The District has not yet determined the impact on the financial statements.

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard's primary objective is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. The Statement is effective for periods beginning after June 15, 2017. The District has not yet determined the impact on the financial statements.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS

A. Summary of Cash and Investments

Cash and investments as of June 30, 2015, consist of the following:

Primary government	\$ 301,446,056
Fiduciary funds	96,660,331
Total Cash and Investments	<u>\$ 398,106,387</u>
Cash on hand and in banks	\$ 5,142,274
Cash in revolving	100,900
Investments	392,863,213
Total Cash and Investments	<u>\$ 398,106,387</u>

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

B. Investments

Pooled Investments

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Maturity Date*</u>
Orange County Treasury Investment Pool	\$ 274,553,525	276,443,422	370 Days
Local Agency Investment Fund (LAIF)	26,087,182	26,068,755	239 Days
Total	<u>\$ 300,640,707</u>	<u>\$ 302,512,177</u>	

*Weighted average days to maturity

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015**

NOTE 2 – CASH AND INVESTMENTS (continued)

B. Investments (continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

OPEB Trust

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. 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.

Investments held by the Retiree Benefit (OPEB) Trust at June 30, 2015 are presented below:

Investment Type	Fair Value	Credit Rating	Weighted Average Maturity (Years)
OPEB Trust			
Equity mutual funds	\$ 45,535,340	N/A	N/A
Fixed income mutual funds	46,687,166	BB-BBB	2.28 - 5.48
Total for OPEB Trust	\$ 92,222,506		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Equity mutual funds are not subject to interest rate risk. The Retirement Board of Authority has adopted an internally developed investments policy that authorized the use of a broad range of investment choices that have distinctly different risks and return characteristics.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 2 – CASH AND INVESTMENTS (continued)

B. Investments (continued)

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).

Custodial Credit Risk

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2015, the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution, but not in the name of the District.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single user. 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 accounts did not violate any provisions of the California Government Code or its investment policy during the year ended June 30, 2015.

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.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015 are as follows:

	Primary Government	Fiduciary Funds
Federal	\$ 1,056,014	\$ -
State	3,839,515	-
Local	4,159,228	517,858
Total	\$ 9,054,757	\$ 517,858

NOTE 5 – CAPITAL ASSETS

The following provides a summary of changes in capital assets for the year ended June 30, 2015:

	Balance July 01, 2014	Additions	Deductions	Balance June 30, 2015
Capital Assets not being Depreciated				
Land	\$ 41,762,154	\$ 1,000,000	\$ 500,000	\$ 42,262,154
Construction in progress	68,340,874	54,414,833	8,315,800	114,439,907
Total Capital Assets not being Depreciated	110,103,028	55,414,833	8,815,800	156,702,061
Capital Assets being Depreciated				
Site improvements	97,064,485	8,179,944	-	105,244,429
Buildings and improvements	186,444,665	-	-	186,444,665
Furniture & equipment	21,396,386	2,716,967	527,862	23,585,491
Total Capital Assets being Depreciated	304,905,536	10,896,911	527,862	315,274,585
Total Capital Assets	415,008,564	66,311,744	9,343,662	471,976,646
Less Accumulated Depreciation				
Site improvements	59,885,253	6,450,095	-	66,335,348
Buildings & improvements	67,277,812	3,619,673	-	70,897,485
Furniture & equipment	15,483,229	2,039,750	426,866	17,096,113
Total Accumulated Depreciation	142,646,294	12,109,518	426,866	154,328,946
Net Capital Assets	\$ 272,362,270	\$ 54,202,226	\$ 8,916,796	\$ 317,647,700

Depreciation expense for the year was \$12,109,518

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2015 are as follows:

	Primary Government	Fiduciary Funds
Payroll	\$ 8,894,636	\$ -
Construction	18,117	-
Other	6,824,451	141,513
Total	\$ 15,737,204	\$ 141,513

NOTE 7 – UNEARNED REVENUES

Unearned revenues as of June 30, 2015 are as follows:

	Primary Government	Fiduciary Funds
Federal sources	\$ 179,080	\$ -
State categorical sources	4,161,740	-
Other state sources	7,044	-
Promenade ground lease	2,180,068	-
Student enrollment fees	3,716,704	-
Other local sources	114,802	17,484
Total	\$ 10,359,438	\$ 17,484

NOTE 8 - LEASES

A. 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:

For the Year Ended June 30,	Lease Payment
2016	\$ 227,947
2017	215,011
2018	204,211
Total	\$ 647,169

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 FINANCIAL STATEMENTS, continued
JUNE 30, 2015**

NOTE 8 - LEASES (continued)

B. Sublease

In March 2004, the District entered into a sublease with the City of Tustin for lease of 30.71 acres of 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 the portion of the leased property to the District. Future minimum lease payments under this agreement to the City of Tustin are currently anticipated to be as follows:

For the Year Ended	Lease Payment
June 30,	
2016	\$ 6,600
2017	6,600
2018	6,600
Total	<u>\$ 19,800</u>

The 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, 2015 the District incurred reimbursement of operating expenses to the City of Tustin for the property in the amount of \$6,600.

