

**NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
North Orange County Community College District
Anaheim, California

We have audited the accompanying basic financial statements of the business-type activities of North Orange County Community College District (the District) as of and for the year ended June 30, 2009, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of North Orange County Community College District as of June 30, 2009, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding allocations of North Orange County Community College District.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Additional Supplementary Information on pages 73 through 80 has been presented at the request of District management for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavuneh, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2009



NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FRED WILLIAMS, CPA
Vice Chancellor
Finance & Facilities

NED DOFFONEY, Ed. D.
Chancellor

Introduction

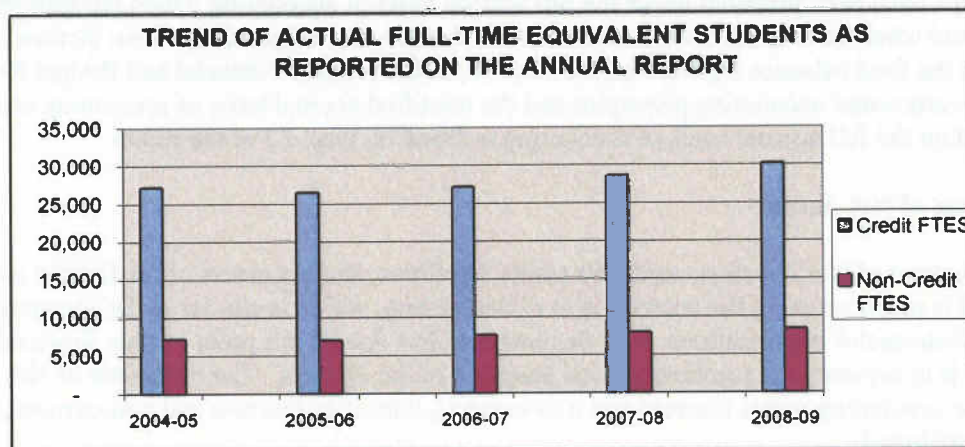
The following discussion and analysis provides an overview of the financial position and activities of the North Orange County Community College District (the District) for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

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

North Orange County Community College District includes two comprehensive community colleges and a large School of Continuing Education. The mission of the North Orange County Community College District is to serve and enrich our communities and inspire life-long learning by providing education that is exemplary, relevant, and accessible. Cypress College and Fullerton College offer associate degrees, vocational certificates, and transfer education, as well as developmental instruction and a broad array of specialized training. The School of Continuing Education offers non-college credit programs including high school diploma completion, basic skills, vocational certificates, and self-development courses.

Selected Highlights

- During 2008-2009, total full-time equivalent students (FTES) increased by 2,008, approximately 5.5 percent. Credit and non-credit FTES, along with a per college and per center allocation, are the basis for the District's State apportionment. Although changes in FTES directly impact our State apportionment funding, 2008-2009 was the second year in a row that the District exceeded its State-established growth cap for 2008-2009. As a result, of the total 38,552 FTES, 7.8 percent was unfunded.



NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

- On March 5, 2002, the voters of the District approved a \$239,000,000 bond measure with \$139,000,000 (Series A) issued in May 2002 and \$99,999,001 (Series B) issued in December 2003. In April 2005, the District issued \$164,935,000 General Obligation Refunding Bonds to advance refund and defease portions of the Series A and B bonds. The Refunding resulted in an additional \$9.6 million in proceeds to be used for leveraging an additional \$87 million from State Facilities Bond monies to be used for the local match requirement of the Cypress College Humanities project and the Fullerton College Science Building and Technology Center projects. Twenty major projects were established to be undertaken with these bond proceeds that would provide better facilities for the students, faculty, and community. During the 2008-2009 fiscal year, the Gateway Plaza project at Cypress College, the Classroom/Faculty Office Building project at Fullerton College, and the School of Continuing Education Wilshire project were completed. In addition, the Humanities project at Cypress College, and the South Science Building, and Physical Education Facilities projects at Fullerton College, had significant strides made during the fiscal year.

Financial Highlights

This section is to provide an overview of the District's financial activities. A comparative analysis is included in the Management's Discussion and Analysis using prior year information. Certain prior year amounts have been reclassified to follow current year classifications.

Financial Statement Presentation and Basis of Accounting

The District's financial report includes three financial statements: The Statement of Net Assets, the Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows. Additional information regarding these financial statements is provided on the following pages.

The financial statements noted above are prepared in accordance with Governmental Accounting Standards Board Statements No. 34 and No. 35 that provide an entity wide perspective. Therefore, the financial data presented in these financial statements is a combined total of all District funds including Student Financial Aid Programs and Retiree Benefits.

Also, in accordance with Governmental Accounting Standards Board Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. A reconciliation between the fund balances reported on the June 30, 2009, Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles and the modified accrual basis of accounting and the total net assets recorded on the full accrual basis of accounting is found on page 53 of the report.

Statement of Net Assets

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The Statement of Net Assets as of June 30, 2009 and 2008, is summarized below.

	(in thousands)	
	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 185,892	\$ 231,303
Receivables	45,630	19,061
Inventory	1,369	2,072
Other assets	1,694	1,839
Total current assets	<u>234,585</u>	<u>254,275</u>
Non-current assets		
Capital assets, net	397,218	349,843
Total non-current assets	<u>397,218</u>	<u>349,843</u>
TOTAL ASSETS	<u>631,803</u>	<u>604,118</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	25,704	30,112
Deferred revenue	4,135	4,826
Amounts held for others	6,578	6,256
Compensated absences - current portion	3,104	3,088
Long-term liabilities - current portion	6,255	5,490
Total current liabilities	<u>45,776</u>	<u>49,772</u>
Non-current liabilities		
Long-term liabilities less current portion	255,521	251,374
Total non-current liabilities	<u>255,521</u>	<u>251,374</u>
TOTAL LIABILITIES	<u>301,297</u>	<u>301,146</u>
NET ASSETS		
Invested in capital assets, net	190,846	165,607
Restricted	45,187	46,676
Unrestricted *	94,473	90,689
TOTAL NET ASSETS	<u>\$ 330,506</u>	<u>\$ 302,972</u>

* Unrestricted Net Assets are defined by GASB Statements No. 34 and No. 35 as those net assets that do not have external legal restrictions against them, including any amounts designated by the Board of Trustees.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

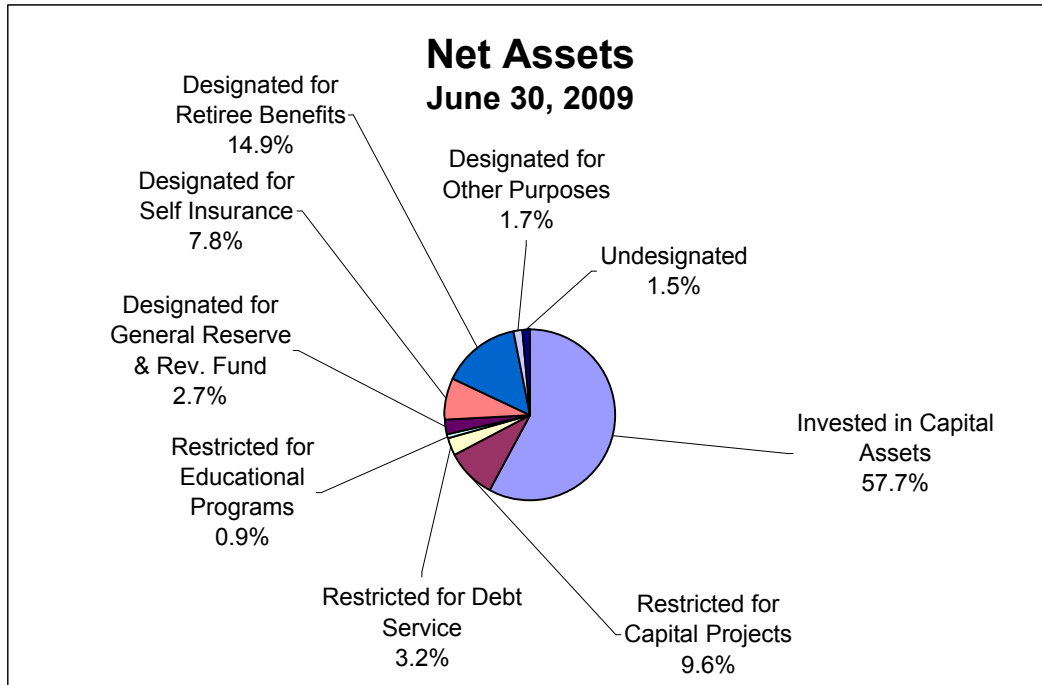
- Cash and cash equivalents consist primarily of cash held in Bond Funds (\$35.2 million), General Fund (\$34.7 million), Retiree Benefits Fund (\$47.9 million), Capital Outlay Fund (\$15.0 million), and the Self Insurance Fund (\$20.7 million). The decrease in cash is primarily related to the spending down of Bond dollars as we complete construction on several bond projects. Additionally, General Fund cash decreased due to additional State apportionment deferrals and Capital Outlay Fund cash decreased due to many of our State capital outlay construction claim reimbursements not being processed during the 2008-2009 fiscal year. The Cash Flow Statement included in these financial statements provides greater detail of the sources and uses of the District's cash during the 2008-2009 fiscal year.
- Accounts receivable consist mainly of receivables from Federal and State sources for grant and entitlement programs and receivables from local sources for all other purposes. Note 4 of these financial statements provides a summary of the accounts receivable balance. The increase in accounts receivable is primarily attributed to an increase in State apportionments receivable of \$9 million, and an increase in capital outlay reimbursements receivable of \$18.2 million. State apportionment receivables increased due to additional apportionment deferrals. During 2007-2008, the California Community College budget package included a \$200 million system-wide apportionment revenue deferral whereas during 2008-2009, an additional \$340 million was enacted, bringing the total system-wide deferral amount to \$540 million. The capital outlay reimbursement receivables increased as a result of an action taken by the Pooled Money Investment Board (PMIB) on December 17, 2008, to freeze all disbursements for state-funded capital outlay projects in response to the State budget crisis. Due to the substantial progress made on many of our construction projects during 2008-2009, a significant amount of our claims were "held" by the State until a time that they were able to begin disbursing funds, after the end of the 2008-2009 fiscal year.
- Inventory is primarily made up of merchandise held for sale in the Bookstores located at Cypress College, Fullerton College, and the School of Continuing Education.
- Other assets are primarily made up of prepaid Bond issuance costs for the District's general obligation bond program which are being amortized over the term of the bond.
- Capital assets had a net increase of \$47 million which is primarily due to building additions and improvements. Major building additions for projects brought on-line during the 2008-2009 fiscal year included the Gateway Plaza and Parking Lot projects at Cypress College, the Classroom/Faculty Office Building at Fullerton College, the School of Continuing Education Wilshire project, and various roofing, lighting, air handler, and mechanical system replacement projects at Cypress and Fullerton colleges.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2009. Accrued liabilities are amounts due to or on behalf of employees for wages and benefits earned as of the end of the fiscal year, but paid out subsequent to June 30, 2009. The change in accounts payable and accrued liabilities is primarily due to a decrease in construction payables as we near the completion of our capital construction program.
- Deferred revenues are those funds that are received, but not yet earned. They typically involve restricted State and Federal grants that are earned when spent and allow more than one year to expend the funds.
- Amounts held for others are amounts held in the Bursar Funds at each campus.
- Compensated absences are amounts accrued for accumulated, unpaid employee vacation benefits and load banking where eligible academic employees may teach extra courses in one period for exchange for time off in another period.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

- The District currently has two bonded debt issues outstanding that amount to \$239 million. Additionally, the District issued Refunding Bonds on portions of the two outstanding issues in April 2005. The long-term debt balances include unamortized premiums and deferred charges on refunding related to the general obligation bond liability, compensated absences, and a net post-employment obligation for medical benefits for retirees, consistent with GASB Statement No. 45. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.



