NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2014

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2014

FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of June 30, 2014, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 15 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 18, and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 51, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) 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.

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

The Additional Supplementary Information on pages 82 through 89, 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, is fairly stated in all material respects in relation to the basis financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, 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, 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* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2014

NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

RODRIGO L. GARCIA, CPA
District Director
Fiscal Affairs

FRED WILLIAMS
Vice Chancellor
Finance & Facilities

NED DOFFONEY, Ed.D.
Chancellor

Introduction

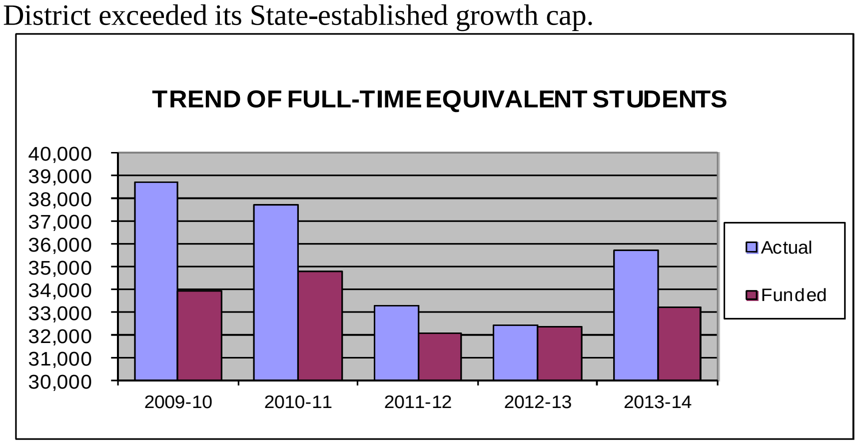
The following discussion and analysis provides an overview of the financial position and activities of the North Orange County Community College District (the District) for the year ended June 30, 2014. This discussion has been prepared by management and should be read in conjunction with the financial 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 Colleges 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 diverse communities by providing a comprehensive program of educational opportunities that are accessible, academically excellent, and committed to student success and lifelong learning. 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. Specific activities in both the college and School of Continuing Education will be directed toward economic development within the community.

Selected Highlights

- During 2013-2014, total full-time equivalent students (FTES) increased by approximately 3,272; 10.09 percent. This planned increase occurred primarily due to Fullerton College's increased class offering in the 2013 Summer session. While credit and non-credit FTES, along with a per college and per center allocation, are the basis for the District's State apportionment, State-established growth caps provide a ceiling on the level of FTES funding possible. The District exceeded its growth cap for 2013-2014 by approximately 2,530 FTES; 7.62 percent. Thus, 2013-2014 was the seventh consecutive year in which the District exceeded its State-established growth cap.



1830 W. Romneya Drive, Eighth Floor • Anaheim, CA 92801-1819 • Telephone (714) 808-4751 • FAX (714) 808-4733

- 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 which was used to leverage an additional $87 million from State Facilities Bond monies to meet local match requirements for 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. On January 24, 2013 the District issued $145,910,000 General Obligation Refunding Bonds to advance refund and defease a portion of the 2005 General Obligation Refunding Bond. The District completed the refunding to reduce its debt service payment over the next 11 years by $10,001,601.

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 Position, the Statement of Revenues, Expenses, and Change in Net Position 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, with inter-fund transactions eliminated.

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, 2014, Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles and the modified accrual basis of accounting, and the total net position recorded on the full accrual basis of accounting, is found on page 63 of the report.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position 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 Position 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 Position presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities).

From the data presented, readers of the Statement of Net Position 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 Position provides a picture of the net position and their availability for expenditure by the District.

The difference between total assets, deferred outflows of resources and total liabilities (net position) is one indicator of the current financial condition of the District; another indicator is the change in net position which shows 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 Position is 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 position; the net position is 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 position that is available to the District for any lawful purpose of the District.

The Statement of Net Position as of June 30, 2014 and 2013, is summarized below.

(in thousands)

	2014	2013 as restated
ASSETS		
Current assets		
Cash and investments	$ 124,469	$ 123,291
Receivables	32,018	28,315
Inventory	632	750
Due from fiduciary funds	4,479	4,654
Other assets	200	233
Total current assets	161,798	157,243
Non-current assets		
Capital assets, net	409,373	414,171
TOTAL ASSETS	571,171	571,414
DEFERRED OUTFLOWS OF RESERVES		
Deferred charge on refunding	7,588	12,647
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	16,542	18,836
Unearned revenue	3,149	5,412
Due to fiduciary funds	2,740	2,996
Compensated absences - current portion	3,006	2,986
Long-term liabilities - current portion	14,200	12,155
Total current liabilities	39,637	42,385
Non-current liabilities		
Long-term liabilities less current portion	272,939	274,387
TOTAL LIABILITIES	312,576	316,772
NET POSITION		
Net investment in capital assets	189,164	185,187
Restricted	51,077	44,302
Unrestricted*	25,942	37,800
TOTAL NET POSITION	$ 266,183	$ 267,289

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

- Cash and cash equivalents consist primarily of cash held in the General Fund ($41.9 million), Bond Fund ($4.7 million), Capital Outlay Fund ($26.2 million), and the Self Insurance Fund ($23.7 million). Cash in the Retiree Benefits Fund at June 30, 2014, was $59.9 million; an increase of $5.1 million over the prior year, due to contributions and interest income. The Cash Flow Statement included in these financial statements provides greater detail of the sources and uses of the District's cash during the 2013-2014 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.

- Inventory is primarily made up of merchandise held for sale in the bookstores located at Fullerton College and the School of Continuing Education. The decrease in this account is related to the outsourcing of the Cypress College Bookstore. The entire inventory was liquidated when the Follett Corporation took over the bookstore operations.

- Due from fiduciary funds and Due to fiduciary funds consist of amounts due from/to the Associated Students Trust, Student Representation Fee, and Other Trust funds at Cypress College, Fullerton College, the School of Continuing Education, and the Retiree Benefits Fund.

- Other assets are made up of prepaid expenses.

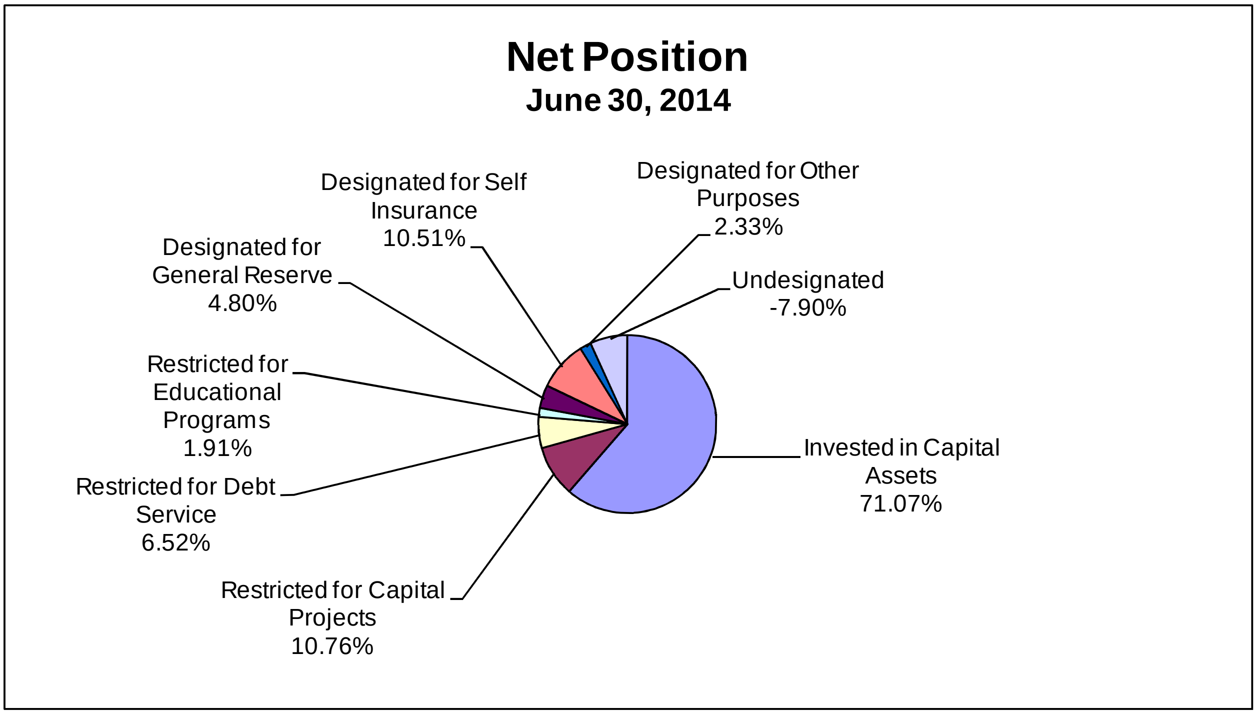
- Capital assets, net is primarily made up of the District's investments in land, buildings and building improvements, construction in progress, and vehicles at historical cost and net of accumulated depreciation. Note 6 of these financial statements provides a summary of changes during the 2013-2014 fiscal year.

- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2014. 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, 2014. Decrease in this account is due to the decrease in expenditures in the Capital Outlay and Bond Funds as the District's construction projects come to an end.

- Unearned 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. The decrease in this account is primarily related to a new Capital Outlay Financing program for the Fullerton College Technology and Engineering Complex renovation in which the State advanced the District the majority of the funds rather than submitting it on a reimbursement basis. The amount received has been spent down as of June 30, 2014, which is represented by the decrease in unearned revenue.

- 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 in exchange for time off in another period.

- The District currently has two bonded debt issuances outstanding that amount to $224.9 million. Additionally, the District issued Refunding Bonds on portions of the two outstanding issues in April 2005 and issued Refunding Bonds on portions of the 2005 issuance in January 2013. 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 postemployment 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 Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Change in Net Position. 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.

The Statement of Revenues, Expenses, and Change in Net Position for the years ended June 30, 2014 and 2013, is summarized below:

	(in thousands)	
	2014	**2013**
Operating Revenues		
Net tuition and fees	$ 19,815	$ 18,901
Sales	5,155	8,335
Total operating revenues	24,970	27,236
Operating Expenses		
Salaries and benefits	169,856	170,554
Supplies, materials, depreciation, and other expenses	49,148	43,138
Student financial aid	51,600	45,615
Total operating expenses	270,604	259,307
Operating loss	(245,634)	(232,071)
Non-operating revenues (expenses)		
State apportionments, non-capital	80,468	63,651
Local property taxes	81,449	87,216
Grants and contracts, non-capital	71,614	64,515
State taxes and other revenues	6,848	7,470
Investment income	352	379
Other non-operating revenues (expenses), net	370	(3,381)
Total non-operating revenues (expenses)	241,101	219,850
Other revenues, expenses, gains or losses		
State revenue, capital	3,427	11,374
Loss on disposal of capital assets	-	(392)
Change in net position	(1,106)	(1,239)
Net position beginning of year	267,289	269,727
Prior period restatement (see Note 15)	-	(1,199)
Net position, beginning of year, as restated	267,289	268,528
Net position, end of year	$ 266,183	$ 267,289

- 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 enrollment, health services, parking, community services classes, and other related fees. The increase in this account is directly related to the increase in FTES. The District's FTES increased 3,272, from 32,442 to 35,714.

- Sales are primarily related to the sale of merchandise in the bookstores located at Fullerton College and the School of Continuing Education. The decrease in this account is related to the outsourcing of the Cypress College Bookstore to Follett Corporation. Revenue from the Cypress College Bookstore will no longer be recorded as sales revenue. Cypress College will receive a commission from Follett based on a percentage of sales, which is recorded as general revenues.

- Salaries and benefits comprise of 63 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 as compared to total expenses since it is computed using all Capital Outlay and Bond Fund expenditures that are primarily capital outlay expenditures. Salaries and benefits in the General Fund make up 83.1 percent of total General Fund expenses as reflected on page 64 of this report.

- Other operating expenses consist of supplies, insurance, utilities, depreciation expense, other services, and capital outlay items below the capitalization threshold. The increase in this account is related to increased purchases of capital outlay items below our capitalization threshold. In 2012-2013, equipment, maintenance, and repairs are categorized separately, unlike in the current year where it was categorized as other expenses. This activity increased over the previous year due to the significant completion of the Fullerton College Technology Complex renovation which required a significant amount of Furniture, Fixtures, and Equipment (FF&E) to be purchased.

- Student financial aid is made up of financial assistance payments made to students as part of the Student Financial Aid cluster of programs.

- The operating loss reported on the Statement of Revenues, Expenses, and Change in Net Position 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. The model is comprised of a base allocation, an amount per credit FTES, non-credit FTES, and an enhanced amount per qualifying non-credit FTES for career development and college preparation courses. The increase in apportionment is primarily due to the decrease in local property taxes and prior year adjustments that were received in 2013-2014. An important aspect of the community college apportionment funding model is the inverse relationship between State apportionment and local property taxes. Thus, our funding essentially comes from enrollment fees and local property taxes with the difference made up by 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. The decrease is primarily due to one-time revenues received from the dissolution of redevelopment agencies in 2012-2013, that were not received in 2013-2014.

- 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 54 through 56 of the supplementary information section of this report provide a complete listing of Federal and State non-capital grants and contracts.

- State taxes and other revenues are mainly comprised of State mandated cost revenues and Lottery revenues. The decrease in this account is primarily due to the receipt of an estimated $442 thousand less in Lottery funds from the State than the previous year, as well as receiving an estimated $144 thousand less in mandated revenues.

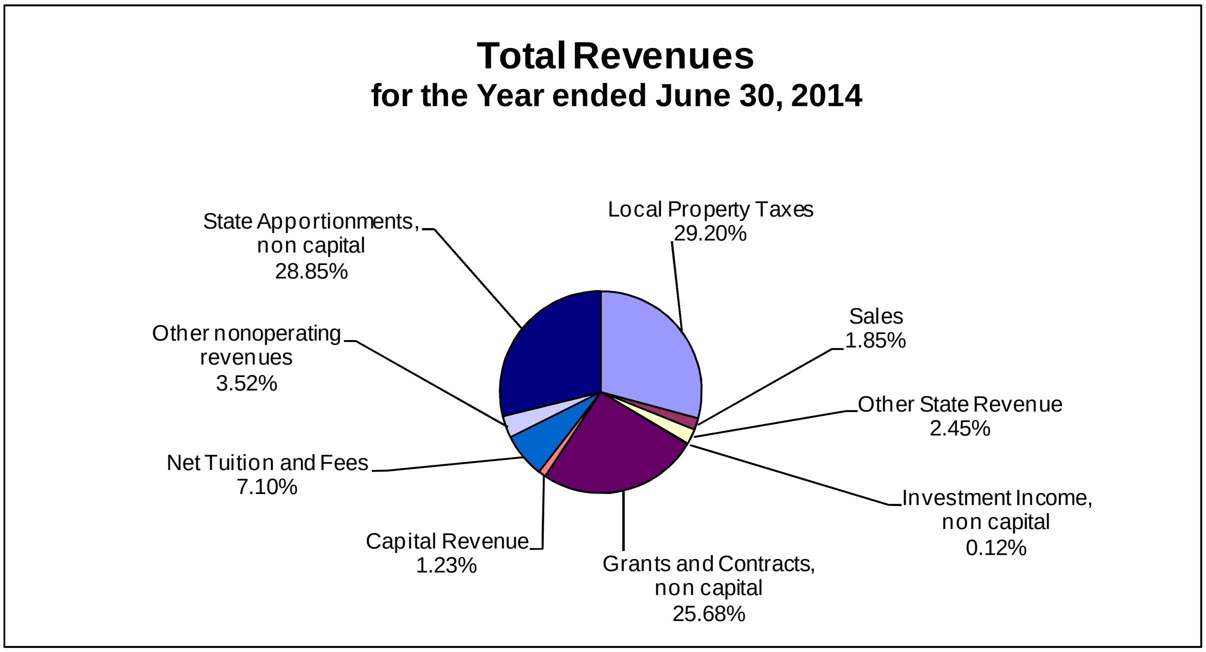
- Investment income, net decreased due to declining bond fund balances as we near the end of our bond program.