NOTE 9 – LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations for the year ended June 30, 2015 is shown below:

	Balance July 01, 2014	Adjustments/ Restatements	Additions	Deductions	Balance June 30, 2015	Due Within One Year
Compensated absences	\$ 3,939,375	\$ -	\$ 1,670,931	\$ 1,544,857	\$ 4,065,449	\$ 1,382,253
Claims liability	281,500	-	327,462	243,901	365,061	307,882
Net OPEB obligation	1,059,378	-	2,860,459	3,474,015	445,822	-
Net pension liability	-	145,544,047	-	31,338,704	114,205,343	-
Totals	<u>\$ 5,280,253</u>	<u>\$ 145,544,047</u>	<u>\$ 4,858,852</u>	<u>\$ 36,601,477</u>	<u>\$ 119,081,675</u>	<u>\$ 1,690,135</u>

Net Pension Liability

The District follows GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The District’s restated beginning net pension liability was \$145,544,047, and was increased by current year pension expense of \$9,970,138, which was more than offset by current year decreases of \$31,338,704. The ending net pension liability at June 30, 2015 was \$114,205,343. See Note 11 for additional information regarding the net pension liability.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 10 - RENTAL INCOME

The District entered into a 55-year operating lease contract during 1985 to lease land owned by the District to a construction partnership for the purpose of building apartments. Annual lease payments through 2013 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 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:

For the Year Ended	Lease Payment
<u>June 30,</u>	
2016	\$ 2,569,268
2017	2,646,346
2018	2,725,736
2019	2,807,508
2020	2,891,734
2021-2025	15,813,185
2026-2030	18,331,814
2031-2035	21,251,596
2036-2040	24,636,423
Total	<u>\$ 93,673,610</u>

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE PENSION 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 Teacher’s 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, CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

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 2014-2015 was 8.88% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

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

At June 30, 2015, the District reported a liability of \$71,293,140 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District’s proportion was .112 percent, which did not change from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$6,156,120. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 17,555,800
District contributions subsequent to the measurement date	8,300,583	-
	<u>\$ 8,300,583</u>	<u>\$ 17,555,800</u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015**

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

State Teachers’ Retirement System (STRS) (continued)

\$8,300,583 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 4,388,950
2017	4,388,950
2018	4,388,950
2019	4,388,950
	<u>\$ 17,555,800</u>

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	3.00%
Investment Yield (Net of Expenses)	7.50%
Wage Inflation	3.75%
Interest on Member Accounts	4.50%

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2006–June 30, 2010.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

State Teachers’ Retirement System (STRS) (continued)

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

Asset Class	Assumed Asset Allocation	Long-Term* Expected Real Rate of Return
Global Equity	47%	4.50%
Private Equity	12%	6.20%
Real Estate	15%	4.35%
Inflation Sensitive	5%	3.20%
Fixed Income	20%	0.20%
Cash/Liquidity	1%	0.00%
	100%	

* 10-year geometric average

Discount rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

State Teachers’ Retirement System (STRS) (continued)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.60 percent) or 1-percentage-point higher (8.60 percent) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District’s proportionate share of the net pension liability	\$ 111,127,360	\$ 71,293,140	\$ 38,078,640

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalSTRS financial report.

Public Employees’ Retirement Systems (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 maybe be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

Public Employees’ Retirement Systems (PERS) (continued)

Funding Policy

Active plan members hired prior to January 1, 2013, are required to contribute 7% of their salary. The California Public Employees’ Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member’s contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

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 2014-2015 was 11.771% of annual payroll. The contribution requirements of the plan members are established and may be amended by the State statute.

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

At June 30, 2015, the District reported a liability of \$42,912,204 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District’s proportion was .378 percent, which did not change from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$3,814,018. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual earnings on plan investments	\$ -	\$ 14,745,114
District contributions subsequent to the measurement date	4,916,269	-
	<u>\$ 4,916,269</u>	<u>\$ 14,745,114</u>

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

Public Employees’ Retirement Systems (PERS) (continued)

\$4,916,269 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 3,686,279
2017	3,686,279
2018	3,686,279
2019	3,686,279
	<u>\$ 14,745,116</u>

Actuarial assumptions

The total pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Consumer Price Inflation	2.75%
Investment Yield (Net of Expenses)	7.50%
Wage Inflation	Varies by Entry Age and Service

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are derived using CalPERS’ membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were taken into account. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