Statement of Revenues, Expenses, and Change in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Change in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District, the operating and non-operating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The Statement of Revenues, Expenses, and Change in Net Assets for the years ended June 30, 2009 and 2008, is summarized below:

	(in thousands)	
	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net tuition and fees	\$ 17,032	\$ 16,199
Sales	10,587	10,353
Total operating revenues	<u>27,619</u>	<u>26,552</u>
Operating Expenses		
Salaries and benefits	173,341	174,344
Supplies, materials, depreciation and other expenses	68,491	63,348
Total operating expenses	<u>241,832</u>	<u>237,692</u>
Operating loss	<u>(214,213)</u>	<u>(211,140)</u>
Non-operating revenues (expenses)		
State apportionments, non-capital	91,720	90,693
Local property taxes	72,139	68,767
Grants and contracts, non-capital	47,680	40,670
State taxes and other revenues	5,401	5,254
Investment income, net	4,102	10,265
Other non-operating revenues (expenses), net	(1,835)	(1,525)
Total non-operating revenues (expenses)	<u>219,207</u>	<u>214,124</u>
Other revenues, expenses, gains or losses		
State revenue, capital	<u>22,540</u>	<u>4,646</u>
Change in net assets	27,534	7,630
Net assets, beginning of year	<u>302,972</u>	<u>295,342</u>
Net assets, end of year	<u>\$ 330,506</u>	<u>\$ 302,972</u>

- Net tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending the North Orange County Community College District. These include fees paid for health services, parking, community services classes, and other related fees.
- Sales are primarily related to the sale of merchandise in the Bookstores located at Cypress College, Fullerton College, and the School of Continuing Education.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

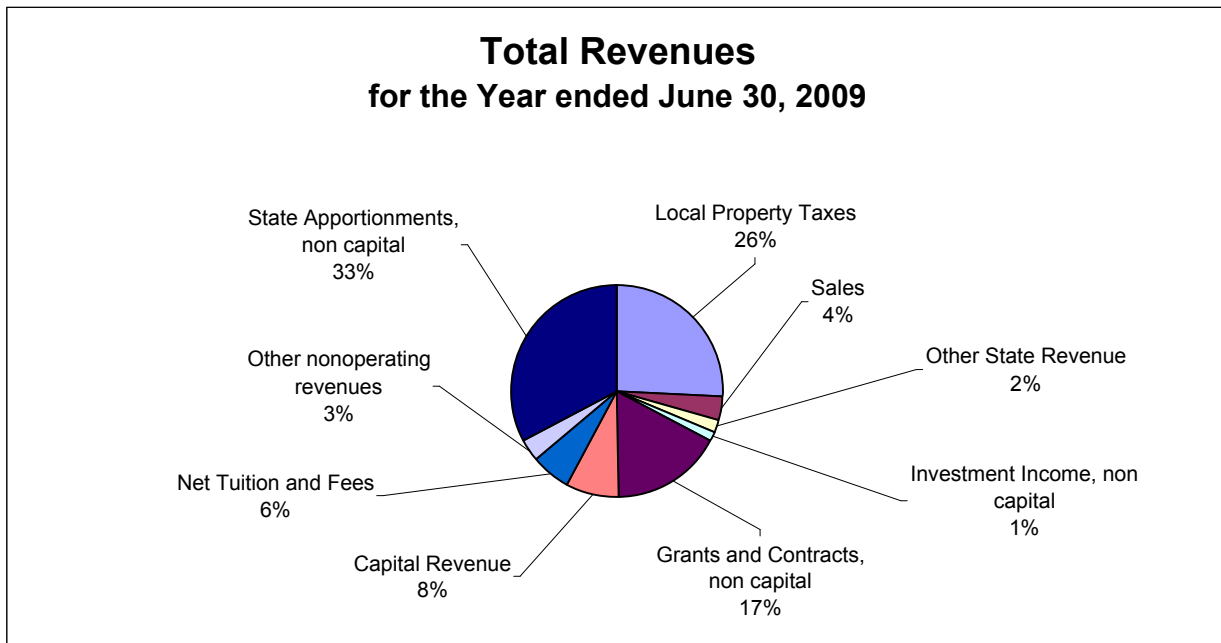
- Salaries and benefits consist of 71.7 percent of total operating expenses from a District-wide, full-accrual perspective. In other words, these amounts include the activity from all District funds, not just the General Fund. Consequently, this percentage is lower than normally discussed when talking about the percentage of salaries compared to total expenses since it is computed using all of our Capital Outlay and Bond Fund expenditures that are primarily capital outlay expenditures. Salaries and Benefits in the General Fund make up 87.5 percent of total General Fund expenses as reflected on page 74. The overall decrease in Salaries and Benefits is primarily due to "savings" resulting from various vacant positions throughout the District which were not filled due to budgetary constraints.
- Other operating expenses consist of supplies, insurance, utilities, depreciation expense, other services, and capital outlay items below the capitalization threshold.
- The operating loss reported on the Statement of Revenues, Expenses, and Change in Net Assets is related to the reporting requirements of GASB Statement No. 35 that identify transactions as either exchange or non-exchange. If a transaction is considered an exchange transaction, then the revenue is considered operating revenue. Conversely, if a transaction is deemed a non-exchange transaction, then the revenue is considered non-operating revenue. In our case, the revenues received from the State of California as apportionment and from local property taxes are deemed non-exchange transactions and consequently, non-operating revenues. Every community college district within the State of California will have a large operating loss due to this required reporting presentation.
- State apportionments, non-capital, local property taxes, and tuition and fees are all components of the community college apportionment funding model. In 2006-2007, as a result of the passage of Senate Bill 361 (SB 361), this funding model changed from the former program based funding model (PBF) to the current SB 361 model. The SB 361 formula is comprised of a base allocation, an amount per credit full-time equivalent students (FTES), non-credit FTES, and an enhanced amount per qualifying non-credit FTES for career development and college preparation courses. The SB 361 model incorporated equalization into the base funding and provided increased funding rates which translated into additional dollars for the District. Another important aspect of the community college apportionment funding model is the inverse relationship between State apportionment and local property taxes. We are essentially funded from enrollment fees and local property taxes with the difference made up of State apportionment.
- Local property taxes are received through the Auditor-Controller's Office for Orange and Los Angeles Counties. The amount received for property taxes is deducted from the total State apportionment amount for general revenue calculated by the State.
- Grants and contracts, non-capital are primarily those received from Federal and State sources and used in the instructional program such as the Student Financial Aid Cluster of programs, Vocational Education Programs, Disabled Student Programs and Services (DSPS) and Extended Opportunity Programs and Services (EOPS). Pages 49 and 50 of the supplementary information section of this report provide a complete listing of Federal and State non-capital grants and contracts. The increase in this account over the prior year is primarily due to an increase in the Federal Pell Grant Program. Based on the current economic climate, the number of Pell-eligible enrolled students has increased significantly, resulting in additional awards.
- State taxes and other revenues are mainly comprised of Lottery revenues.
- Investment income, net decreased due to the decline in interest rates and due to reduced balances resulting from the State apportionment deferrals. In 2008-2009, the average interest rate earned was 2.00 percent for the Orange County Investment pool and 2.18 percent for LAIF, whereas in 2007-2008 the rates were 4.43 percent and 4.37 percent, respectively. In addition, as a direct result of the apportionment deferrals for community colleges, the average cash balance during 2008-2009 was \$138 million whereas the average cash balance during 2007-2008 was \$185 million.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

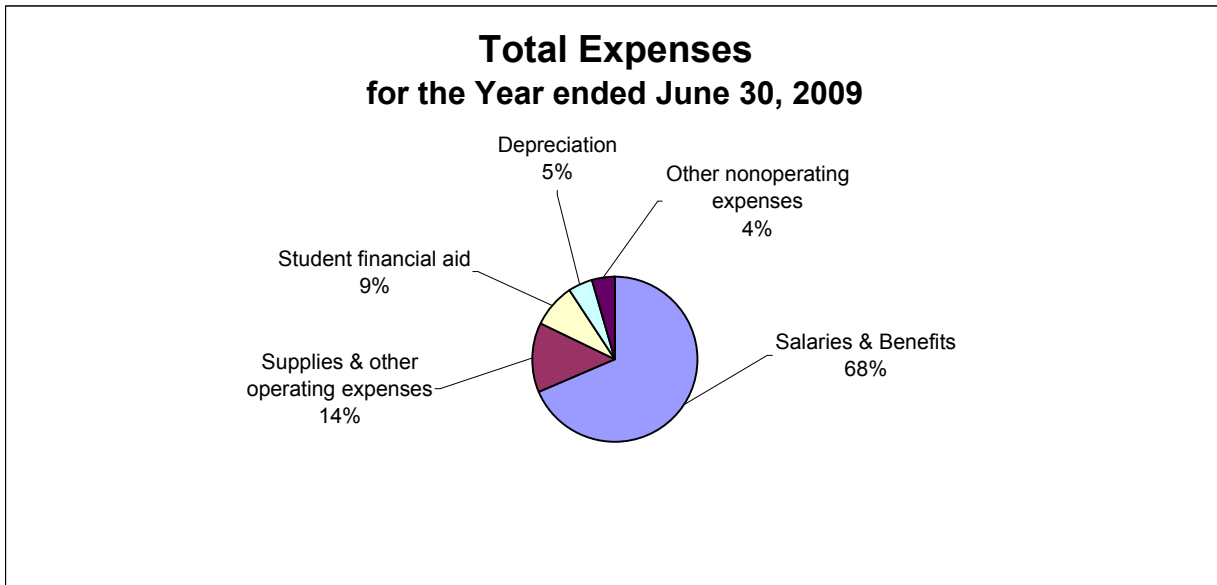
JUNE 30, 2009

- Other non-operating revenues (expenses), net are comprised of the amounts recorded in the Bond Interest and Redemption Fund that was established for the General Obligation Bond, accrued interest on the general obligation bonds, other local revenues, local revenues designated for capital purposes, capital outlay fees received from non-resident students and an amount recorded for payments made by the State of California, to STRS, on the District's behalf, in the amount of \$3.3 million.
- State revenues, capital relate to projects for capital outlay, scheduled maintenance, and hazardous substance programs. The increase in this account is mainly due to the Cypress College Humanities Remodel and the Fullerton College Science Building. Both of these projects were well underway during 2008-2009. As these are State-supported capital outlay projects, revenue is recognized as expenditures are incurred.
- Functional expenses, which show expenditures by activity such as instructional activities, academic support, student services, and other activities, are included in Note 13 of the financial statements.



NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009



Statement of Cash Flows

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

The summarized Statement of Cash Flows for the years ended June 30, 2009 and 2008, is presented below:

(in thousands)

	<u>2009</u>	<u>2008</u>
Cash Provided By (Used in)		
Operating activities	\$ (194,497)	\$ (194,913)
Non-capital financing activities	201,723	205,800
Capital and related financing activities	(56,739)	(60,279)
Investing activities	4,102	10,265
Net decrease in cash and cash equivalents	(45,411)	(39,127)
Cash balance, beginning of year	231,303	270,430
Cash balance, end of year	<u>\$ 185,892</u>	<u>\$ 231,303</u>

- Operating activities mainly consist of cash receipts from student tuition and cash payments for salaries, benefits, supplies, other operating expenses, utilities, insurance, and other items related to the instructional program.
- Non-capital financing activities are primarily comprised of State apportionment, property taxes, and Federal, State and local grants for other than capital purposes. State apportionments and property taxes received account for 74 percent of the total cash provided by non-capital financing activities. Additionally, cash received from non-capital related grants and contracts accounts for 23 percent of the total cash provided by non-capital financing activities.
- Capital and related financing activities are mostly made up of the purchase or sale of capital assets, principal and interest payments on any debt issued and proceeds received from any new debt issuances, and cash sources or uses from Federal, State, and local grants for capital purposes.
- The cash from investing activities is interest earned on cash in banks, cash invested through the Orange County Investment Pool, and on investments with LAIF. The decrease in cash received from investing activities is due to the lower interest earnings from declining interest rates and from lower average cash balances on deposit during the 2008-2009 fiscal year.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the District had \$397.2 million invested in net capital assets. Total capital assets of \$473.8 million consist of land, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$76.6 million over the years they have been in service. During 2008-2009, \$57.9 million of building and improvement projects completed construction. In addition, \$56.1 million of significant construction in progress occurred during 2008-2009. Depreciation expense of \$11.7 million was recorded for the fiscal year.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Capital additions primarily comprise replacement, renovation, and new construction. Capital additions of completed construction projects occurred at Cypress College for the Gateway Plaza, Parking Lot, Access Doors, Air Handler Unit projects, and various roofing projects, at Fullerton College for the Classroom/Faculty Office Building, Interior/Exterior Lighting projects, Building Systems Mechanical Replacement projects, and various roofing projects, and at the School of Continuing Education for the Wilshire project. Significant capital additions of construction in progress occurred at Cypress College for the Humanities remodel and at Fullerton College for the South Science Building, Technology Center, and the Physical Education Facilities projects.

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

(in thousands)

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 16,981	\$ 17,083
Buildings and improvements	254,690	207,180
Equipment	8,713	6,976
Construction in progress	<u>116,834</u>	<u>118,604</u>
Net capital assets	<u>\$ 397,218</u>	<u>\$ 349,843</u>

Debt Administration

At June 30, 2009, the District had \$264.9 million in debt primarily made up of \$239.7 million from general obligation bonds; \$1.9 million from Self-Insurance claims payable; \$6.9 million from compensated absences payable, and \$16.3 million as the net OPEB obligation which represents the difference between the District's actuarially determined Annual Required Contribution and the amount the District made in contributions during the 2008-2009 fiscal year for post-employment medical benefit premium costs. The general obligation bonds were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities, and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. The District's bond rating of AA has not changed from the prior year.

As reflected in the \$16.3 million net OPEB obligation, these financial statements include a liability for retiree benefits, in accordance with Governmental Accounting Standards Board Statement No. 45, which requires districts to recognize an expense on their financial statements for the sum of ongoing annual out-of-pocket retiree benefit costs, plus an amortized annual actuarially determined amount necessary to recognize the entire unfunded obligation over a period not to exceed 30 years. Based on an actuarial study dated October 2006, with an addendum dated November 2008, the District's actuarially determined unfunded liability was projected at \$166.2 million as of June 30, 2008. The District currently has \$49.2 million set aside for retiree health benefits.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Note 8 to the financial statements provides additional information on long-term liabilities. A summary of long-term debt is presented below:

(in thousands)

	<u>2009</u>	<u>2008</u>
Long-term debt		
General Obligation Bonds	\$ 239,721	\$ 243,054
Claims payable	1,900	2,212
Compensated absences	6,934	6,656
Net OPEB obligation	<u>16,325</u>	<u>8,030</u>
Total long-term debt	264,880	259,952
Less current portion	<u>(9,359)</u>	<u>(8,578)</u>
Long-term portion	<u>\$ 255,521</u>	<u>\$ 251,374</u>

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 excluded from these financial statements since these resources 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.

Economic Factors that May Affect the Future

As of June 30, 2009, the District ended the fiscal year with a healthy surplus due to prior year's prudent fiscal management, in anticipation of challenging budget times ahead. However, there is still significant concern for the 2009-2010 fiscal year and future budget years as there remains an overall structural deficit in the State budget. The economic position of the District is closely tied to that of the State of California. Until the overall economy regains its strength, the California State budget, and thus the California Community Colleges, will continue their struggles at a time when resources are scarce but demand is high. Furthermore, the worldwide economic struggles have caused additional budget turmoil for California. The 2009-2010 budget imposed deep cuts to California Community Colleges. This leaves colleges to rely on their reserves to sustain operations during these difficult economic times. Currently, the North Orange County Community College District is working through the budget woes centering around these deep ongoing cuts. In addition, further reductions are expected mid-year as the State's revenue projections do not appear to be holding true. Management will continue to closely monitor the State budget information and will maintain a close watch over resources to sustain our ability to react to internal and external issues.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

The District is moving forward on bond and capital outlay funded projects in the 2009-2010 fiscal year. It is expected that the Cypress College Humanities Remodel and the Fullerton College Physical Education Facilities projects will be completed during the 2009-2010 fiscal year.

Also significant for the future, as construction continues on the Fullerton College Technology and Engineering Complex, other costs such as swing space issues, equipment budgets, and construction management and program management fees will need to be budgeted. In addition, cash flow will continue to be a concern as the State capital outlay reimbursement process has been uncertain based on the ability of the Pooled Money Investment Board (PMIB) to sell statewide bonds to be used to fund local construction projects.

Other than the items discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Vice Chancellor, Finance and Facilities, North Orange County Community College District, 1830 West Romney Drive, Anaheim, CA 92801.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 15,652,269
Investments	170,239,423
Accounts receivable	44,982,687
Student loans receivable	647,005
Stores inventories	1,369,322
Deferred cost on issuance	1,693,861

Total Current Assets	234,584,567
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Noncurrent Assets

Nondepreciable capital assets	131,589,876
Depreciable capital assets, net of depreciation	265,628,091

Total Noncurrent Assets	397,217,967
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TOTAL ASSETS	631,802,534
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LIABILITIES

Current Liabilities

Accounts payable	21,820,212
Accrued interest payable	3,883,794
Deferred revenue	4,134,707
Amounts held in custody on behalf of others	6,578,583
Compensated absences payable	3,103,766
Bonds payable	6,255,000

Total Current Liabilities	45,776,062
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Noncurrent Liabilities

Compensated absences payable	3,829,758
Claims liability	1,899,856
Bonds payable	233,465,628
Other long-term liabilities - noncurrent portion	16,325,541

Total Noncurrent Liabilities	255,520,783
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TOTAL LIABILITIES	301,296,845
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NET ASSETS

Invested in capital assets, net of related debt	190,845,747
Restricted for:	
Debt service	10,666,749
Capital projects	31,574,539
Educational programs	2,945,198
Unrestricted	94,473,456

TOTAL NET ASSETS	\$ 330,505,689
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The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

OPERATING REVENUES	
Student Tuition and Fees	\$ 23,017,477
Less: Scholarship discounts and allowances	(5,985,543)
Net tuition and fees	<u>17,031,934</u>
 Auxiliary enterprise sales and charges	 <u>10,587,000</u>
TOTAL OPERATING REVENUES	<u>27,618,934</u>
OPERATING EXPENSES	
Salaries	128,158,530
Employee benefits	45,181,947
Supplies, materials, and other operating expenses and services	34,959,410
Student financial aid	21,785,049
Depreciation	11,746,575
TOTAL OPERATING EXPENSES	<u>241,831,511</u>
OPERATING LOSS	<u>(214,212,577)</u>
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	91,719,566
Local property taxes, levied for general purposes	57,078,435
Taxes levied for other specific purposes	15,060,352
Federal grants and contracts, noncapital	26,980,091
State grants and contracts, noncapital	20,700,117
State taxes and other revenues	5,401,482
Investment income	4,102,444
Interest expense on capital related debt	(11,058,868)
Investment income on capital asset-related debt, net	112,478
Loss on disposal of capital assets	(1,675)
Transfer from agency fund	66,692
Transfer to agency fund	(211,538)
Other nonoperating revenues	9,257,158
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>219,206,734</u>
INCOME BEFORE OTHER REVENUES AND EXPENSES	<u>4,994,157</u>
State revenues, capital	22,539,652
TOTAL INCOME BEFORE OTHER REVENUES AND EXPENSES	<u>22,539,652</u>
CHANGE IN NET ASSETS	27,533,809
NET ASSETS, BEGINNING OF YEAR	302,971,880
NET ASSETS, END OF YEAR	<u>\$ 330,505,689</u>

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 17,001,009
Auxiliary sales	10,587,000
Payments to or on behalf of employees	(166,754,962)
Payments to vendors for supplies and services	(33,867,996)
Payments to students for scholarships and grants	(21,785,049)
Funds held for others	322,489
Net Cash Flows From Operating Activities	<u>(194,497,509)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	91,719,566
Property taxes - nondebt related	57,078,435
Grants and contracts	46,462,868
State taxes and other revenues	(3,034,497)
Other nonoperating revenues	9,496,264
Net Cash Flows From Noncapital Financing Activities	<u>201,722,636</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(61,787,122)
State revenue, capital projects	4,336,726
Property taxes - related to capital debt	15,060,352
Principal paid on capital debt	(5,591,508)
Interest paid on capital debt	(8,869,574)
Interest received on capital asset-related debt	112,478
Net Cash Flows From Capital Financing Activities	<u>(56,738,648)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	<u>4,102,444</u>
Net Cash Flows From Investing Activities	<u>4,102,444</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(45,411,077)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>231,302,769</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 185,891,692</u>

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS, Continued FOR THE YEAR ENDED JUNE 30, 2009

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

Operating Loss	<u>\$ (214,212,577)</u>
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation expense	11,746,575
Changes in Assets and Liabilities:	
Receivables, net	(30,925)
Stores inventories	702,769
Other assets	144,876
Accounts payable and accrued liabilities	(1,675,108)
Deferred revenue	243,769
Funds held for others	322,489
Change in claims payable	(312,640)
OPEB obligation	8,296,006
Compensated absences	277,257
Total Adjustments	<u>19,715,068</u>
Net Cash Flows From Operating Activities	<u><u>\$ (194,497,509)</u></u>

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

Cash in banks	\$ 15,652,269
Cash in county treasury	130,239,423
Local Agency Investment Fund (LAIF)	40,000,000
Total Cash and Cash Equivalents	<u><u>\$ 185,891,692</u></u>

NON CASH TRANSACTIONS

On behalf payments for benefits (see Note 2)	<u><u>\$ 3,321,422</u></u>
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The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - ORGANIZATION

The North Orange County Community College District (the District) provides higher education in the Counties of Orange and Los Angeles in the State of California and is governed by an elected Board of Trustees. The District is comprised of two college campuses, Cypress College and Fullerton College, the District office, a vocational and adult center, the School of Continuing Education, which offers courses and programs at the Anaheim campus, the Cypress College campus, the Wilshire campus, and other off-site locations. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 and as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective which was previously reported. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency and intra-fund transactions have been eliminated.