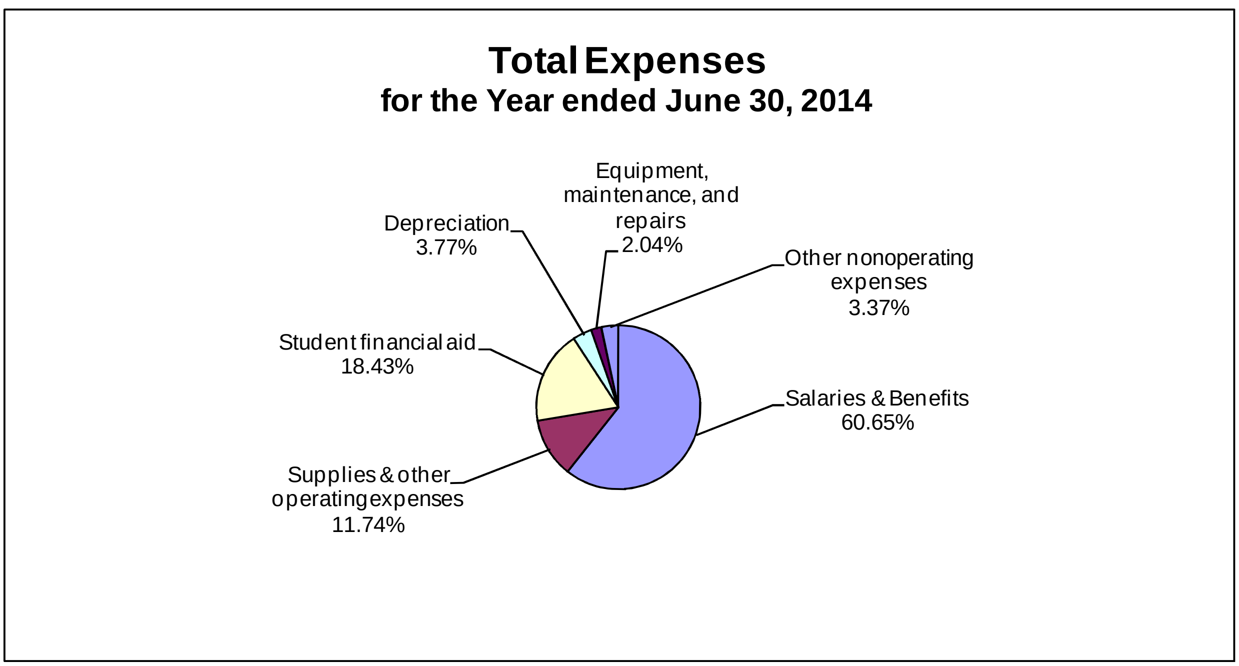
- Other non-operating revenues (expenses), net are comprised of the amounts recorded in the Bond Interest and Redemption Fund that was established for the General Obligation Bond, accrued interest on the general obligation bonds, other local revenues, local revenues designated for capital purposes, capital outlay fees received from non-resident students, transfers to and from the fiduciary funds, and an amount recorded for payments made by the State of California to STRS on the District's behalf in the amount of $3.6 million. The increase in this account is primarily due to the decrease in interest expense in our Bond Interest and Redemption Fund. Also, due to the new GASB Statement No. 65 (see Note 15), issuance costs were not recorded in the current year and were restated in the beginning fund balance.

- State revenues, capital relate to projects for capital outlay. The decrease in this account is mainly due to the recognition of revenues in 2012-2013 for the Fullerton College Technology and Engineering Complex renovation project. The project was completed in August 2013 and was our last significant State-aided project.

- Effective in fiscal year 2013-2014, the District was required to implement GASB Statement No. 65, which required the District to reflect the cost of issuance for all bonds. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the District by $1,199,309. (See Note 15)

- Functional expenses, which show expenditures by activity such as instructional activities, academic support, student services, and other activities are included in Note 14 of the financial statements.





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 Position.

A summarized Statement of Cash Flows for the years ended June 30, 2014 and 2013, is presented below:

(in thousands)

	2014	2013
Cash Provided By (Used in)		
Operating activities	$ (219,211)	$ (223,430)
Non-capital financing activities	222,187	225,209
Capital and related financing activities	(2,150)	3,272
Investing activities	352	379
Net change in cash and cash equivalents	1,178	5,430
Cash balance, beginning of year	123,291	117,861
Cash balance, end of year	$ 124,469	$ 123,291

- 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 59 percent of the total cash provided by non-capital financing activities. Additionally, cash received from non-capital related grants and contracts accounts for 29 percent of the total cash provided by non-capital financing activities.

- Capital 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 decrease in cash receipts in this category is primarily made up of revenue received in advance in 2012 for the Technology Complex renovation at Fullerton College that was not received in 2013 and 2014. Expenditure claims for this project for the 2011-2012, 2012-2013, and 2013-2014 fiscal years have been applied against these revenue advances as construction began on this project in September 2011.

- The cash from investing activities is interest earned on cash in banks, and on cash invested through the Orange County Investment Pool. The decrease in cash received from investing activities is due to the declining bond fund balances as we near the end of our bond program.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2014, the District had $409.4 million invested in net capital assets. Total capital assets of $544.9 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 $135.5 million over the years they have been in service. During 2013-2014, $38.7 million of building and improvement projects completed construction. In addition, $6 million of construction in progress occurred during 2013-2014. Depreciation expense of $10.6 million was recorded for the fiscal year.

Capital additions primarily comprise replacement, renovation, and new construction. As the District nears completion on its current capital construction program, an inverse relationship exists between the Buildings and improvements and Construction in progress accounts. As more projects are completed, their accumulated expenses are reclassified from Construction in progress to Buildings and improvements. During 2013-2014, capital additions of completed construction projects included the Technology and Engineering Complex renovation and Village Project at Fullerton College, Fine Arts Bldg. HVAC replacement and Lighting Projects at Cypress College, Sewer Ejector Project and First Floor Bathroom Renovations at the Anaheim Campus.

Note 6 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

(in thousands)

	2014	2013
Land and improvements	$ 16,379	$ 16,599
Buildings and improvements	386,195	357,606
Equipment	5,783	6,299
Construction in progress	1,016	33,667
Net capital assets	$ 409,373	$ 414,171

Debt Administration

At June 30, 2014, the District had $290.1 million in debt primarily made up of $224.9 million from general obligation bonds; $5 million from Self-Insurance claims payable; $7.0 million from compensated absences payable, and $53.2 million as the net OPEB obligation which represents the cumulative difference between the District's actuarially determined Annual Required Contribution and the amount the District made in contributions for postemployment 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 $53.2 million net OPEB obligation, these financial statements include a liability for retiree benefits, in accordance with GASB 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 August 2013, the District's actuarially determined unfunded liability was projected at $163.9 million. As of June 30, 2014, the District had $62.6 million set aside for retiree health benefits. The amount is not currently held in an irrevocable trust, thus it cannot be accounted against our unfunded liability.