Public Employees’ Retirement Systems (PERS) (continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	-0.55%	-1.05%
	100%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent. A projection of the expected benefit payments and contributions was performed to determine if assets would run out. The test revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Schools Pool. The results of the crossover testing for the Schools Pool are presented in a detailed report that can be obtained at CalPERS’ website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

Public Employees’ Retirement Systems (PERS) (continued)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District’s proportionate share of the net pension liability	\$ 75,277,801	\$ 42,912,204	\$ 15,867,484

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

Contribution to STRS and PERS

The District’s contributes to STRS and PERS for each of the last three fiscal years are as follows:

For the Year Ended	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2013	\$ 4,397,401	100%	\$ 4,382,671	100%
2014	\$ 4,581,108	100%	\$ 4,595,546	100%
2015	\$ 5,273,653	100%	\$ 4,916,269	100%

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the year ended June 30, 2015, which amounted to \$3,026,930 (5.679 percent for 2014-15) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2015. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2015**

NOTE 12 – 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 dependents 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.

Retirees and beneficiaries receiving benefits	304
Active plan members	874
Total	<u>1178</u>

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 2014-2015, the District contributed \$3,474,015 to the plan for current year premiums. The District pays for 100% of coverage.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 12 – 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize an unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. 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)	\$ 2,848,515
Interest on net OPEB obligation	74,156
Adjustment to annual required contribution	<u>(62,212)</u>
Annual OPEB cost	2,860,459
Contributions made	<u>(3,474,015)</u>
Changes in net OPEB obligation	(613,556)
Net OPEB obligation, beginning of year	<u>1,059,378</u>
Net OPEB obligation, end of year	<u>\$ 445,822</u>

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

<u>For the Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 2,860,459	121.45%	\$ 445,822
June 30, 2014	\$ 2,895,781	119.97%	\$ 1,059,378
June 30, 2013	\$ 4,445,937	95.68%	\$ 445,822

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 12 – POSTEMPLOYMENT HEALTHCARE BENEFITS (continued)

Funding Status and Funding Progress

The funded status of the OPEB Plan as of June 30, 2015, is as follows:

Actuarial Accrued Liability (AAL)	\$ 82,275,244
Actuarial Value of Plan Assets	95,095,769
Unfunded Actuarial Accrued Liability/(Surplus) (UAAL)	<u>\$ (12,820,525)</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	115.6%
Covered Payroll	\$ 75,870,000

The above noted actuarial accrued liability was based on the January 1, 2015, actuarial valuation. 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 contribution 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 benefits 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 employer’s 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 – 6.5 percent which included a 2.8 percent inflation assumption.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 13 – JOINT POWERS AGREEMENT

The District participates in five joint powers agreement (JPA) entities: the Statewide Association of Community Colleges (SWACC), 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 (ACSIG). 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.

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 full-time equivalent students (FTES) 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 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 health insurance solution rather than purchasing from commercial carriers. South Orange County College District has been a member since August 2003.

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 13 – JOINT POWERS AGREEMENT (continued)

South Orange County 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 JPAs 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	SELF	PIPS	SISC	ACSIG
	6/30/2014	6/30/2014	6/30/2014	9/30/2014	6/30/2014
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Total assets	\$ 54,045,044	\$ 162,746,000	\$ 101,635,390	\$ 304,614,232	\$ 33,646,460
Total liabilities	23,536,002	118,853,000	89,564,503	159,022,820	33,839,130
Retained earnings	\$ 30,509,042	\$ 43,893,000	\$ 12,070,887	\$ 145,591,412	\$ (192,670)
Total revenues	\$ 7,072,609	\$ 11,812,000	\$ 18,271,889	\$ 1,519,341,871	\$ 135,261,442
Total expenses	7,806,532	4,199,000	22,602,717	1,541,013,235	130,454,306
Net increase/(decrease) in retained earnings	\$ (733,923)	\$ 7,613,000	\$ (4,330,828)	\$ (21,671,364)	\$ 4,807,136

NOTE 14 – FUNCTIONAL EXPENSES

The functional expenses for the year ended June 30, 2015 were as follows:

	Salaries	Employee Benefits	Supplies Materials and other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional Activities	\$ 60,018,365	\$ 15,562,122	\$ 4,747,468	\$ -	\$ -	\$ 80,327,955
Academic Support	9,581,114	3,521,097	822,519	-	-	13,924,730
Student Services	14,740,928	5,016,216	2,242,453	-	-	21,999,597
Operation and Maintenance of Plant	6,447,554	3,500,049	5,454,902	-	-	15,402,505
Institutional Support Services	16,704,166	6,994,499	10,526,596	-	-	34,225,261
Community Services and Economic Development	2,848,777	897,265	1,697,454	-	-	5,443,496
Ancillary Services and Auxiliary Operations	5,246,702	2,105,603	1,077,234	-	-	8,429,539
Student Aid	-	-	-	28,134,293	-	28,134,293
Other Outgo	336,109	130,950	240,329	-	-	707,388
Depreciation Expense	-	-	-	-	12,109,518	12,109,518
Total	\$ 115,923,715	\$ 37,727,801	\$ 26,808,955	\$ 28,134,293	\$ 12,109,518	\$ 220,704,282