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Nonexchange transactions, in which the District receives value without directly giving equal value in return, such as State apportionments, property taxes, grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants and are recognized in the fiscal year in which all eligibility requirements are satisfied. Eligibility requirements may include time and/or purpose requirements. Property tax revenues are recognized in the fiscal year in which they are received. State apportionment revenue is earned based upon criteria set forth from the Community College Chancellor's Office and includes reporting of full-time equivalent students (FTES). The corresponding apportionment revenue is recognized in the period the FTES are generated.

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 accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community College Chancellor's Office. The District reports are based on applicable GASB pronouncements, as well as applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date. Where applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State Chancellor's Office's *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, and No. 39. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Change in Net Assets
 - Statement of Cash Flows
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include unrestricted cash with the county treasury and LAIF for purposes of the statement of cash flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based upon quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Accounts Receivable

Accounts receivable include amounts due from Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District does not record an allowance for uncollectible accounts because collectibility of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded.

Stores Inventories

Stores inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the colleges. In addition, the District warehouse holds some inventory of paper and office supplies for daily operational needs. Inventories are stated at cost, utilizing the average cost method. The cost is recorded as an expense as the inventory is consumed.

Deferred Issuance Costs, Premiums, and Discounts

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Deferred Amount on Refunding

Deferred amount on refunding is amortized using the straight-line method over the remaining life of the new debt.

Capital Assets and Depreciation

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of \$5,000 (for equipment) and an estimated useful life of greater than one year. Buildings, renovations to buildings, infrastructure, and land improvements that cost more than \$150,000, significantly increase the value, or extend the useful life of the structure are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities, and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Costs for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

Land improvements	50 years
Buildings and improvements	50 years
Machinery and equipment	5-20 years

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Deferred Revenue

Deferred revenue is recorded to the extent that cash received from Federal programs, State special projects, other programs, and fees, has not been earned.

Amounts Held for Others

Amounts held for others represent funds held by the District for various groups and departments of the District including the Associated Students, Scholarship and Loan Fund, Campus Service Fund, Student Representation Fee Fund, and Class Related Projects and Activities (CRPA) Fund.

Noncurrent Liabilities

Noncurrent liabilities include compensated absences, claims payable, bonds payable, and capital lease obligations with maturities greater than one year.

Compensated Absences

Compensated absences are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

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

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

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

Restricted - Expendable: Net assets whose use by the District are subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs.

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$45,186,486 of restricted net assets.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and interest on institutional student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, property taxes, investment income, Federal, State, and local grants and contracts, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and 35.

Classification of Expenses - Nearly all the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

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.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Property Taxes

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

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the Orange County Teeter Plan and is paid all current year taxes in the year levied. A receivable has not been recognized in the basic financial statements for property taxes due to the fact that any receivable would be offset by a payable to the State for State apportionment purposes.

The voters of the District passed a General Obligation Bond in March 2002 for the acquisition, construction, and rehabilitation of facilities. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are billed and collected by the County of Orange and remitted to the District when collected. The property tax collected for the repayment of debt for the year ended June 30, 2009, was \$15,060,352.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Change in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, Academic Competitiveness Grant, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the related *Compliance Supplement*. During the year ended June 30, 2009, the District distributed \$6,679,313 in direct lending through the U.S. Department of Education. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students however the amounts are included on the Schedule of Federal Financial Assistance.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Classifications*. The objectives of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements periods beginning after June 15, 2010.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements for State and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 55 is effective immediately. The District has determined that no additional disclosure is necessary at this time related to this GASB pronouncement.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles: related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than auditing literature. GASB Statement No. 56 is effective immediately. The District has determined that no additional disclosure is necessary at this time related to this GASB pronouncement.

NOTE 3 - CASH AND INVESTMENTS

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit receipts and collections of monies with their County Treasurer (*Education Code* Section 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 are recorded on the amortized cost basis.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 15,427,269
Cash in revolving funds	225,000
Investments	<u>170,239,423</u>
Total Deposits and Investments	<u><u>\$ 185,891,692</u></u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County pool and LAIF.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>Average Days to Maturity</u>
County Pool - Orange	\$ 130,239,423	\$ 130,414,069	246
Local Agency Investment Fund (LAIF)	<u>40,000,000</u>	<u>40,052,190</u>	235
Total	<u><u>\$ 170,239,423</u></u>	<u><u>\$ 170,466,259</u></u>	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the County pool and LAIF are not required to be rated, nor have they been rated as of June 30, 2009.

<u>Investment Type</u>	<u>Book Value</u>	<u>Fair Value</u>
County Pool - Orange	\$ 130,239,423	\$ 130,414,069
Local Agency Investment Fund (LAIF)	<u>40,000,000</u>	<u>40,052,190</u>
Total	<u><u>\$ 170,239,423</u></u>	<u><u>\$ 170,466,259</u></u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. 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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, of the District's bank balance, \$9,953,697 was exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

Federal Government	
Categorical aid	\$ 2,371,212
State Government	
Apportionments	14,519,770
Categorical aid	358,632
Lottery	2,259,866
Capital outlay State reimbursement	23,363,545
Other State sources	406,801
Local Government	
Interest	299,159
Other	1,403,702
Total	<u>\$ 44,982,687</u>
Student receivables	<u>\$ 647,005</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	\$ 14,731,053	\$ 25,165	\$ -	\$ 14,756,218
Construction in progress	118,603,677	56,110,171	57,880,190	116,833,658
Total Capital Assets Not Being Depreciated	<u>133,334,730</u>	<u>56,135,336</u>	<u>57,880,190</u>	<u>131,589,876</u>
Capital Assets Being Depreciated				
Land improvements	2,749,485	-	-	2,749,485
Buildings and improvements	263,232,197	57,880,190	-	321,112,387
Machinery and equipment	15,557,501	2,987,703	151,781	18,393,423
Total Capital Assets Being Depreciated	<u>281,539,183</u>	<u>60,867,893</u>	<u>151,781</u>	<u>342,255,295</u>
Total Capital Assets	<u>414,873,913</u>	<u>117,003,229</u>	<u>58,031,971</u>	<u>473,845,171</u>
Less Accumulated Depreciation				
Land improvements	397,729	127,124	-	524,853
Buildings and improvements	56,051,811	10,370,647	-	66,422,458
Machinery and equipment	8,581,195	1,248,804	150,106	9,679,893
Total Accumulated Depreciation	<u>65,030,735</u>	<u>11,746,575</u>	<u>150,106</u>	<u>76,627,204</u>
Net Capital Assets	<u>\$349,843,178</u>	<u>\$ 105,256,654</u>	<u>\$ 57,881,865</u>	<u>\$397,217,967</u>

Depreciation expense for the year was \$11,746,575.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

Accrued payroll	\$ 5,772,796
Services	1,330,763
Construction	9,259,229
Other	5,457,424
Total	<u>\$ 21,820,212</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consisted of the following:

Federal financial assistance	\$ 9,327
State categorical aid	3,267,882
Other local revenues	857,498
Total	<u>\$ 4,134,707</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

The changes in the District's long-term obligations during the 2009 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds Payable					
2002A General obligation bonds	\$ 13,305,000	\$ -	\$ 1,950,000	\$ 11,355,000	\$2,275,000
2003B General obligation bonds	65,970,435	2,258,576	2,580,000	65,649,011	2,825,000
2005 General obligation refunding bonds	162,190,000	-	960,000	161,230,000	1,155,000
Unamortized premium	10,826,484	-	713,931	10,112,553	-
Deferred amount on refunding	(9,238,359)	-	(612,423)	(8,625,936)	-
Total Bonds Payable	<u>243,053,560</u>	<u>2,258,576</u>	<u>5,591,508</u>	<u>239,720,628</u>	<u>6,255,000</u>
Other Liabilities					
Compensated absences/Load banking	6,656,267	277,257	-	6,933,524	3,103,766
Claims payable	2,212,496	-	312,640	1,899,856	-
Net OPEB obligation	8,029,535	13,022,000	4,725,994	16,325,541	-
Total Other Liabilities	<u>16,898,298</u>	<u>13,299,257</u>	<u>5,038,634</u>	<u>25,158,921</u>	<u>3,103,766</u>
Total Long-Term Debt	<u>\$259,951,858</u>	<u>\$15,557,833</u>	<u>\$10,630,142</u>	<u>\$264,879,549</u>	<u>\$9,358,766</u>

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The compensated absences will be paid by the fund for which the employee worked. The claims payable and the pay-as-you-go portion of the OPEB obligation will be paid by the Internal Service Fund.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Bonded Debt

Bonds Payable

On March 5, 2002, the voters of the District approved the issuance of \$239,000,000 general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

2002A General Obligation Bonds

On May 21, 2002, \$139,000,000 of North Orange County Community College District, Election of 2002, Series 2002A Bonds were issued with a final maturity date of August 1, 2013, and interest rates ranging from 3.125 percent to 5.375 percent, depending on the maturity of the related bonds. Interest accrues from May 21, 2002, and is payable semiannually on February 1 and August 1 of each year commencing on February 1, 2003. The outstanding principal balance of these bonds at June 30, 2009, was \$11,355,000.

2003B General Obligation Bonds

On December 23, 2003, \$99,999,001 of North Orange County Community College District, Election of 2002, Series 2003B Bonds were issued with a final maturity date of August 1, 2028, and interest rates ranging from 2.00 percent to 5.44 percent, depending on the maturity of the related bonds. Interest accrues from December 23, 2003, and is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2004. The outstanding principal balance of these bonds at June 30, 2009, was \$65,649,011.