Note 9 to the financial statements provides additional information on long-term liabilities. A summary of long-term obligations is presented below:

(in thousands)

	2014	2013
Long-term obligations		
General obligation bonds	$ 224,890	$ 234,101
Claims payable	5,033	2,637
Compensated absences	7,018	6,780
Net OPEB obligation	53,204	46,011
Total long-term obligations	290,145	289,529
Less current portion	(17,206)	(15,141)
Long-term portion	$ 272,939	$ 274,388

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, 2014, the District ended the fiscal year with a healthy surplus due to prudent fiscal management in previous years. Thanks to the passage of Proposition 30 in November 2012, the State is in a better fiscal condition for 2014-2015 than it has been in the past few years. For the second consecutive year, the 2014-2015 State Budget contains no trigger cuts and includes a Cost of Living Adjustment increase and restoration funds. The budget also addressed the continuing concern of significant deferrals. Deferrals have been brought down from $592 million to $94 million for the community colleges. Based on the information currently available, the District believes it is in good financial shape for the 2014-2015 fiscal year. As a reminder, even though Proposition 30 passed, its tax increases, which included a .25 percent sales tax increase and a personal income tax increase for high income earners, are only temporary fixes and will phase out on December 31, 2016 and December 31, 2018, respectively. Barring any offset in revenues or other alternatives to offset these expirations, the temporary nature of Proposition 30 could have a significant impact on the District's future funding. There are several unknown factors that could still negatively affect the 2014-2015 budget including the State's estimate of revenues that would be collected from the tax increase for the Education Protection Funds (EPA), student enrollment fees collected, and the amount of redevelopment funds flowing to schools. The economic position of the District is closely tied to that of the State of California and, 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. 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.

Also of significant concern is the increase of the employer contribution rate for STRS as part of the State's adopted STRS Funding Plan. Beginning in 2015-2016, the STRS employer contribution rate will increase by 1.85 percent every year through 2019-2020 and will then increase by 0.97 percent in 2020-2021. This plan will cumulatively increase the District's employer contribution rate from 8.88 percent in 2014-2015 to 19.1 percent in 2020-2021, which will have an estimated cumulative impact of over $6.5 million for the District.

As of the date of this report, pending any recounts, it appears that on November 4, 2014, the voters of the North Orange County Community College District approved Measure J, a $574 million General Obligation Bond. The proceeds of the bonds will be used to upgrade antiquated science labs, lecture halls, technology and instructional equipment to better prepare students for growing fields of study and high-skill careers, enhance classroom space and training centers for future nurses, firefighters and other first responders, as well as technically-trained workers; and expand veterans' facilities and services as well as job-placement centers to train and re-train veterans as they transition into the civilian workforce.

Other than the concerns 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, please contact the Vice Chancellor, Finance and Facilities, North Orange County Community College District, 1830 West Romneya Drive, Anaheim, CA 92801.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2014

ASSETS	
Current Assets	
Cash and cash equivalents - unrestricted	$ 7,436,024
Investments - unrestricted	62,972,773
Investments - restricted	54,059,868
Accounts receivable	31,355,780
Student loans receivable	662,677
Due from fiduciary funds	4,479,219
Prepaid expenses	199,472
Stores inventories	631,908
Total Current Assets	161,797,721
Noncurrent Assets	
Nondepreciable capital assets	15,772,429
Depreciable capital assets, net of depreciation	393,600,867
Total Noncurrent Assets	409,373,296
TOTAL ASSETS	571,171,017
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	7,587,886
LIABILITIES	
Current Liabilities	
Accounts payable	14,977,983
Accrued interest payable	1,563,967
Due to fiduciary funds	2,740,232
Unearned revenue	3,148,734
Compensated absences	3,006,341
Bonds payable	14,200,000
Total Current Liabilities	39,637,257
Noncurrent Liabilities	
Compensated absences	4,011,233
Claims liability	5,033,528
Bonds payable	210,689,953
Other long-term liabilities - noncurrent portion	53,204,231
Total Noncurrent Liabilities	272,938,945
TOTAL LIABILITIES	312,576,202
NET POSITION	
Net investment in capital assets	189,164,171
Restricted for:	
Debt service	17,357,532
Capital projects	28,638,078
Educational programs	5,080,783
Unrestricted	25,942,137
TOTAL NET POSITION	$ 266,182,701

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 POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES	
Student Tuition and Fees	$ 43,110,034
Less: Scholarship discounts and allowances	(23,295,458)
Net tuition and fees	19,814,576
Auxiliary enterprise sales and charges	5,155,296
TOTAL OPERATING REVENUES	24,969,872
OPERATING EXPENSES	
Salaries	124,349,906
Employee benefits	45,505,664
Supplies, materials, and other operating expenses and services	32,868,785
Student financial aid	51,600,021
Equipment, maintenance, and repairs	5,702,012
Depreciation	10,577,306
TOTAL OPERATING EXPENSES	270,603,694
OPERATING LOSS	(245,633,822)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	80,467,965
Local property taxes, levied for general purposes	63,332,682
Taxes levied for other specific purposes	18,116,611
Federal grants and contracts, noncapital	55,146,071
State grants and contracts, noncapital	16,467,670
State taxes and other revenues	6,847,701
Investment income	351,783
Interest expense on capital related debt	(5,533,805)
Investment income on capital asset-related debt, net	32,467
Transfer from fiduciary funds	25,000
Transfer to fiduciary funds	(3,914,582)
Other nonoperating revenues	9,761,348
TOTAL NONOPERATING REVENUES (EXPENSES)	241,100,911
LOSS BEFORE OTHER REVENUES	(4,532,911)
State revenues, capital	3,426,549
CHANGE IN NET POSITION	(1,106,362)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	267,289,063
NET POSITION, END OF YEAR	$ 266,182,701

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 19,584,016
Auxiliary sales	5,155,296
Payments to or on behalf of employees	(160,290,599)
Payments to vendors for supplies and services	(32,060,245)
Payments to students for scholarships and grants	(51,600,021)
Net Cash Flows From Operating Activities	(219,211,553)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	80,467,965
Property taxes - nondebt related	63,332,682
Grants and contracts	61,865,247
State taxes and other revenues	8,516,535
Other nonoperating revenues	8,004,711
Net Cash Flows From Noncapital Financing Activities	222,187,140
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(8,049,883)
State revenue, capital projects	3,426,549
Property taxes - related to capital debt	16,946,472
Proceeds from capital debt	2,943,607
Principal paid on capital debt	(12,155,000)
Interest paid on capital debt	(5,294,094)
Interest received on capital asset-related debt	32,467
Net Cash Flows From Capital Financing Activities	(2,149,882)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	351,783
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,177,488
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	123,291,177
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 124,468,665

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (245,633,822)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities:	
Depreciation expense	10,577,306
Changes in Assets and Liabilities:	
Receivables, net	(230,560)
Stores inventories	118,286
Other assets	5,092,122
Accounts payable and accrued liabilities	(262,960)
Unearned revenue	1,300,144
Change in claims payable	2,396,337
OPEB obligation	7,193,707
Compensated absences	237,887
Total Adjustments	26,422,269
Net Cash Flows From Operating Activities	$ (219,211,553)

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 7,436,024
Cash in county treasury	117,032,641
Total Cash and Cash Equivalents	$ 124,468,665

NON CASH TRANSACTIONS	
On behalf payments for benefits (see Note 12)	$ 3,637,710

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ 6,353,778	$ 38,461
Investments	64,030,344	-
Accounts receivable	2,601,711	19,000
Student loans receivable	848,563	12,760
Due from primary government	2,740,232	-
Prepaid expenses	500	-
Total Assets	76,575,128	$ 70,221
LIABILITIES		
Accounts payable	436,987	$ -
Due to primary government	4,479,219	-
Unearned revenue	3,532,937	-
Due to student groups	3,526,322	70,221
Total Liabilities	11,975,465	$ 70,221
NET POSITION		
Unreserved	64,599,663	
Total Net Position	$ 64,599,663	