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 15 – 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, 2015, represents estimated liabilities incurred prior to 1995, both reported and unreported, which are actuarially determined. The District participates in JPAs to provide excess insurance coverage above the self-insured retention level for workers compensation and property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

At June 30, 2015, 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 \$224,321. Changes in the reported liability for the years ended June 30, 2015 and June 30, 2014 are shown below:

June 30, 2014	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability	Amount Due in One Year
Workers' Compensation	\$ 127,846	\$ -	\$ (39,734)	\$ 88,112	\$ 88,112
Property and Liability	197,197	140,862	(201,850)	136,209	136,209
Total	\$ 325,043	\$ 140,862	\$ (241,584)	\$ 224,321	\$ 224,321

June 30, 2015	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability	Amount Due in One Year
Workers' Compensation	\$ 88,112	\$ -	\$ (88,112)	\$ -	\$ -
Property and Liability	136,209	327,462	(155,789)	307,882	307,882
Total	\$ 224,321	\$ 327,462	\$ (243,901)	\$ 307,882	\$ 307,882

SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2015

NOTE 16- 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, 2015, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$76,913,480. 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.

NOTE 17 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Pension Plans

Pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*, the District recognized deferred outflows and inflows of resources related to pensions in the District-wide financial statements. The District's deferred outflows and inflows of resources related to pensions were as follows at June 30, 2015:

	Deferred outflows related to pensions	Deferred inflows related to pensions
STRS Pension	\$ 8,300,583	\$ 17,555,800
PERS Pension	4,916,269	14,745,114
Total	\$ 13,216,852	\$ 32,300,914

NOTE 18 – RESTATEMENT OF NET POSITION

The beginning net position of the Primary Government has been restated due to the implementation of GASB 68 Net Pension Liability.

	Primary Government
Net Position - Beginning, as Previously Reported	\$ 542,827,416
Restatement for net pension liability	(136,536,119)
Net Position - Beginning, as Restated	\$ 406,291,297

**REQUIRED SUPPLEMENTARY
INFORMATION**

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)/(Surplus)	Funding Ratio	Covered Payroll	UAAL/(Surplus) as a Percentage of Covered Payroll
1/1/2015	\$ 95,095,769	\$ 82,275,244	\$ (12,820,525)	115.6%	\$ 75,870,000	(16.9%)
1/1/2014	\$ 90,697,726	\$ 80,371,743	\$ (10,325,983)	112.9%	\$ 71,115,000	(14.5%)
2/1/2013	\$ 73,602,685	\$ 89,492,430	\$ 15,889,745	82.2%	\$ 68,971,000	23.0%

See accompanying note to required supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
STRS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.12%
District's proportionate share of the net pension liability	\$ 71,293,140
District's covered-employee payroll	\$ 59,387,984
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.20
Plan fiduciary net position as a percentage of the total pension liability.	76.50%

See accompanying note to required supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY -
 PERS
 FOR THE YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
District's proportion of the net pension liability	0.38%
District's proportionate share of the net pension liability	\$ 42,912,204
District's covered-employee payroll	\$ 41,765,942
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.03
Plan fiduciary net position as a percentage of the total pension liability.	83.38%

See accompanying note to required supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS – STRS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	5,273,653
Contribution deficiency (excess)	<u>\$ (5,273,653)</u>
District's covered-employee payroll	\$ 59,387,984
Contributions as a percentage of covered-employee payroll	0

See accompanying note to required supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS – PERS
 FOR THE YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	4,916,269
Contribution deficiency (excess)	<u>\$ (4,916,269)</u>
District's covered-employee payroll	\$ 41,765,942
Contributions as a percentage of covered-employee payroll	0

See accompanying note to required supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1 - PURPOSE OF SCHEDULE

A. Schedule of Postemployment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the most recent actuarial valuation and from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental 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 post-employment benefits other than pensions.

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

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's proportion (percentage) of the collective net pension liability, the District's proportionate share (amount) of the collective net pension liability, the District's covered-employee payroll, the District's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

C. Schedule of District Contributions

This 10-year schedule is required by GASB Statement No. 68 for each cost-sharing pension plan. Until a full 10-year trend is compiled, the schedule will only show those years under which GASB Statement No. 68 was applicable. The schedule presents the District's statutorily or contractually required employer contribution, the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution, the District's covered-employee payroll, and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the District's covered-employee payroll.

**SUPPLEMENTARY
INFORMATION**

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
HISTORY AND ORGANIZATION
JUNE 30, 2015**

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 Educated Park (ATEP), located in Tustin.