2005 General Obligation Refunding Bonds

On April 6, 2005, \$164,935,000 of North Orange County Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the District's Election of 2002 General Obligation Bonds, Series A maturing on and after August 1, 2013, and the District's Election of 2002 General Obligation Bonds, Series 2003B, and together with the Series A the "Refunded Bonds" maturing from August 1, 2015 through August 1, 2020, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased \$153,250,000 of the old debt with a final maturity date of August 1, 2023. Interest rates range from 3.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest accrues from April 6, 2005, and is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2005.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$11,255,160. This difference, reported in the accompanying financial statements as a deferred amount on refunding, is being charged to operations through the year 2023 using the straight-line method. The District completed the refunding to reduce its debt service payments over the next 18 years by \$1,081,099 and obtain an economic gain (the difference of the present values of the old and new debt service payments) of \$1,993,290. The outstanding principal balance of these bonds at June 30, 2009, was \$161,230,000.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2009
2002	2013	3.125%-5.375%	\$139,000,000	\$ 13,305,000	\$ -	\$ -	\$ 1,950,000	\$ 11,355,000
2003	2029	2.00%-5.44%	99,999,001	65,970,435	-	2,258,576	2,580,000	65,649,011
2005	2024	3.00%-5.00%	164,935,000	162,190,000	-	-	960,000	161,230,000
				<u>\$241,465,435</u>	<u>\$ -</u>	<u>\$ 2,258,576</u>	<u>\$ 5,490,000</u>	<u>\$ 238,234,011</u>

The 2002A General Obligation Bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 2,275,000	\$ 451,825	\$ 2,726,825
2011	2,640,000	346,250	2,986,250
2012	3,020,000	231,400	3,251,400
2013	3,420,000	85,500	3,505,500
Total	<u>\$ 11,355,000</u>	<u>\$ 1,114,975</u>	<u>\$ 12,469,975</u>

The 2003B General Obligation Bonds mature through 2029 as follows:

Fiscal Year	Principal (Including accreted interest to date)	Accreted Interest*	Current Interest to Maturity	Total
2010	\$ 2,825,000	\$ -	\$ 781,069	\$ 3,606,069
2011	3,100,000	-	676,007	3,776,007
2012	3,445,000	-	552,429	3,997,429
2013	3,770,000	-	423,200	4,193,200
2014	4,150,000	-	264,800	4,414,800
2015-2019	4,545,000	-	90,900	4,635,900
2020-2024	13,058,513	13,176,487	-	26,235,000
2025-2029	30,755,498	50,094,502	-	80,850,000
Total	<u>\$ 65,649,011</u>	<u>\$ 63,270,989</u>	<u>\$ 2,788,405</u>	<u>\$ 131,708,405</u>

* Interest that is accrued at a discount from the face value of the bonds, and no interest payment is made until maturity.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

The 2005 Refunding Bonds mature through 2024 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2010	\$ 1,155,000	\$ 7,983,006	\$ 9,138,006
2011	1,350,000	7,930,487	9,280,487
2012	1,585,000	7,857,113	9,442,113
2013	1,845,000	7,780,587	9,625,587
2014	5,980,000	7,594,188	13,574,188
2015-2019	66,040,000	30,240,969	96,280,969
2020-2024	83,275,000	9,625,375	92,900,375
Total	<u>\$ 161,230,000</u>	<u>\$ 79,011,725</u>	<u>\$ 240,241,725</u>

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. The District's actuarially determined annual required contribution for the year ended June 30, 2009, was \$13,022,000, and contributions made by the District during the year were \$4,725,994, which resulted in an increase to the net OPEB obligation of \$8,296,006. See Note 9 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 9 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

Plan Description

The District currently provides retiree medical coverage to eligible academic and classified employees for the retiree's lifetime. Eligibility requirements vary by employee classification. All participants must have a minimum service of 15 years and be eligible to retire under CalSTRS or CalPERS. Academic and classified employees must be at least 55 and 50 years of age, respectively. The District pays for 100 percent of the premium for retiree coverage, and the retiree pays for the cost of dependant coverage. Membership of the Plan consists of 902 retirees and beneficiaries currently receiving benefits and 1,291 active plan members.

Funding Policy

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2008-2009, the District contributed \$4,725,994 to the Plan, all of which was used for current premiums.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 13,022,000
Contributions made	<u>(4,725,994)</u>
Increase in net OPEB obligation	8,296,006
Net OPEB obligation, beginning of year	<u>8,029,535</u>
Net OPEB obligation, end of year	<u><u>\$ 16,325,541</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

Year Ended <u>June 30,</u>	Annual OPEB <u>Cost</u>	Percentage <u>Contributed</u>	Net OPEB <u>Obligation</u>
2009	\$ 13,022,000	36%	\$ 16,325,541

Funding Status and Funding Progress

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

In the October 2006 actuarial valuation with an addendum on November 4, 2008, the Entry Age Normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return, based on the assumed long-term return on Plan assets or employer assets. The cost trend rate used for the Medical, Dental, and Vision Programs was 10.4 percent for HMOs and 11.3 percent for PPOs. The UAAL is being amortized at a level dollar method. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property liability, health benefits, errors, omissions, and natural disasters. These risks are addressed through a combination of participation in public entity risk pools, commercial insurance, and self-insurance. The District is insured for workers' compensation claims and property and liability claims through a combination of self-insurance and commercial insurance.

The District is also a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) and Schools Excess Liability Fund (SELF) public entity risk pools. The District is subject to various deductible amounts and pays premiums assessed by the pools. The pools are responsible for claims beyond the deductible amount of commercial insurance and provide for high-level umbrella type coverage above certain limits. The pools are operated separately and are independently accountable for their fiscal matters. The pools are not component units of the District for financial reporting purposes. A copy of the most recent audited financial statements may be obtained from ASCIP and SELF.

Estimates of liabilities for claims, both reported and unreported, for workers' compensation liability claims are established by the District's external administrator. The estimates are based on the continuous evaluation of the status of each claim. Estimates of liabilities for the property and liability claims are based on an analysis of individual claims. Management believes that the amounts accrued are adequate to cover such costs.

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

As of June 30, 2009 and 2008, liabilities for claims amounted to \$1,899,856 and \$2,212,496, respectively. Changes in the claims liability amount in the fiscal years 2009 and 2008 are presented below:

	<u>Workers'</u> <u>Compensation</u>	<u>Property</u> <u>and Liability</u>	<u>Total</u>
Liability Balance, July 1, 2007	\$ 2,116,176	\$ 93,833	\$ 2,210,009
Claims and changes in estimates	394,510	214,261	608,771
Claims payments	<u>(535,242)</u>	<u>(71,042)</u>	<u>(606,284)</u>
Liability Balance, July 1, 2008	1,975,444	237,052	2,212,496
Claims and changes in estimates	541,769	(89,370)	452,399
Claims payments	<u>(711,190)</u>	<u>(53,849)</u>	<u>(765,039)</u>
Liability Balance, June 30, 2009	<u>\$ 1,806,023</u>	<u>\$ 93,833</u>	<u>\$ 1,899,856</u>
 Assets available to pay claims at June 30, 2009			 <u>\$ 25,883,965</u>

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Since January 1, 1999, this plan has been part of the State Teachers' Retirement System, a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for CalSTRS. Copies of the CalSTRS annual financial report may be obtained from the CalSTRS Executive Office, 7919 Folsom Boulevard, Sacramento, California 95826.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The CalSTRS, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of CalSTRS the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The Cash Benefit Program (CB Benefit Program) is an alternative CalSTRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal to, or greater than, eight percent.

Annual Pension Cost

The District's total contributions to CalSTRS for the fiscal years ended June 30, 2009, 2008, and 2007, were \$6,066,356, \$6,268,707, and \$5,851,484, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to CalSTRS on behalf of all community colleges in the State.

CalPERS

Plan Description

All full-time classified employees participate in CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The North Orange County Community College District is part of a "cost-sharing" pool with CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is supplemented by Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute seven percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2008-2009 was 9.428 percent of annual payroll. In addition, based on the current agreement between the North Orange County Community College District and the California School Employees Association (CSEA), the District currently pays the employee portion of CalPERS for all employees in the Classified Bargaining group.

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2009, 2008, and 2007, were \$6,645,764, \$6,456,330, and \$5,692,530, respectively, and equaled 100 percent of the required contributions for each year.

Alternative Retirement Plan

Plan Description

Federal law requires that public sector employees who are not members of their employer's existing retirement system be covered by Social Security or an alternate plan. The District contributed to a qualified tax deferred group annuity under Section 403 (b) of the Internal Revenue Code. This plan is administered by Zahorik Life Investors Insurance Company of America (ZLI) and is for employees who are not active members of the CalPERS or CalSTRS systems. The plan provides an annuity to plan members and beneficiaries. ZLI furnishes an annual report for each participant in the plan. This plan is no longer available as of December 31, 2008.

Funding Policy

Active plan members are required to contribute 4.9 percent of their salary and the District is required to contribute 2.6 percent of annual payroll. The District's contributions to the Alternative Retirement Plan for the fiscal years ended June 30, 2009, 2008, and 2007, were \$4,352, \$10,333, and \$11,798, respectively.

On-Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 2009, 2008, and 2007, which amounted to \$3,321,422, \$3,432,212, and \$3,203,776, respectively, (4.517 percent) of salaries subject to CalSTRS. No contributions were made for CalPERS for the years ended June 30, 2009, 2008, and 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. This amount has been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

Operating Leases

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain bargain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. The operating lease expense for the year ended June 30, 2009, was approximately \$89,000. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payments
2010	\$ 82,228
2011	60,483
2012	30,931
2013	18,042
2014	5,506
Total	<u>\$ 197,190</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Fullerton College Physical Education Facilities	\$ 10,228,734	July 2010
Fullerton College South Science Building 400	18,537,262	October 2010
Cypress College Humanities Remodel	4,612,461	December 2009
	<u>\$ 33,378,457</u>	

The projects are funded through a combination of general obligation bonds, capital project apportionments from the California Community College Chancellor's Office, and local funds.

Deferral of State Apportionments

Due to the State's budget situation, certain general apportionments owed to the District for the 2008-2009 fiscal year have been deferred to the 2009-2010 fiscal year. The District's total amount of funding deferred into the 2009-2010 fiscal year was \$14,519,770. These deferrals of apportionment are considered permanent with future funding also being subject to deferral into future years.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 13 - FUNCTIONAL EXPENSES CLASSIFICATION

The District's operating expenses by functional classification for the fiscal year ended June 30, 2009, are:

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Depreciation	Total
Instructional activities	\$ 79,433,680	\$ 4,242,778	\$ -	\$ -	\$ 83,676,458
Academic support	24,805,326	2,963,890	-	-	27,769,216
Student services	21,190,582	1,853,332	-	-	23,043,914
Plant operations and maintenance	10,541,997	6,499,598	-	-	17,041,595
Instructional support services	21,663,881	7,095,823	-	-	28,759,704
Community services and economic development	2,248,457	1,711,892	-	-	3,960,349
Ancillary services and auxiliary operations	4,611,415	8,740,432	-	-	13,351,847
Student aid	-	-	21,785,049	-	21,785,049
Physical property and related acquisitions	549,133	1,851,665	-	-	2,400,798
Depreciation	-	-	-	11,746,575	11,746,575
Net OPEB obligation	8,296,006	-	-	-	8,296,006
Total	<u>\$ 173,340,477</u>	<u>\$ 34,959,410</u>	<u>\$ 21,785,049</u>	<u>\$ 11,746,575</u>	<u>\$ 241,831,511</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
November 2008	\$ -	\$ 166,182,000	\$ 166,182,000	0%	\$ 82,182,000	202%
November 2008	\$ -	\$ 166,182,000	\$ 166,182,000	0%	\$ 84,853,000	196%

SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2009

The North Orange County Community College District was established in 1965 and serves approximately 155 square miles within Orange County and Los Angeles County. The District currently operates two community colleges, Cypress College (CC) and Fullerton College (FC). The college credit programs are housed primarily at CC and FC. The District also provides comprehensive college and continuing education programs through their School of Continuing Education (SCE) at the Anaheim campus, the Cypress College campus, and the Wilshire campus. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Leonard L. Lahtinen	President	2012
Mr. Michael B. Matsuda	Vice President	2012
Ms. Barbara Dunsheath	Secretary	2010
Mr. Jeffrey P. Brown	Member	2010
Ms. Molly McClanahan	Member	2012
Ms. Donna Miller	Member	2010
Mr. M. Tony Ontiveros	Member	2012
Ms. Cindy Garcia	Student Trustee, Cypress College	2010
Mr. Rajan Vaidya	Student Trustee, Fullerton College	2010

ADMINISTRATION

Dr. Ned Doffoney	Chancellor
Mr. Fred Williams	Vice Chancellor, Finance and Facilities
Mr. Jeffrey Horsley	Vice Chancellor, Human Resources
Dr. Michael J. Kasler	President, Cypress College
Dr. Kathleen Hodge	President, Fullerton College
Ms. Christine Terry	Provost, School of Continuing Education
Ms. Deborah Ludford	District Director, Information Services
Ms. Christie Wallace-Noring	District Director, Public Affairs
Mr. Kenneth Robinson	District Director, Equity and Diversity

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 20,007,345
Federal Pell Administrative Allowance	84.063	5,192
Federal Academic Competitiveness Grant	84.375	195,300
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007	327,491
Federal FSEOG Administrative Allowance	84.007	2,485
Federal Work-Study Program	84.033	332,184
Federal Work-Study Administrative Allowance	84.033	90,316
Federal Family Education Loans	84.032	6,679,313
Subtotal Student Financial Aid Cluster		<u>27,639,626</u>
COLLEGE COST REDUCTION AND ACCESS ACT (CCRAA)		
Science, Technology, Engineering, or Mathematics (STEM)	84.031C	583,905
Passed through from Rancho Santiago Community College District		
Science, Technology, Engineering, or Mathematics (STEM)	84.031C	234,800
HIGHER EDUCATION ACT		
Title V - Strengthening Institutions	84.031S	183,579
Passed through from Rancho Santiago Community College District		
Title V - Collaborative - RSCCD	84.031S	38,414
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)		
Passed through California Department of Education		
Adult Education and Family Literacy Act (AEFLA)	84.002A	666,487
English Literacy and Civics Education Grant (EL Civics)	84.002A	228,924
CAREER AND TECHNICAL EDUCATION ACT		
Passed through from California Community College Chancellor's Office		
Title I, Part C	84.048	2,255,572
Technical Preparation	84.243	134,417
NATIONAL SCIENCE FOUNDATION		
Passed through from North Carolina State University		
Dance Flies Research Project	47.074	6,177
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through from California Community College Chancellor's Office		
Temporary Assistance to Needy Families (TANF)	93.558	146,525
Passed through from County of Orange Health Care Agency		
Substance Abuse Prevention and Treatment - High-Risk Drinking Program	93.959	72,500
Passed through California Public Employee Retirement System (CalPERS)		
Medicare Part D	93.770	976,417
U.S. DEPARTMENT OF LABOR		
Learning Communities for Nursing	17.261	443,828
U.S. DEPARTMENT OF AGRICULTURE		
Passed through from California Department of Education		
Child Nutrition	10.558	52,779
U.S. DEPARTMENT OF VETERANS AFFAIRS		
Veterans Services	64.117	14,575
Total Federal Program Expenditures		<u>\$ 33,678,525</u> ^[1]

[1] The difference between the schedule of expenditures of Federal awards and Federal revenues reported on the statement of revenues, expenses, and change in net assets is due to Federal family education loans in the amount of \$6,679,313 (see Note 2 in the financial statements) and differences of \$19,121 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Program	Program Entitlements		
	Current Year	Prior Year	Total Entitlement
STATE CATEGORICAL AID PROGRAMS			
Advanced Transportation Technology Initiative (ATTI)	\$ 205,000	\$ -	\$ 205,000
Allied Health Grant	206,938	-	206,938
AS Degree Nursing Program	197,467	133,648	331,115
Basic Skills	1,355,946	2,763,675	4,119,621
Block Grant	-	1,649	1,649
Board Financial Assistance Program (BFAP)	1,024,510	9,876	1,034,386
CalWORKs	745,728	-	745,728
Center for Applied Competitive Technology (CACT)	205,000	3,724	208,724
Child Care Food Program	8,536	-	8,536
Child Care Infant and Toddler Resource	2,373	-	2,373
Child Care Instructional Supplies and Materials	1,449	-	1,449
Child Care Renovation and Repair	-	4,734	4,734
Child Care School-Age Resource	2,000	-	2,000
Child Development Training Consortium	15,000	-	15,000
Cooperative Agencies Resources for Education (CARE)	308,934	-	308,934
Career Technical Education Community Collaborative Grant	400,000	-	400,000
Disabled Students Programs and Services (DSPS)	2,786,946	-	2,786,946
Ed Net Leadership	172,500	293,347	465,847
Equal Employment Opportunities	31,573	84,083	115,656
Environmental Training Center (formerly REBRAC)	205,000	66,509	271,509
Extended Opportunity Programs and Services (EOPS)	2,490,181	-	2,490,181
Family Literacy Program - Magnolia	35,000	-	35,000
General Child Care	413,490	-	413,490
Industry-Driven Regional Collaboratives (IDRC)	300,000	-	300,000
Instructional Equipment	531,103	266,454	797,557
JDIF Medical Devices	-	35,448	35,448
JDIF Workplace Learning	-	61,953	61,953
Matriculation	1,852,408	-	1,852,408
Meat Cutting Apprenticeship	23,931	-	23,931
New Multimedia/Entertainment Center	205,000	897	205,897
Non-Credit Matriculation	1,403,424	200	1,403,624
Nursing Equipment Grant	-	156,371	156,371
Nursing Faculty Recruitment	-	28,925	28,925
Quick Start - Advanced Transportation	-	46,180	46,180
Quick Start - Applied Competitive Technologies	-	74,244	74,244
Referee and Lane Technician	12,000	-	12,000
Responsive Training Fund	-	40,625	40,625
Staff Development	-	90,619	90,619
Strategic Initiative HUBS - EHS2	121,000	28,602	149,602
Strategic Initiative HUBS - Workplace Learning	181,000	181,000	362,000
TANF - Child Development Careers	33,044	-	33,044
Teacher Preparation Pipeline	195,000	-	195,000
Tech Prep Regional Coordination	15,000	-	15,000
Telecommunications Technology Improvement Program (TTIP)	72,072	170,871	242,943
Tire-Derived Products	-	27,111	27,111
Transfer and Articulation	8,000	55	8,055
Workplace Learning Resource Center	205,000	525	205,525
Total State Programs			

See accompanying note to supplementary information.

Program Revenues					
Cash Received	Accounts Receivable	Accounts Payable	Deferred Revenue	Total Revenue	Program Expenditures
\$ 172,200	\$ 31,535	\$ -	\$ -	\$ 203,735	\$ 203,735
-	2,850	-	-	2,850	2,850
299,520	-	-	69,028	230,492	230,492
4,119,621	-	-	1,831,042	2,288,579	2,288,579
1,649	-	-	-	1,649	1,649
1,034,386	-	-	53,883	980,503	980,503
745,046	682	11,404	-	734,324	734,324
175,924	32,800	-	-	208,724	208,724
2,806	207	-	-	3,013	3,013
2,373	-	333	-	2,040	2,040
1,449	-	-	-	1,449	1,449
4,734	-	-	4,200	534	534
2,000	-	909	-	1,091	1,091
15,000	-	-	-	15,000	15,000
308,934	-	-	1,981	306,953	306,953
400,000	-	-	361,069	38,931	38,931
2,786,946	-	-	50,675	2,736,271	2,736,271
388,247	50,000	-	74,811	363,436	363,436
115,656	-	-	90,933	24,723	24,723
205,909	59,791	-	-	265,700	265,700
2,490,181	-	-	-	2,490,181	2,490,181
34,881	-	-	13,266	21,615	21,615
386,332	-	20,640	-	365,692	365,692
252,000	45,072	-	-	297,072	297,072
797,557	-	-	222,006	575,551	575,551
35,448	-	-	-	35,448	35,448
61,953	-	-	-	61,953	61,953
1,852,408	-	-	24,038	1,828,370	1,828,370
17,146	-	-	-	17,146	17,146
173,097	32,800	-	-	205,897	205,897
1,403,620	-	-	59,465	1,344,155	1,344,155
156,371	-	-	19,363	137,008	137,008
-	-	-	-	-	-
40,000	6,180	-	-	46,180	46,180
40,000	34,244	-	-	74,244	74,244
1,618	1,000	-	-	2,618	2,618
40,625	-	-	-	40,625	40,625
90,619	-	-	-	90,619	90,619
130,242	-	-	54,472	75,770	75,770
304,080	25,221	-	152,040	177,261	177,261
10,363	3,450	-	-	13,813	13,813
174,320	-	-	62,654	111,666	111,666
15,000	-	-	-	15,000	15,000
242,943	-	-	119,920	123,023	123,023
20,735	-	-	-	20,735	20,735
8,055	-	-	3,036	5,019	5,019
172,725	32,800	-	-	205,525	205,525
<u>\$ 19,734,719</u>	<u>\$ 358,632</u>	<u>\$ 33,286</u>	<u>\$ 3,267,882</u>	<u>\$ 16,792,183</u>	<u>\$ 16,792,183</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL
 APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2009**

CATEGORIES	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Audited Data</u>
A. Summer Intersession			
1. Noncredit	1,110	-	1,110
2. Credit	2,905	-	2,905
B. Summer Intersession			
1. Noncredit	-	-	-
2. Credit	-	-	-
C. Primary Terms			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	22,000	-	22,000
(b) Daily Census Contact Hours	2,003	-	2,003
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	7,246	-	7,246
(b) Credit	1,017	-	1,017
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	1,309	-	1,309
(b) Daily Census Contact Hours	962	-	962
D. Total FTES	<u>38,552</u>	<u>-</u>	<u>38,552</u>
E. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	4,178	-	4,178
2. Credit	2,920	-	2,920
	<u>7,098</u>	<u>-</u>	<u>7,098</u>

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311)
WITH FUND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2009.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2009**

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

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

General Fund	\$ 38,387,687	
Special Revenue Funds	55,442,234	
Capital Project Funds	64,922,947	
Debt Service Fund	10,666,749	
Internal Service Fund	25,883,965	
Fiduciary Funds	<u>6,628,583</u>	

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

\$ 201,932,165

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.