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	Trust Funds
ADDITIONS	
Local revenues	$ 1,662,942
DEDUCTIONS	
Classified salaries	120,596
Employee benefits	31,565
Books and supplies	74,166
Services and other operating expenditures	463,081
Capital outlay	3,872
Total Deductions	693,280
OTHER FINANCING SOURCES (USES)	
Transfers from governmental funds	3,914,582
Transfers to governmental funds	(25,000)
Total Other Financing Sources (Uses)	3,889,582
Change in Net Position	4,859,244
Net Position - Beginning of Year	59,740,419
Net Position - Ending	$ 64,599,663

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

NOTE 1 - ORGANIZATION

The North Orange County Community College District (the District) is a comprehensive, public, two-year institution offering 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. 61. 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. 61. 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. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All 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. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

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. 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 District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

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. 61. 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 Position - Primary Government
  - Statement of Revenues, Expenses, and Change in Net Position - Primary Government
  - Statement of Cash Flows - Primary Government
  - Financial Statements for the Fiduciary Funds including:
    - Statement of Fiduciary Net Position
    - Statement of Changes in Fiduciary Net Position
- 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 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.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2014, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Investments

Restricted investments arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted investments represent those required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

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.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2014.

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.

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Charge on Refunding

Deferred charge on refunding is amortized using the straight-line method.

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

Unearned Revenue

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

Noncurrent Liabilities

Noncurrent liabilities include compensated absences, claims payable, bonds payable, and OPEB 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 Position

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

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

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

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

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 $51,076,393 of restricted net position.

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, and sales and services of auxiliary enterprises.

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 of 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.

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. The Teeter Plan allows the County to follow the accrual method of accounting to allocate property tax revenues based on the total amount of property taxes billed but not yet collected. 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 assessed, billed, and collected by the County of Orange and remitted to the District.

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Change in Net Position. 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 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, and Federal Work-Study 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. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. 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*.

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.

Interfund Activity

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

Change in Accounting Principles

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by $1,199,309. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68*, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

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 (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which 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.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, consist of the following:

Primary government	$ 124,468,665
Fiduciary funds	70,422,583
Total Deposits and Investments	$ 194,891,248

Cash on hand and in banks	$ 13,681,193
Cash in revolving funds	147,070
Investments	181,062,985
Total Deposits and Investments	$ 194,891,248

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County pool.

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:

Investment Type	Book Value	Fair Value	Weighted Average Days to Maturity
Orange County Educational Investment Pool	$ 181,062,985	$ 181,136,848	519

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 Orange County Investment Pool is not required to be rated. However, as of the year-end, the Orange County Educational Investment Pool reflected an Aaa rating by Standard and Poor's Rating Service.

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, 2014, of the District's bank balance of $23,834,344, $8,776,376 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, 2014, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

	Primary Government	Fiduciary Funds
Federal Government		
Categorical aid	$ 6,754,262	$ -
State Government		
Apportionments	19,630,142	-
Categorical aid	367,923	-
Lottery	2,965,510	-
Other State sources	550,487	-
Local Government		
Interest	34,576	22,338
Other	1,052,880	2,598,373
Total	$ 31,355,780	$ 2,620,711
Student loans receivable	$ 662,677	$ 861,323

NOTE 5 - INTERFUND TRANSACTIONS

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds, respectively, has been eliminated in the consolidation process of the basic financial statements. Balances owing between the primary governmental and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2014, the amount owed between the primary government and the fiduciary funds were $4,479,219 and $2,740,232, respectively.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance Beginning of Year	Additions	Deductions/ Reclassifications	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 14,756,218	$ -	$ -	$ 14,756,218
Construction in progress	33,667,102	6,015,968	38,666,859	1,016,211
Total Capital Assets Not Being Depreciated	48,423,320	6,015,968	38,666,859	15,772,429
Capital Assets Being Depreciated				
Land improvements	2,881,560	-	93,772	2,787,788
Buildings and improvements	467,552,234	37,767,905	-	505,320,139
Machinery and equipment	20,600,206	756,167	334,505	21,021,868
Total Capital Assets Being Depreciated	491,034,000	38,524,072	428,277	529,129,795
Total Capital Assets	539,457,320	44,540,040	39,095,136	544,902,224
Less Accumulated Depreciation				
Land improvements	1,039,143	126,086	-	1,165,229
Buildings and improvements	109,946,121	9,178,852	-	119,124,973
Machinery and equipment	14,300,863	1,272,368	334,505	15,238,726
Total Accumulated Depreciation	125,286,127	10,577,306	334,505	135,528,928
Net Capital Assets	$ 414,171,193	$ 33,962,734	$ 38,760,631	$ 409,373,296

Depreciation expense for the year was $10,577,306.

Interest expense on capital related debt for the year ended June 30, 2014, was $5,696,528. Of this amount, $162,723 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 5,201,235	$ -
Services	7,269,954	436,987
Construction	2,506,794	-
Total	$ 14,977,983	$ 436,987

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	$ 1,499,538	$ -
Other State revenues - capital outlay	1,507,216	-
Student fees	-	3,532,937
Other local revenues	141,980	-
Total	$ 3,148,734	$ 3,532,937

NOTE 9 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

The changes in the District's long-term obligations during the 2014 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds Payable					
2003B General obligation bonds	$ 62,841,346	$ 2,943,607	$ 4,150,000	$ 61,634,953	$ 4,545,000
2005 General obligation refunding bonds	25,350,000	-	5,980,000	19,370,000	6,780,000
2013 General obligation refunding bonds	145,910,000	-	2,025,000	143,885,000	2,875,000
Total Bonds Payable	234,101,346	2,943,607	12,155,000	224,889,953	14,200,000
Other Liabilities					
Compensated absences/Load banking	6,779,687	237,887	-	7,017,574	3,006,341
Net OPEB obligation	46,010,524	12,546,060	5,352,353	53,204,231	-
Claims payable	2,637,191	2,396,337	-	5,033,528	-
Total Other Liabilities	55,427,402	15,180,284	5,352,353	65,255,333	3,006,341
Total Long-Term Obligations	$ 289,528,748	$ 18,123,891	$ 17,507,353	$ 290,145,286	$ 17,206,341

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/load banking liability will be paid by the fund for which the employee worked. The claims payable liability and the pay-as-you-go portion of the OPEB obligation will be paid by the Internal Service Fund.

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.

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 is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2014, was $61,634,953.

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, 2015. Interest rates range from 3.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2014, was $19,370,000.

2013 General Obligation Refunding Bonds

On January 24, 2013, $145,910,000 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 2005 General Obligation Refunding Bonds maturing on and after August 1, 2013, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased $129,945,000 of the old debt with a final maturity date of August 1, 2023. Interest rates range from .40 percent to 2.652 percent, depending on the maturity of the related bonds. The Bonds are payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2014, was $143,885,000.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2013	Issued	Accreted Interest Addition	Redeemed	Bonds Outstanding June 30, 2014
2003	2029	2.00%-5.44%	$ 99,999,001	$ 62,841,346	$ -	$ 2,943,607	$ 4,150,000	$ 61,634,953
2005	2016	3.00%-5.00%	164,935,000	25,350,000	-	-	5,980,000	19,370,000
2013	2024	.40%-2.652%	145,910,000	145,910,000	-	-	2,025,000	143,885,000
				$ 234,101,346	$ -	$ 2,943,607	$ 12,155,000	$ 224,889,953

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
2015	$ 4,545,000	$ -	$ 90,900	$ 4,635,900
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
2020-2024	16,903,598	9,331,402	-	26,235,000
2025-2029	40,186,355	40,663,645	-	80,850,000
Total	$ 61,634,953	$ 49,995,047	$ 90,900	$ 111,720,900