BOARD OF TRUSTEES

Member	Office	Term Expires
Mr. T.J. Prendergast, III	President	2018
Mr. Timothy Jemal	Vice President	2016
Dr. James R. Wright	Clerk	2016
Ms. Marcia Milchiker	Trustee	2018
Ms. Barbara J. Jay	Trustee	2016
Ms. Terri Whitt	Trustee	2016
Mr. David B. Lang	Trustee	2016

DISTRICT EXECUTIVE OFFICERS

Name	Title
Gary L. Poertner	Chancellor
Dr. Tod A. Burnett	President, Saddleback College
Dr. Glenn R. Roquemore	President, Irvine Valley College
Dr. Debra L. Fitzsimons	Vice Chancellor, Business Services
Dr. Robert S. Bramucci	Vice Chancellor, Technology and Learning Services
Dr. David P. Bugay	Vice Chancellor, Human Resources and Employer/Employee Relations

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
U.S. Department of Education			
<i>Direct Program</i>			
Federal Supplemental Educational Opportunity Grant	84.007	*	\$ 402,997
Federal Work Study Program	84.033	*	333,378
Federal Pell Grant	84.063	*	22,523,202
Federal Direct Student Loans	84.268	*	3,656,013
<i>Subtotal Student Financial Assistance Cluster</i>			26,915,590
<i>Passed through the California Department of Education</i>			
Perkins Title I-C	84.048	12-C01-062	652,359
CTE Transitions - Perkins IV	84.243	12-112-891	86,538
Total U.S. Department of Education			27,654,487
U.S. Department of Health and Human Services			
<i>Passed through the California Department of Education</i>			
Temporary Assistance for Needy Families	93.558	6870-111-0001	72,298
Total U.S. Department of Health and Human Services			72,298
U.S. Department of Labor			
<i>Direct Program</i>			
Trade Adjustment Assistance Community College & Career Training	17.282	*	794,692
<i>Passed through the County of Orange</i>			
WIA/WIOA Adult Program	17.258	*	130,800
<i>Passed through the City of Santa Ana</i>			
WIA/WIOA Adult Program	17.258	*	153,442
<i>Subtotal 17.258</i>			284,242
Total U.S. Department of Labor			1,078,934
National Science Foundation			
<i>Direct Program</i>			
National Science Foundation Photonics Initiative	47.076	*	58,825
National Science Foundation S-STEM Scholars Program	47.076	*	196,038
<i>Subtotal National Science Foundation Direct Program Cluster</i>			254,863
<i>Passed through the Center for Occupational Research and Development (CORD)</i>			
Op-Tec: The National Center for Optics & Photonics Education	47.076	*	34,029
<i>Passed through the University of California, Irvine</i>			
National Science Foundation iUSE	47.076	*	24,486
<i>Passed through the American Association of Community Colleges</i>			
National Science Foundation MentorLinks	47.076	*	7,736
<i>Subtotal National Science Foundation Passed Through Cluster</i>			66,251
Total National Science Foundation			321,114
Total Federal Program Expenditures			\$ 29,126,833

See accompanying note to supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2015**

Program Name	Program Revenues			Total	Total Program Expenditures
	Cash Received	Accounts Receivable	Deferred Income		
State Categorical Aid Programs					
AB86 Adult Education Consortium	\$ 335,273	\$ -	\$ 97,489	\$ 237,784	\$ 237,784
Basic Skills 12/13 Allocation	31,898	-	-	31,898	31,898
Basic Skills 13/14 Allocation	248,700	-	-	248,700	248,700
Basic Skills 14/15 Allocation	314,595	-	304,251	10,344	10,344
Board Financial Assistance Program (BFAP)	853,052	-	-	853,052	853,052
CA Career Pathways Trust	565,315	-	323,368	241,947	241,947
CAL-B Student Grants	1,301,496	-	206	1,301,290	1,301,290
CAL-C Student Grants	28,091	-	-	28,091	28,091
CalWORKs	309,429	-	-	309,429	309,429
Child Development Training Consortium	16,625	-	-	16,625	16,625
Common Assessment	-	243,498	-	243,498	243,498
Cooperative Agencies Resources for Education (CARE)	76,097	-	-	76,097	76,097
CTE Community Collaborative 12/13	92,632	-	-	92,632	92,632
CTE Enhancement Fund	228,075	-	74,198	153,877	153,877
CTE Teacher Preparation Pipeline 12/13	7,322	-	-	7,322	7,322
CTE Teacher Preparation Pipeline 13/14	48,000	-	24,648	23,352	23,352
CTE Work-based Learning 12/13	353,119	-	-	353,119	353,119
Deputy Sector Navigator 14/15	80,000	1,104	-	81,104	81,104
Deputy Sector Navigator Energy	54,086	180,000	-	234,086	234,086
Disabled Students Programs and Services (DSPS)	2,659,169	-	-	2,659,169	2,659,169
Enrollment Growth for Associate Degree Nursing 14/15	346,187	-	-	346,187	346,187
Extended Opportunity Programs and Services (EOPS)	1,190,874	-	-	1,190,874	1,190,874
Faculty Entrepreneurship	-	5,000	-	5,000	5,000
Foster and Kinship Care Education (FKCE)	116,220	116,221	-	232,441	232,441
ICT Digital Media	4,000	-	-	4,000	4,000
ICT Digital Media	-	3,169	-	3,169	3,169
Infrastructure Program (TTIP)	29,770	-	-	29,770	29,770
Instructional Equipment and Library Materials	183,981	-	-	183,981	183,981
Physical Plant & Instructional Equipment	3,283,044	-	937,489	2,345,555	2,345,555
Small Business Sector Navigator	-	5,000	-	5,000	5,000
Small Business Sector Navigator	27,500	-	-	27,500	27,500
Staff Diversity	17,852	-	2,082	15,770	15,770
Student Equity	1,095,043	-	895,532	199,511	199,511
Student Success & Support Program - Credit	4,003,817	-	1,468,060	2,535,757	2,535,757
Student Success & Support Program - Non-credit	53,629	-	34,417	19,212	19,212
Work-based Learning 13/15	80,000	112,610	-	192,610	192,610
Total State Programs	\$ 18,034,891	\$ 666,602	\$ 4,161,740	\$ 14,539,753	\$ 14,539,753