The cost of capital assets is	473,845,171	
Accumulated depreciation is	<u>(76,627,204)</u>	397,217,967

Amounts held in trust on behalf of others (Trust and Agency Funds) (6,578,583)

Expenditures relating to the issuance of debt were recognized on modified accrual basis and are amortized over the life of the debt on the accrual basis. 1,693,861

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred. (3,883,794)

Long-term liabilities at year end consist of:

Bonds payable	239,720,628	
Compensated absences	6,933,524	
Net OPEB obligation	16,325,541	
Less load banking already recorded in funds	(2,383,766)	
Less compensated absences already recorded in funds	<u>(720,000)</u>	<u>(259,875,927)</u>
Total Net Assets		\$ 330,505,689

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS OF THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009**

	(Budget*) 2010		2009	
	Amount	%	Amount	%
GENERAL FUND				
Revenues				
Federal	\$ 5,556,100	3.0	\$ 6,403,596	3.2
State	105,373,023	56.8	116,056,133	57.7
Local	74,608,725	40.2	78,571,791	39.1
Total Revenues	185,537,848	100.0	201,031,520	100.0
Expenditures				
Academic salaries	76,025,454	37.7	82,325,570	42.6
Classified salaries	44,244,660	21.9	43,470,962	22.5
Employee benefits	37,764,549	18.7	37,146,909	19.2
Supplies and materials	9,322,895	4.6	3,579,511	1.9
Other operating expenses	19,993,638	9.9	15,031,452	7.8
Capital outlay	10,516,762	5.2	4,427,730	2.3
Student financial aid	507,783	0.3	1,050,371	0.5
Interfund transfers, net	3,321,811	1.6	5,920,390	3.1
Other uses, net	151,680	0.1	159,640	0.1
Total expenditures and other uses	201,849,232	100.0	193,112,535	100.0
INCREASE (DECREASE) IN FUND BALANCE	\$ (16,311,384)	(8.8)	\$ 7,918,985	3.9
ENDING FUND BALANCE	\$ 22,076,303	11.9	\$ 38,387,687	19.1
FULL-TIME EQUIVALENT STUDENTS	34,697		38,552	
TOTAL LONG-TERM OBLIGATIONS, INCLUDING RETIREE BENEFIT LIABILITY	\$ 405,377,242		\$ 414,736,008	

* The year 2010 General Fund budget was adopted by the Board on September 8, 2009.

See accompanying note to supplementary information.

2008		2007	
Amount	%	Amount	%
\$ 4,437,771	2.3	\$ 4,037,015	2.1
114,801,701	58.6	115,360,628	59.5
<u>76,777,880</u>	<u>39.1</u>	<u>74,385,854</u>	<u>38.4</u>
<u>196,017,352</u>	<u>100.0</u>	<u>193,783,497</u>	<u>100.0</u>
85,564,908	43.2	79,353,026	40.6
43,241,984	21.8	41,066,718	21.0
36,545,720	18.5	33,410,542	17.1
3,849,203	1.9	3,736,914	1.9
16,820,720	8.5	14,946,929	7.7
4,201,306	2.1	5,476,504	2.8
955,732	0.5	817,126	0.4
6,621,003	3.4	16,303,952	8.4
<u>148,325</u>	<u>0.1</u>	<u>151,120</u>	<u>0.1</u>
<u>197,948,901</u>	<u>100.0</u>	<u>195,262,831</u>	<u>100.0</u>
<u>\$ (1,931,549)</u>	<u>(1.0)</u>	<u>\$ (1,479,334)</u>	<u>(0.8)</u>
<u>\$ 30,468,702</u>	<u>15.5</u>	<u>\$ 32,400,251</u>	<u>16.7</u>
<u>36,544</u>		<u>34,824</u>	
<u>\$ 418,104,323</u>		<u>\$ 412,644,024</u>	

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2009**

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members as of June 30, 2009.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Amount Provided to Subrecipients
Career and Technical Education Act - Technical Preparation		
Anaheim Union High School District	84.243	\$ 13,300
Brea-Olinda Unified School District	84.243	5,000
Los Alamitos Unified School District	84.243	6,034
Placentia-Yorba Linda Unified School District	84.243	12,285
North Orange County ROP	84.243	21,800
		<u>\$ 58,419</u>

Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California Community College Chancellor's Office.

Schedule of Workload Measures for State General Apportionment - Annual (Actual) Attendance

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

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

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

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

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

Schedule of Financial Trends and Analysis of the General Fund

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

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***

Board of Trustees
North Orange County Community College District
Anaheim, California

We have audited the financial statements of the business-type activities of North Orange County Community College District (the District) for the year ended June 30, 2009, and have issued our report thereon dated December 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Orange County Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Orange County Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Orange County Community College District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North 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*.

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community College Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vaughan, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2009



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

Board of Trustees
North Orange County Community College District
Anaheim, California

Compliance

We have audited the compliance of North Orange County Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. North Orange County Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of North Orange County Community College District's management. Our responsibility is to express an opinion on North Orange County Community College District's compliance based on our audit.

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

In our opinion, North Orange County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2.

Internal Control Over Compliance

The management of North Orange County Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered North Orange County Community College District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the North Orange County Community College District's internal control over compliance.

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

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

This report is intended solely for the information and use of the Board of Trustees, Audit Committee, District Management, the California Community College Chancellor's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vannich, Trina, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2009



REPORT ON STATE COMPLIANCE

Board of Trustees
North Orange County Community College District
Anaheim, California

We have audited the compliance of North Orange County Community College District (the District) with the types of compliance requirements described in Section 400 of the California Community College Chancellor's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California. The specific requirements are described below.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have occurred. An audit includes examining, on a test basis, evidence about North 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. Our audit does not provide a legal determination of North Orange County Community College District's compliance with those requirements.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fees - Instructional Materials and Health Fees

Apportionments

Section 423: Apportionment of Instructional Service Agreements/Contracts

Section 425: Residency Determination for Credit Courses

Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses

Section 432: Enrollment Fee

Section 426: Students Actively Enrolled

Fiscal Operations

Section 421: Salaries of Classroom Instructors (50% Law)

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

Section 433: CalWORKs - Use of State and Federal TANF Funding

Facilities

Section 434: Scheduled Maintenance Program

In our opinion, North Orange County Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009.

This report is intended solely for the information of the Board of Trustees, Audit Committee, District Management, the California Community College Chancellor's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vannich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 3, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</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>
Noncompliance 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>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.007, 84.032, 84.033, 84.063, and 84.375</u>	<u>Student Financial Aid Cluster</u>
<u>84.048</u>	<u>Career and Technical Education Act, Title I, Part C</u>
<u>93.770</u>	<u>Medicare Part D</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,010,356</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>Unqualified</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

The following findings represent significant deficiencies and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

2009-1 **PROCUREMENT POLICIES**

Federal Program Affected: Career and Technical Education Act, Title I, Part C - CFDA #84.048

Compliance Requirement: Procurement, Suspension, and Debarment

Criteria or Specific Requirement

Title 34 – Education, Part 80 – Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Subpart C – Pre-Award Requirements, Section 80.35. OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Sub-Part C, Pre-Award Requirements, Section .33 Debarment and Suspension.

Identified Condition

The District does not have policies and procedures in place for the certification of potential contractor or subcontractor relationships involving Federal program dollars. Contracts in excess of \$25,000 are subject to the compliance requirement that the status of the entity is verified against the suspension and debarment eligibility requirements. The District does not currently monitor the Federal contracts for these requirements, nor do the contracts allow a vendor to self-certify they have not been excluded from working with Federal program grants.

Questioned Costs

No questioned costs are associated with the exception noted. Our testing did not identify debarred parties with whom the District contracts with.

Context

There were ten vendors that were paid in excess of \$25,000 that totaled \$653,085 in equipment expenditures. While no evidence was noted of noncompliance with contracting with a suspended or debarred vendor, the District is at risk that material noncompliance with grant requirements would go undetected without adequate monitoring and documentation.

Cause

The District has not implemented policies and procedures to ensure compliance with this Federal requirement.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

Effect

Without evidence of compliance, the District is at risk of utilizing a vendor who has been subject to the suspension and debarment regulations.

Recommendation

The District should implement a procedure to verify all vendors who are providing services to federally funded programs in excess of \$25,000. This verification may be accomplished by checking the *Excluded Parties List System* (EPLS) maintained by the General Services Administration (GSA). Additionally, the current contract language for such services should include a self-certification from the vendor that they have not been suspended or debarred as defined by the Federal program guidelines.

Management Response and Corrective Action Plan

The District Purchasing Department will develop procedures requiring any purchases over \$25,000, using Federal funds, be verified against the Excluded Parties List System (EPLS) to ensure that the applicable vendors have not been suspended or debarred from receiving Federal funds payments in exchange for good or services. In addition, language will be added to the purchasing contracts so that vendors can self certify.

2009-2 RETURN OF TITLE IV FUNDS

Federal Program Affected: Student Financial Aid Cluster - CFDA# 84.007, 84.032, 84.033, 84.063, and 84.375

Criteria or Specific Requirement

34 CFR 668.22(j) and (34 CFR Section 668.173(b)) states that "An institution must return the amount of Title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew..."

Return of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew.

Identified Condition

During our review of the requirements for Return to Title IV at Fullerton College, it was noted that in some instances, the institution's portion of the Return to Title IV funds were not returned within the 45 day requirement.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

Questioned Costs

No questioned costs. The District did return the funds; however, they were not returned within the 45 day requirement in all cases.

Context

There were three students noted at Fullerton College where the funds were returned after the 45 day requirement.

Cause

The College has not implemented policies and procedures to monitor Return of Title IV funds.

Effect

Without proper monitoring of Title IV returns, the District risks non-compliance with 34 CFR 668.22(j).

Recommendation

It is recommended that the District implement procedures to ensure that Return of Title IV funds are returned within 45 days of the date that the College determined that the student withdrew from all classes.

Management Response and Corrective Action Plan

The College has addressed the Return to Title IV (R2T4) 45 day requirement to ensure timely returns in the future. The Fullerton College Financial Aid Office has recently implemented SARS (Scheduling and Reporting System) to assist with calendaring and scheduling. The individual assigned to calculate R2T4 will have regular, re-occurring time "blocked out" in SARS to run the R2T4 process, with enough lead time built in, to submit the request to the District, prior to the next Financial Aid draw-down and within the maximum 45 day time frame.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEETS
JUNE 30, 2009**

	<u>General</u>	<u>Bookstore</u>	<u>Cafeteria</u>
ASSETS			
Cash and cash equivalents	\$ 209,215	\$ 3,314,355	\$ 1,028,584
Investments	34,491,478	286,081	2,496
Accounts receivable	20,337,087	407,001	3,081
Student loans receivable	1,393	17,342	-
Due from other funds	6,567,553	10,657	-
Stores inventories	95,729	1,273,593	-
Total Assets	<u>\$ 61,702,455</u>	<u>\$ 5,309,029</u>	<u>\$ 1,034,161</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 9,301,450	\$ 36,778	\$ -
Due to other funds	9,884,966	55,313	-
Deferred revenue	4,128,352	-	-
Total Liabilities	<u>23,314,768</u>	<u>92,091</u>	<u>-</u>
FUND BALANCES			
Reserved	3,426,501	1,273,593	-
Unreserved			
Designated	27,885,176	3,943,345	1,034,161
Undesignated	7,076,010	-	-
Total Fund Balances	<u>38,387,687</u>	<u>5,216,938</u>	<u>1,034,161</u>
Total Liabilities and Fund Balances	<u>\$ 61,702,455</u>	<u>\$ 5,309,029</u>	<u>\$ 1,034,161</u>

See accompanying note to additional supplementary information.