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

The 2005 Refunding Bonds mature through 2016 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 6,780,000	$ 785,594	$ 7,565,594
2016	12,590,000	311,875	12,901,875
Total	$ 19,370,000	$ 1,097,469	$ 20,467,469

The 2013 Refunding Bonds mature through 2024 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	$ 2,875,000	$ 2,617,971	$ 5,492,971
2016	2,885,000	2,603,164	5,488,164
2017	16,905,000	2,513,185	19,418,185
2018	17,885,000	2,320,816	20,205,816
2019	18,960,000	2,063,938	21,023,938
2020-2024	84,375,000	4,647,177	89,022,177
Total	$ 143,885,000	$ 16,766,251	$ 160,651,251

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was $12,561,286, and contributions made by the District during the year were $5,352,353. Interest on the net OPEB obligation and adjustments to the annual required contribution were $2,070,473 and $(2,085,699), respectively, which resulted in an increase to the net OPEB obligation of $7,193,707. As of June 30, 2014, the net OPEB obligation was $53,204,231. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (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 1,000 retirees and beneficiaries currently receiving benefits and 1,176 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 feasible by Administration and the Board of Trustees. For fiscal year 2013-2014, the District contributed $5,352,353 to the Plan, all of which was used for current premiums.

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	$ 12,561,286
Interest on net OPEB obligation	2,070,473
Adjustment to annual required contribution	(2,085,699)
Annual OPEB cost (expense)	12,546,060
Contributions made	(5,352,353)
Increase in net OPEB obligation	7,193,707
Net OPEB obligation, beginning of year	46,010,524
Net OPEB obligation, end of year	$ 53,204,231

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012, 2013, and 2014, was as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	$ 12,479,274	$ 5,118,920	41%	$ 38,466,975
2013	12,548,165	5,004,616	40%	46,010,524
2014	12,546,060	5,352,353	43%	53,204,231

Funding Status and Funding Progress

Actuarial Accrued Liability (AAL)	$ 163,874,606
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 163,874,606
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	$ 110,328,606
UAAL as Percentage of Covered Payroll	149%

The above noted actuarial accrued liability was based on the July 2012 actuarial valuation. 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 Other Postemployment Benefits 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.

In the July 2012 actuarial valuation, 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 reflected an ultimate rate of 4.0 percent. The UAAL is being amortized at a level percentage of payroll method. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 11 - 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.

As of June 30, 2014 and 2013, liabilities for claims amounted to $5,033,528 and $2,637,191, respectively. Changes in the claims liability amount in the fiscal years 2014 and 2013 are presented below:

	Workers' Compensation	Property and Liability	Total
Liability Balance, July 1, 2012	$ 2,593,587	$ 115,653	$ 2,709,240
Claims and changes in estimates	357,794	1,284,561	1,642,355
Claims payments	(1,251,789)	(462,615)	(1,714,404)
Liability Balance, July 1, 2013	1,699,592	937,599	2,637,191
Claims and changes in estimates	2,252,276	826,963	3,079,239
Claims payments	(262,460)	(420,442)	(682,902)
Liability Balance, June 30, 2014	$ 3,689,408	$ 1,344,120	$ 5,033,528
Assets available to pay claims at June 30, 2014			$ 25,625,823

NOTE 12 - 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

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statues, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Due to the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-2014 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ended June 30, 2014, 2013, and 2012, were $5,691,538, $5,546,082, and $5,416,189, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. As a result of the PEPRA, changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statues, as legislatively amended, within the Public Employees' Retirement Laws. 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

As a result of the implementation of the PEPRA, new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013-2014 was 11.442 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2014, 2013, and 2012, were $7,101,025, $7,145,176, and $6,937,010, respectively, and equal 100 percent of the required contributions for each year.

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 30, 2014, 2013, and 2012, which amounted to $3,637,710, $3,534,188, and $3,406,679, respectively, (5.541 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the years ended June 30, 2014, 2013, and 2012. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 13 - 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, 2014.

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, 2014.

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, 2014, was approximately $121,684. Future minimum lease payments under these agreements are as follows:

Year Ending June 30,	Lease Payments
2015	$ 119,232
2016	111,848
2017	37,054
Total	$ 268,134

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
District Education Center - General	$ 159,903	June 2015
District Education Center - Anaheim Center Repair	42,124	On-going
Distant Education Center - First Floor Bathroom	10,000	July 2014
Fullerton College Scheduled Maintenance	149,668	July 2014
Cypress College Scheduled Maintenance	1,795,863	September 2014
Technology and Engineering Swing Space	76,327	On-going
Gigliotti Parking	67,300	December 2014
Technology and Engineering Complex Project	11,527	On-going
Maintenance and Operations Facility	99,857	June 2015
Cypress College Gym Floors	66,934	July 2014
Lighting Project	11,958	On-going
	$ 2,491,461	

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.

NOTE 14 - FUNCTIONAL EXPENSES CLASSIFICATION

The District's operating expenses by functional classification for the fiscal year ended June 30, 2014, are:

	Salaries and Benefits	Supplies, Material, and Other Expenses and Services	Student Financial Aid	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	$ 83,205,940	$ 2,220,030	$ -	$ 1,659,328	$ -	$ 87,085,298
Academic support	27,691,759	4,771,973	-	783,917	-	33,247,649
Student services	20,303,821	1,594,152	-	320,298	-	22,218,271
Plant operations and maintenance	10,760,532	11,280,118	-	665,140	-	22,705,790
Instructional support services	20,873,107	6,591,059	-	164,560	-	27,628,726
Community services and economic development	2,018,774	456,798	-	24,044	-	2,499,616
Ancillary services and auxiliary operations	3,655,403	4,293,909	-	80,339	-	8,029,651
Student aid	-	642,437	51,600,021	-	-	52,242,458
Physical property and related acquisitions	1,346,234	1,018,309	-	2,004,386	-	4,368,929
Depreciation	-	-	-	-	10,577,306	10,577,306
Total	$ 169,855,570	$ 32,868,785	$ 51,600,021	$ 5,702,012	$ 10,577,306	$ 270,603,694

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District's prior year beginning net position has been restated as of June 30, 2014.

Effective in fiscal year 2013-2014, the District was required to implement GASB Statement No. 65. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the District by $1,199,309. See table below.

Primary Government	
Net Position - Beginning	$ 268,488,372
Restatement of costs of issuance for implementation of GASB Statement No. 65	(1,199,309)
Net Position - Beginning, as Restated	$ 267,289,063

NOTE 16 - SUBSEQUENT EVENT

As of the date of this report, pending any recounts, it appears that on November 4, 2014, the voters of the North Orange County Community College District approved Measure J, a $574 million General Obligation Bond. The proceeds of the bonds will be used to upgrade antiquated science labs, lecture halls, technology and instructional equipment to better prepare students for growing fields of study and high-skill careers, enhance classroom space and training centers for future nurses, firefighters and other first responders, as well as technically-trained workers; and expand veterans' facilities and services as well as job-placement centers to train and re-train veterans as they transition into the civilian workforce.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2014

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%
March 2009	-	157,811,000	157,811,000	0%	95,263,000	166%
June 2010	-	166,148,230	166,148,230	0%	108,668,918	153%
July 2012	-	163,874,606	163,874,606	0%	110,328,606	149%

SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2014

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. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Mr. Jeffrey P. Brown	President	2014
Mr. M. Tony Ontiveros	Vice President	2016
Mr. Michael B. Matsuda	Secretary	2016
Dr. Barbara Dunsheath	Member	2014
Mr. Leonard L. Lahtinen	Member	2016
Ms. Molly McClanahan	Member	2016
Ms. Donna Miller	Member	2014
Mr. Omar Pichardo	Student Trustee, Cypress College	2015
Mr. Stephen Tith	Student Trustee, Fullerton College	2015