See accompanying note to supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT ANNUAL
(ACTUAL) ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Reported Data	Audit Adjustment	Revised Data
A. Summer Intersession (Summer 2013 Only)			
1. Noncredit	242	-	242
2. Credit	2,044	-	2,044
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
2. Credit	2,583	-	2,583
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedures Courses			
(a) Weekly Census Contact Hours	15,449	-	15,449
(b) Daily Census Contact Hours	945	-	945
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	1,599	-	1,599
(b) Credit	1,099	-	1,099
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses	1,596	-	1,596
(b) Daily Census Procedure Courses	1,833	-	1,833
D. Total FTES	27,390	-	27,390
Basic Skills Courses and Immigrant Education			
1. Noncredit	485		
2. Credit	1,551		

See accompanying note to 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, 2015**

There were no adjustments necessary to reconcile the annual CCFS-311 report with the District accounting records for the fiscal year 2014-2015.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF THE ECS 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2015**

	Object/ TOP Codes	Activity (ESCA) ECS 84362 A Instructional Salary Cost AC 0100-5900 & AC 6100			Activity (ESCB) ECS 84362 B Total CEE AC 0100-6799		
		Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
<u>Academic Salaries</u>							
Instructional Salaries							
Contract or Regular	1100	\$ 30,786,308	\$ -	\$ 30,786,308	\$ 30,786,308	\$ -	\$ 30,786,308
Other	1300	22,440,601	-	22,440,601	22,440,601	-	22,440,601
Total Instructional Salaries		53,226,909	-	53,226,909	53,226,909	-	53,226,909
Non-Instructional Salaries							
Contract or Regular	1200	-	-	-	9,648,760	-	9,648,760
Other	1400	-	-	-	2,553,613	-	2,553,613
Total Non-Instructional Salaries		-	-	-	12,202,373	-	12,202,373
Total Academic Salaries		53,226,909	-	53,226,909	65,429,282	-	65,429,282
<u>Classified Salaries</u>							
Non-Instructional Salaries							
Regular Status	2100	-	-	-	26,620,462	-	26,620,462
Other	2300	-	-	-	1,896,630	-	1,896,630
Total Non-Instructional Salaries		-	-	-	28,517,092	-	28,517,092
Instructional Aides							
Regular Status	2200	2,942,946	-	2,942,946	2,942,946	-	2,942,946
Other	2400	1,233,352	-	1,233,352	1,233,352	-	1,233,352
Total Instructional Aides		4,176,298	-	4,176,298	4,176,298	-	4,176,298
Total Classified Salaries		4,176,298	-	4,176,298	32,693,390	-	32,693,390
Employee Benefits	3000	15,031,684	-	15,031,684	32,714,872	-	32,714,872
Supplies and Materials	4000	-	-	-	1,771,505	-	1,771,505
Other Operating Expenses	5000	665,038	-	665,038	13,253,969	-	13,253,969
Equipment Replacement	6420	-	-	-	-	-	-
Total Expenditures Prior to Exclusions		73,099,929	-	73,099,929	145,863,018	-	145,863,018
<u>Exclusions</u>							
Activities to Exclude							
Instructional Staff-Retirees' Benefits and Retirement Incentives	5900	-	-	-	-	-	-
Student Health Services Above Amount Collected	6441	-	-	-	35	-	35
Student Transportation	6491	-	-	-	447,865	-	447,865
Non-instructional Staff-Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Object to Exclude							
Rents and Leases	5060	-	-	-	322,186	-	322,186
Lottery Expenditures							
Academic Salaries	1000	-	-	-	-	-	-
Classified Salaries	2000	-	-	-	180,442	-	180,442
Employee Benefits	3000	-	-	-	63,244	-	63,244
Supplies and Materials							
Software	4100	-	-	-	-	-	-
Books, Magazines & Periodicals	4200	-	-	-	-	-	-
Instructional Supplies & Materials	4300	-	-	-	-	-	-
Non-instructional Supplies & Materials	4400	-	-	-	19,595	-	19,595
Total Supplies and Materials		-	-	-	19,595	-	19,595
Other Operating Expenses and Services	5000	-	-	-	3,941,317	-	3,941,317
Capital Outlay							
Library Books	6300	-	-	-	-	-	-
Equipment							
Equipment - Additional	6410	-	-	-	-	-	-
Equipment - Replacement	6420	-	-	-	-	-	-
Total Equipment		-	-	-	-	-	-
Total Capital Outlay		-	-	-	-	-	-
Other Outgo	7000	-	-	-	-	-	-
Total Exclusions		-	-	-	4,974,684	-	4,974,684
Total for ECS 84362, 50% Law		\$ 73,099,929	\$ -	\$ 73,099,929	\$ 140,888,334	\$ -	\$ 140,888,334
Percent of CEE (Instructional Salary Cost/Total CEE)		51.89%		51.89%	100.00%		100.00%
50% of Current Expense of Education					\$ 70,444,167		\$ 70,444,167