Child Development	Retiree Benefits	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,552,154
105,770	47,883,059	10,654,175	14,978,812	35,237,011	143,638,882
82,060	133,595	12,574	23,388,165	121,717	44,485,280
-	-	-	-	-	18,735
-	1,173,486	-	828,332	-	8,580,028
-	-	-	-	-	1,369,322
<u>\$ 187,830</u>	<u>\$ 49,190,140</u>	<u>\$ 10,666,749</u>	<u>\$ 39,195,309</u>	<u>\$ 35,358,728</u>	<u>\$ 202,644,401</u>
\$ 103,481	\$ 1,508	\$ -	\$ 7,249,110	\$ 2,010,320	\$ 18,702,647
77,646	-	-	371,660	-	10,389,585
4,200	-	-	-	-	4,132,552
<u>185,327</u>	<u>1,508</u>	<u>-</u>	<u>7,620,770</u>	<u>2,010,320</u>	<u>33,224,784</u>
-	-	-	-	-	4,700,094
2,503	49,188,632	10,666,749	31,574,539	33,348,408	157,643,513
-	-	-	-	-	7,076,010
<u>2,503</u>	<u>49,188,632</u>	<u>10,666,749</u>	<u>31,574,539</u>	<u>33,348,408</u>	<u>169,419,617</u>
<u>\$ 187,830</u>	<u>\$ 49,190,140</u>	<u>\$ 10,666,749</u>	<u>\$ 39,195,309</u>	<u>\$ 35,358,728</u>	<u>\$ 202,644,401</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>General</u>	<u>Bookstore</u>	<u>Cafeteria</u>
REVENUES			
Federal revenues	\$ 6,403,596	\$ -	\$ -
State revenues	116,056,133	-	-
Local revenues	78,571,791	10,446,869	140,131
Total Revenues	<u>201,031,520</u>	<u>10,446,869</u>	<u>140,131</u>
EXPENDITURES			
Current Expenditures			
Academic salaries	82,325,570	-	-
Classified salaries	43,470,962	1,361,286	-
Employee benefits	37,146,909	450,973	-
Books and supplies	3,579,511	7,778,121	2,188
Services and operating expenditures	15,031,452	249,454	58,704
Capital outlay	4,427,730	3,171	24,181
Debt service - principal	-	-	-
Debt service - interest	173,661	-	-
Total Expenditures	<u>186,155,795</u>	<u>9,843,005</u>	<u>85,073</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>14,875,725</u>	<u>603,864</u>	<u>55,058</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	161,515	-	51,692
Operating transfers out	(6,006,763)	(88,052)	(75,000)
Other sources	14,021	-	-
Other uses	(1,125,513)	-	-
Total Other Financing Sources (Uses)	<u>(6,956,740)</u>	<u>(88,052)</u>	<u>(23,308)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	7,918,985	515,812	31,750
FUND BALANCE, BEGINNING OF YEAR	30,468,702	4,701,126	1,002,411
FUND BALANCE, END OF YEAR	<u>\$ 38,387,687</u>	<u>\$ 5,216,938</u>	<u>\$ 1,034,161</u>

See accompanying note to additional supplementary information.

Child Development	Retiree Benefits	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
\$ 46,358	\$ -	\$ -	\$ -	\$ -	\$ 6,449,954
373,819	-	136,301	22,539,652	-	139,105,905
282,983	2,191,955	15,172,830	2,412,949	1,214,326	110,433,834
<u>703,160</u>	<u>2,191,955</u>	<u>15,309,131</u>	<u>24,952,601</u>	<u>1,214,326</u>	<u>255,989,693</u>
-	-	-	-	-	82,325,570
611,428	-	-	-	-	45,443,676
279,939	-	-	-	-	37,877,821
42,370	-	-	199,861	396,175	11,998,226
50,302	17,821	-	638,439	2,289,454	18,335,626
928	-	-	31,957,846	23,997,398	60,411,254
-	-	5,490,000	-	-	5,490,000
-	-	9,409,844	-	-	9,583,505
<u>984,967</u>	<u>17,821</u>	<u>14,899,844</u>	<u>32,796,146</u>	<u>26,683,027</u>	<u>271,465,678</u>
(281,807)	2,174,134	409,287	(7,843,545)	(25,468,701)	(15,475,985)
205,000	-	-	5,709,283	-	6,127,490
-	-	-	-	-	(6,169,815)
-	-	23,874	-	-	37,895
-	-	-	-	-	(1,125,513)
<u>205,000</u>	<u>-</u>	<u>23,874</u>	<u>5,709,283</u>	<u>-</u>	<u>(1,129,943)</u>
(76,807)	2,174,134	433,161	(2,134,262)	(25,468,701)	(16,605,928)
79,310	47,014,498	10,233,588	33,708,801	58,817,109	186,025,545
<u>\$ 2,503</u>	<u>\$ 49,188,632</u>	<u>\$ 10,666,749</u>	<u>\$ 31,574,539</u>	<u>\$ 33,348,408</u>	<u>\$ 169,419,617</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUND
BALANCE SHEET
JUNE 30, 2009**

	<u>Internal Service Fund</u>
ASSETS	
Cash and cash equivalents	\$ 75,000
Investments	20,669,537
Accounts receivable	37,457
Due from other funds	7,856,884
Total Assets	<u><u>\$ 28,638,878</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 14,697
Due to other funds	840,360
Claim liabilities	1,899,856
Total Liabilities	<u><u>2,754,913</u></u>
FUND EQUITY	
Retained earnings	<u>25,883,965</u>
Total Liabilities and Fund Equity	<u><u>\$ 28,638,878</u></u>

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 2009

	Internal Service Fund
OPERATING REVENUES	
Premium contributions	<u>\$ 7,855,316</u>
OPERATING EXPENSES	
Classified salaries	128,151
Employee benefits	4,715,500
Books and supplies	1,093
Services and other operating expenditures	<u>1,469,042</u>
Total Operating Expenses	<u>6,313,786</u>
Operating Income	<u>1,541,530</u>
NONOPERATING REVENUES	
Interest income	<u>501,981</u>
Total Nonoperating Revenues	<u>501,981</u>
NET INCOME	2,043,511
RETAINED EARNINGS, BEGINNING OF YEAR	23,840,454
RETAINED EARNINGS, END OF YEAR	<u><u>\$ 25,883,965</u></u>

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

	Internal Service Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 7,855,316
Cash payments to employees for services	(128,151)
Cash payments for insurance claims	(4,715,500)
Cash payments to suppliers for goods and services	(1,093)
Cash payments for other operating expenses	(1,786,093)
Net Cash Provided from Operating Activities	<u>1,224,479</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	538,257
Net Cash Provided from Investing Activities	<u>538,257</u>
Net increase in cash and cash equivalents	1,762,736
Cash and cash equivalents - Beginning	18,981,801
Cash and cash equivalents - Ending	<u><u>\$ 20,744,537</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating income	\$ 1,541,530
Changes in assets and liabilities:	
Due from other funds	(69,736)
Accounts payable	6,045
Due to other funds	59,280
Claim liabilities	(312,640)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u><u>\$ 1,224,479</u></u>

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
BALANCE SHEETS
JUNE 30, 2009**

	Associated Students Trust	Student Representation Fee	Student Financial Aid
ASSETS			
Cash and cash equivalents	\$ 760,597	\$ 40,507	\$ -
Investments	42,558	-	5,774,825
Accounts receivable	854	-	233,039
Student loans receivable	-	306	14,332
Due from other funds	24	-	15,583
Total Assets	\$ 804,033	\$ 40,813	\$ 6,037,779
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 16,072	\$ -	\$ 5,875,819
Due to other funds	2,747	-	109,805
Deferred revenue	-	-	2,155
Due to student groups	215,467	-	-
Total Liabilities	234,286	-	5,987,779
FUND BALANCES			
Reserved	-	-	50,000
Unreserved			
Designated	569,747	40,813	-
Total Fund Balances	569,747	40,813	50,000
Total Liabilities and Fund Balances	\$ 804,033	\$ 40,813	\$ 6,037,779

See accompanying note to additional supplementary information.

Other Trust	Total
\$ 10,224,011	\$ 11,025,115
113,621	5,931,004
226,057	459,950
613,632	628,270
-	15,607
<u>\$ 11,177,321</u>	<u>\$ 18,059,946</u>

\$ 314,743	\$ 6,206,634
5,110,022	5,222,574
-	2,155
4,431,519	4,646,986
<u>9,856,284</u>	<u>16,078,349</u>

-	50,000
1,321,037	1,931,597
<u>1,321,037</u>	<u>1,981,597</u>
<u>\$ 11,177,321</u>	<u>\$ 18,059,946</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**FIDUCIARY FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	Associated Students Trust	Student Representation Fee	Student Financial Aid
REVENUES			
Federal revenues	\$ -	\$ -	\$20,530,137
State revenues	-	-	1,254,912
Local revenues	293,972	17,085	108,155
Total Revenues	<u>293,972</u>	<u>17,085</u>	<u>21,893,204</u>
EXPENDITURES			
Current Expenditures			
Classified salaries	78,111	-	-
Employee benefits	17,032	-	-
Books and supplies	48,473	-	-
Services and operating expenditures	120,657	19,066	5,634
Capital outlay	18,770	-	-
Total Expenditures	<u>283,043</u>	<u>19,066</u>	<u>5,634</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>10,929</u>	<u>(1,981)</u>	<u>21,887,570</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	29,058	-	-
Operating transfers out	(15,000)	-	(102,521)
Other uses	-	-	(21,785,049)
Total Other Financing Sources (Uses)	<u>14,058</u>	<u>-</u>	<u>(21,887,570)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	24,987	(1,981)	-
FUND BALANCE, BEGINNING OF YEAR	<u>544,760</u>	<u>42,794</u>	<u>50,000</u>
FUND BALANCE, END OF YEAR	<u>\$ 569,747</u>	<u>\$ 40,813</u>	<u>\$ 50,000</u>

See accompanying note to additional supplementary information.

Other Trust	Total
\$ -	\$ 20,530,137
-	1,254,912
276,265	695,477
<u>276,265</u>	<u>22,480,526</u>
33,310	111,421
2,195	19,227
17,933	66,406
349,927	495,284
9,137	27,907
<u>412,502</u>	<u>720,245</u>
<u>(136,237)</u>	<u>21,760,281</u>
182,480	211,538
(51,692)	(169,213)
-	(21,785,049)
<u>130,788</u>	<u>(21,742,724)</u>
(5,449)	17,557
1,326,486	1,964,040
<u>\$ 1,321,037</u>	<u>\$ 1,981,597</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of North Orange County Community College District and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the basic financial statements. This information is not a required component of the financial statements in accordance with GASB Statements No. 34 and No. 35 and is presented at the request of District management.