See accompanying note to supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
 DETAILS OF EDUCATION PROTECTION ACCOUNT
 FOR THE YEAR ENDED JUNE 30, 2015**

EPA Revenue	\$ 2,784,886
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Activity Classification	Activity Code	Salaries and Benefits	Operating Expenses	Capital Outlay	Total
		(Obj 1000-3000)	(Obj 4000-5000)	(Obj 6000)	
Instructional Activities	0100-5900	\$ 2,784,886	\$ -	\$ -	\$ 2,784,886
Total		\$ 2,784,886	\$ -	\$ -	\$ 2,784,886

See accompanying note to supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	(Budget) 2016		2015		2014		2013		2012	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
General Fund:										
Revenue										
Federal	\$ 3,958,708	1.61	\$ 2,558,497	1.09	\$ 1,514,722	0.71	\$ 2,073,069	1.00	\$ 2,589,704	1.34
State	32,478,246	13.23	25,104,508	10.72	18,029,721	8.48	16,471,837	7.96	15,128,747	7.81
Local	209,051,885	85.16	206,588,179	88.19	193,095,707	90.81	188,357,858	91.04	175,952,750	90.85
Total revenue	<u>245,488,839</u>	<u>100.00</u>	<u>234,251,184</u>	<u>100.00</u>	<u>212,640,150</u>	<u>100.00</u>	<u>206,902,764</u>	<u>100.00</u>	<u>193,671,201</u>	<u>100.00</u>
Expenditures										
Academic salaries	75,635,828	28.40	69,975,889	31.31	66,455,148	32.78	63,172,261	31.42	59,702,177	30.83
Classified salaries	46,977,893	17.64	42,454,663	19.00	40,077,558	19.77	39,106,926	19.45	38,843,931	20.06
Employee benefits	43,404,626	16.30	37,395,709	16.73	34,298,495	16.92	39,400,202	19.60	33,355,543	17.22
Supplies and materials	5,614,133	2.11	3,094,379	1.38	2,834,961	1.40	2,643,214	1.31	2,718,398	1.40
Other operating expenses and services	23,923,692	8.98	17,357,142	7.77	15,410,692	7.60	14,462,045	7.19	13,832,822	7.14
Capital outlay	10,839,784	4.07	6,624,181	2.96	3,561,863	1.76	3,363,957	1.67	4,023,472	2.08
Other uses (net)	59,931,110	22.50	46,595,792	20.85	40,084,526	19.77	38,893,768	19.35	41,198,807	21.27
Total expenditures	<u>266,327,066</u>	<u>100.00</u>	<u>223,497,755</u>	<u>100.00</u>	<u>202,723,243</u>	<u>100.00</u>	<u>201,042,373</u>	<u>100.00</u>	<u>193,675,150</u>	<u>100.00</u>
Change in fund balance	<u>\$ (20,838,227)</u>	<u>-</u>	<u>\$ 10,753,429</u>	<u>-</u>	<u>\$ 9,916,907</u>	<u>-</u>	<u>\$ 5,860,391</u>	<u>-</u>	<u>\$ (3,949)</u>	<u>-</u>
Ending fund balance	<u>\$ 25,053,164</u>	<u>9.41</u>	<u>\$ 54,989,959</u>	<u>24.60</u>	<u>\$ 44,236,530</u>	<u>21.82</u>	<u>\$ 34,319,623</u>	<u>17.07</u>	<u>\$ 30,813,242</u>	<u>15.91</u>
Full-time equivalent students	<u>28,376</u>		<u>27,390</u>		<u>26,043</u>		<u>27,804</u>		<u>27,497</u>	
Total long-term debt	<u>\$ 117,391,540</u>		<u>\$ 119,081,675</u>		<u>\$ 5,280,253</u>		<u>\$ 8,180,238</u>		<u>\$ 12,324,235</u>	

Important Notes:

All revenue percentages are of total revenues, all other percentages are of total expenditures.

Budget figures include adopted budget.

See accompanying note to supplementary information.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

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 for the year ended June 30, 2015 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. The Schedule of Federal Awards and the Schedule of State Financial Assistance is prepared 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 South Orange County Community College District's annual calculation of funding.

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. Reconciliation of the ECS 84362 (50 percent law) Calculation

This schedule reports any audit adjustments made to the reported data to ensure that a minimum of 50 percent of the District's current expense of education is expended for salaries of classroom instructors.

E. Details of the Education Protection Account

This schedule reports the revenue and expenditures of the District Proposition 30 Education Protection Account.

F. Schedule of General Fund Financial Trends and Analysis

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

**OTHER INDEPENDENT
AUDITORS' REPORTS**

**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**

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Independent Auditors' Report

Governing Board
South Orange County Community College District
Mission Viejo, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity, aggregate discretely presented component units and fiduciary funds of South Orange County Community College District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the South Orange County Community College District's basic financial statements, and have issued our report thereon dated October 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Orange County Community College District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Orange County Community College District's internal control. Accordingly, we do not express an opinion on the effectiveness of South Orange County Community College District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

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

Compliance and Other Matters

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

Purpose of this Report

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

Christy White Associates

San Diego, California
October 28, 2015

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

Christy White, CPA

Independent Auditors' Report

Michael Ash, CPA

Heather Rubio

Governing Board
South Orange County Community College District
Mission Viejo, California

Report on Compliance for Each Major Federal Program

We have audited South Orange County Community College District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South Orange County Community College District's major federal programs for the year ended June 30, 2015. South Orange County Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of South Orange County Community College District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of 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 South Orange County Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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SAN FRANCISCO/BAY AREA

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Orange County Community College District's compliance.

Opinion on Each Major Federal Program

In our opinion, South Orange County Community College District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of South Orange County Community College District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Orange County Community College District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 South Orange County Community College District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
October 28, 2015

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

Governing Board
South Orange County Community College District
Mission Viejo, California

Report on State Compliance

We have audited South Orange County Community College District's compliance with the types of compliance requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2014-15*, issued by the California Community Colleges Chancellor's Office for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on South Orange County Community College District's compliance with the requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Community Colleges Contracted District Audit Manual (CDAM) 2014-15*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about South Orange County Community College District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of South Orange County Community College District's compliance with those requirements.

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
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Opinion on State Compliance

In our opinion, South Orange County Community College District complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2015.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine South Orange County Community College District's compliance with the state laws and regulations applicable to the following items:

- Section 421 – Salaries of Classroom Instructors (50 Percent Law)
- Section 423 - Apportionment for Instructional Service Agreements/Contracts
- Section 424 - State General Apportionment Funding System
- Section 425 - Residency Determination for Credit Courses
- Section 426 - Students Actively Enrolled
- Section 427 - Concurrent Enrollment of K-12 Students in Community College Credit Courses
- Section 430 – Scheduled Maintenance Program
- Section 431 - Gann Limit Calculation
- Section 435 - Open Enrollment
- Section 438 - Student Fees – Health Fees and Use of Health Fee Funds
- Section 439 – Proposition 39 Clean Energy
- Section 440 – Intercession Extension Program
- Section 474 - Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE)
- Section 475 - Disabled Student Programs and Services (DSPS)
- Section 479 - To Be Arranged Hours (TBA)
- Section 490 - Proposition 1D State Bond Funded Projects
- Section 491- Proposition 30 Education Protection Account Funds

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing over state laws and regulations based on the requirements described in the *California Community Colleges Contracted District Audit Manual (CDAM) 2014-15*. Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
October 28, 2015

**SCHEDULE OF FINDINGS
AND QUESTIONED COSTS**

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program of Cluster</u>
<u>84.007, 84.033, 84.063, 84.268</u>	<u>Student Financial Assistance Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 873,805</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unmodified</u>

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO THE FINANCIAL
STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings or questioned costs related to the financial statements for the year ended June 30, 2015.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings or questioned costs related to the federal awards for the year ended June 30, 2015.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings or questioned costs related to the state awards for the year ended June 30, 2015.

**SOUTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no findings or questioned costs for the year ended June 30, 2014.