ADMINISTRATION

Dr. Ned Doffoney	Chancellor
Mr. Fred Williams	Vice Chancellor, Finance and Facilities
Ms. Irma Ramos	Vice Chancellor, Human Resources
Dr. Cherry Li-Bugg	Vice Chancellor, Educational Services and Technology
Dr. Robert Simpson	President, Cypress College
Dr. Rajen Vurdien	President, Fullerton College
Dr. Greg Schultz	Provost, School of Continuing Education
Ms. Deborah Ludford	District Director, Information Services
Ms. Kai Stearns Moore	District Director, Public and Governmental 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, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grant Program	84.063		$ 42,504,649
Federal Pell Administrative Allowance	84.063		61,518
Federal Direct Loan	84.268		5,864,068
Federal Supplemental Educational Opportunity Grant (FSEOG)	84.007		447,325
Federal FSEOG Administrative Allowance	84.007		10,338
Federal Work-Study Program	84.033		384,761
Federal Work-Study Administrative Allowance	84.033		19,238
Subtotal Student Financial Assistance Cluster			49,291,897
COLLEGE COST REDUCTION AND ACCESS ACT (CCRAA)			
Passed through from California State University			
Fullerton Auxiliary Services Corporation,			
Strengthening Transfer Education and Matriculation in STEM	84.031C	S-5261-NOCCCD	136,851
Passed through from Rancho Santiago Community College District			
Title III, Part F, Hispanic-Serving Institutions Science Technology,			
Engineering and Mathematics and Articulation Programs	84.031C	P031C110183	424,027
HIGHER EDUCATION ACT			
Title V - Strengthening Basic Skills to Improve Hispanic			
Student Retention, Persistence, and Success	84.031		873,887
ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA)			
Passed through California Department of Education			
Adult Education and Family Literacy Act (AEFLA)	84.002	AO-400	680,794
English Literacy and Civics Education Grant (EL Civics)	84.002	AO-400	651,809
CAREER AND TECHNICAL EDUCATION ACT			
Passed through from California Community Colleges Chancellor's Office			
Career and Technical Education Act (CTEA), Title I, Part C	84.048	09-C01-037	1,708,846
Title I, CTEA Transitions	84.048A	09-139-860	88,050
REHABILITATION ACT			
Passed through from California Department of Rehabilitation			
College to Career Program	84.126A	29301	253,627
Workability III Program	84.126A	28306	100,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through from State Council on Developmental Disabilities			
Hands on Job Training Projects, Independent Living Skills Program	93.630	C35AB1112132/SCDAB11	9,759
Passed through from California Community College Chancellor's Office			
Health Resources and Services Administration - Allied Health	93.512	F12-0042	15,221
Passed through from California Community Colleges Chancellor's Office			
Temporary Assistance to Needy Families (TANF)	93.558	[1]	147,554
Passed through California Public Employee Retirement System (CalPERS)			
Medicare Part D	93.770	[1]	450,000

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Grantor's Number	Program Expenditures
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through from Orange County Transportation Authority			
Job Access - Reverse Commute	20.516	C-3-1384	$ 90,600
U.S. DEPARTMENT OF LABOR			
Passed through from California Community Colleges Chancellor's Office			
H-1 B Technical Skills Training	17.268	08-115-13	152,873
U.S. DEPARTMENT OF THE INTERIOR			
Passed through from Metropolitan Water District of Southern California			
World Water Forum	15.530	130635	6,626
U.S. DEPARTMENT OF AGRICULTURE			
Passed through from California Department of Education			
Child Nutrition	10.558	04367-CACFP-30-CC-IC	43,453
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Veterans Services	64.117		5,953
Total Federal Program Expenditures			$ 55,131,827 [2]

[1] Pass-Through Grantor's Number not available.

[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Change in Net Position is due to differences of $14,244 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, 2014

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
STATE CATEGORICAL AID PROGRAMS			
AS Degree Nursing Program	$ 195,350	$ -	$ 195,350
Basic Skills	858,168	832,195	1,690,363
Board Financial Assistance Program (BFAP)	1,145,790	-	1,145,790
CalWORKs	636,126	-	636,126
Child Care Food Program	1,000	-	1,000
Child Care Renovation and Repair	-	16,193	16,193
Child Development Training Consortium	15,000	-	15,000
Cooperative Agencies Resources for Education (CARE)	213,448	-	213,448
CTE Community Collaborative Grant	-	640,756	640,756
Deputy Sector Navigator	300,000	-	300,000
Disabled Students Programs and Services (DSPS)	2,572,861	-	2,572,861
Equal Employment Opportunities	13,260	17,799	31,059
Environmental Training Center	-	82,944	82,944
Extended Opportunity Programs and Services (EOPS)	1,771,071	-	1,771,071
General Child Care	89,547	-	89,547
Independent Living Skills	381,644	-	381,644
Industry-Driven Regional Collaboratives (IDRC)	-	34,989	34,989
Job Development Incentive Fund (JDIF)	-	203,495	203,495
Non-Credit Student Support and Success Program	743,186	-	743,186
Puente Project	3,000	-	3,000
Referee and Lane Technician	12,000	-	12,000
Responsive Training Fund - EHS2	-	597,826	597,826
Student Support and Success Program	1,926,240	-	1,926,240
Teacher Preparation Pipeline	-	105,406	105,406
Telecommunications Technology Improvement Program (TTIP)	-	26,565	26,565
Workforce Innovation Partnership	-	755,852	755,852
Total State Programs			

See accompanying note to supplementary information.

Program Revenues					
Cash Received	Accounts Receivable	Accounts Payable	Unearned Revenue	Total Revenue	Program Expenditures
$ 164,094	$ 12,821	$ -	$ -	$ 176,915	$ 176,915
1,645,436	-	-	886,909	758,527	758,527
1,145,790	-	-	-	1,145,790	1,145,790
636,126	-	14,620	-	621,506	621,506
925	-	-	-	925	925
3,000	2,177	-	-	5,177	5,177
13,525	1,475	-	-	15,000	15,000
213,448	-	573	-	212,875	212,875
536,812	7,779	-	-	544,591	544,591
120,000	34,622	-	-	154,622	154,622
2,572,862	-	82,315	-	2,490,547	2,490,547
31,059	-	-	5,000	26,059	26,059
944	82,000	-	-	82,944	82,944
1,771,071	-	2,598	-	1,768,473	1,768,473
74,973	-	-	-	74,973	74,973
299,594	169	-	-	299,763	299,763
-	34,987	-	-	34,987	34,987
115,495	64,445	-	-	179,940	179,940
743,186	-	-	-	743,186	743,186
3,000	-	-	-	3,000	3,000
12,000	-	-	-	12,000	12,000
357,826	119,998	16,439	-	461,385	461,385
1,926,240	-	-	476,190	1,450,050	1,450,050
75,406	2,467	-	-	77,873	77,873
26,565	-	-	22,382	4,183	4,183
626,665	4,983	-	109,057	522,591	522,591
$ 13,116,042	$ 367,923	$ 116,545	$ 1,499,538	$ 11,867,882	$ 11,867,882

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2014

CATEGORIES	*(Revised)/ Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2013 only)			
1. Noncredit**	600	-	600
2. Credit	2,518	-	2,518
B. Summer Intersession (Summer 2014 - Prior to July 1, 2014)			
1. Noncredit**	-	-	-
2. Credit	-	-	-
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	23,049	-	23,049
(b) Daily Census Contact Hours	767	-	767
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	5,290	-	5,290
(b) Credit	877	-	877
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,008	-	2,008
(b) Daily Census Contact Hours	605	-	605
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	35,714	-	35,714
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	95	-	95
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	3,341	-	3,341
2. Credit	2,772	-	2,772
CCFS-320 Addendum			
CDCP Noncredit FTES	3,407	-	3,407
Centers FTES			
1. Noncredit**	5,678	-	5,678
2. Credit	-	-	-

* Annual report revised as of October 1, 2014.

** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Academic Salaries							
Instructional Salaries							
Contract or Regular	1100	$ 37,031,847	$ -	$ 37,031,847	$ 37,031,847	$ -	$ 37,031,847
Other	1300	25,211,102	-	25,211,102	25,211,102	-	25,211,102
Total Instructional Salaries		62,242,949	-	62,242,949	62,242,949	-	62,242,949
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	12,692,970	-	12,692,970
Other	1400	-	-	-	531,183	-	531,183
Total Noninstructional Salaries		-	-	-	13,224,153	-	13,224,153
Total Academic Salaries		62,242,949	-	62,242,949	75,467,102	-	75,467,102
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	26,868,603	-	26,868,603
Other	2300	-	-	-	1,787,868	-	1,787,868
Total Noninstructional Salaries		-	-	-	28,656,471	-	28,656,471
Instructional Aides							
Regular Status	2200	3,031,095	-	3,031,095	3,031,095	-	3,031,095
Other	2400	437,371	-	437,371	437,371	-	437,371
Total Instructional Aides		3,468,466	-	3,468,466	3,468,466	-	3,468,466
Total Classified Salaries		3,468,466	-	3,468,466	32,124,937	-	32,124,937
Employee Benefits	3000	14,462,566	-	14,462,566	32,974,411	-	32,974,411
Supplies and Material	4000	-	-	-	1,610,969	-	1,610,969
Other Operating Expenses	5000	-	-	-	12,635,339	-	12,635,339
Total Expenditures Prior to Exclusions		80,173,981	-	80,173,981	154,812,758	-	154,812,758

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Exclusions							
Activities to Exclude							
Instructional Staff - Retirees' Benefits and Retirement Incentives	5900	$ 1,975,787	$ -	$ 1,975,787	$ 1,975,787	$ -	$ 1,975,787
Student Health Services Above Amount Collected	6441	-	-	-	57,209	-	57,209
Student Transportation	6491	-	-	-	77,067	-	77,067
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	2,433,561	-	2,433,561
Objects to Exclude							
Rents and Leases	5060	-	-	-	79,788	-	79,788

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2014

		ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110			ECS 84362 B Total CEE AC 0100 - 6799		
	Object/TOP Codes	Reported Data	Audit Adjustments	Revised Data	Reported Data	Audit Adjustments	Revised Data
Other Operating Expenses and Services	5000	$ -	$ -	$ -	$ 4,205,755	$ -	$ 4,205,755
Total Exclusions		1,975,787	-	1,975,787	8,829,167	-	8,829,167
Total for ECS 84362, 50 Percent Law		$ 78,198,194	$ -	$ 78,198,194	$ 145,983,591	$ -	$ 145,983,591
Percent of CEE (Instructional Salary Cost/Total CEE)		53.57%		53.57%	100.00%		100.00%
50% of Current Expense of Education					$ 72,991,796		$ 72,991,796

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2014.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT FOR THE YEAR ENDED JUNE 30, 2014

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				$ 24,394,118
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 24,394,118			$ 24,394,118
Total Expenditures for EPA		$ 24,394,118	-	-	$ 24,394,118
Revenues Less Expenditures					$ -

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance, Retained Earnings, and Due to Student Groups		
General Fund	$ 48,779,640	
Special Revenue Funds	7,759,002	
Capital Project Funds	33,318,906	
Debt Service Fund	17,357,532	
Internal Service Fund	25,625,823	
Fiduciary Funds	68,246,206	
Total Fund Balance, Retained Earnings, and Due to Student Groups		**$ 201,087,109**
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	544,902,224	
Accumulated depreciation is	(135,528,928)	409,373,296
Amounts held in trust on behalf of others (Trust Funds)		(68,196,206)
The District has refunded debt obligations. The difference between the amount that was sent to escrow agent for the payment of the old debt and the actual remaining debt obligations will be amortized as an adjustment to interest expense. The balance represents the unamortized deferred charges on refunding amounts as of June 30, 2014.		7,587,886
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.		(1,563,967)
Long-term obligations at year end consist of:		
Bonds payable	224,889,953	
Compensated absences	7,017,574	
Net OPEB obligation	53,204,231	
Less load banking already recorded in funds	(2,306,341)	
Less compensated absences already recorded in funds	(700,000)	(282,105,417)
Total Net Position		**$ 266,182,701**

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, 2014

	(Budget*) 2015		2014	
	Amount	%	Amount	%
GENERAL FUND				
Revenues				
Federal	$ 5,952,612	2.9	$ 6,311,922	3.2
State	113,739,724	55.2	100,748,574	51.8
Local	86,139,546	41.9	87,478,069	45.0
Total Revenues	205,831,882	100.0	194,538,565	100.0
Expenditures				
Academic salaries	80,362,379	37.8	79,400,532	41.3
Classified salaries	44,822,274	21.1	43,466,247	22.5
Employee benefits	40,668,488	19.1	37,044,723	19.3
Supplies and materials	9,718,345	4.6	3,393,514	1.8
Other operating expenses	15,947,443	7.4	15,098,056	7.9
Capital outlay	12,682,127	6.0	3,567,867	1.9
Student financial aid	328,850	0.2	713,127	0.4
Interfund transfers, net	8,010,439	3.7	9,439,534	4.8
Other uses, net	156,264	0.1	118,657	0.1
Total Expenditures and Other Uses	212,696,609	100.0	192,242,257	100.0
INCREASE (DECREASE) IN FUND BALANCE	$ (6,864,727)	(3.3)	$ 2,296,308	1.2
ENDING FUND BALANCE	$ 41,914,913	20.4	$ 48,779,640	25.1
FULL-TIME EQUIVALENT STUDENTS	35,410		35,714	
TOTAL LONG-TERM OBLIGATIONS, INCLUDING RETIREE BENEFIT LIABILITY	$ 383,609,320		$ 400,815,661	

* The year 2015 General Fund budget was adopted by the Board on September 9, 2014. The budget is included for analytical purposes and has not been subjected to audit.

See accompanying note to supplementary information.

2013 Amount	2013 %	2012 Amount	2012 %
$ 6,509,998	3.6	$ 6,239,937	3.5
83,809,713	46.4	98,851,094	55.6
90,346,129	50.0	72,718,359	40.9
180,665,840	100.0	177,809,390	100.0
76,513,418	41.3	73,669,046	41.3
43,217,589	23.3	43,273,719	24.2
38,992,647	21.2	38,417,529	21.7
3,567,350	1.9	3,306,222	1.9
12,913,566	7.0	12,535,230	7.0
2,508,046	1.4	2,278,009	1.3
580,663	0.3	835,523	0.5
6,464,874	3.5	3,471,539	2.0
117,738	0.1	111,679	0.1
184,875,891	100.0	177,898,496	100.0
$ (4,210,051)	(2.3)	$ (89,106)	(0.1)
$ 46,483,332	25.7	$ 50,693,383	28.5
32,442		33,266	
$ 407,392,830		$ 401,350,289	

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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, 2014.

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.

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 Colleges Chancellor's Office.

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

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.

Reconciliation of *Education Code* Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

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.

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

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

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 AUDITOR'S REPORTS

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

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

We have audited, 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, the basic financial statements of the business-type activities of North Orange County Community College District (the District) for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 2, 2014.

Change in Accounting Principles

As discussed in Note 15 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated December 2, 2014.

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited North Orange County Community College District's (the District) compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2014. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2014

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited North Orange County Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in December 2013.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Unmodified Opinion for Each of the Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2014.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel: 909.466.4410 Fax: 909.466.4431 www.vtdcpa.com
FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA • RIVERSIDE • SACRAMENTO

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

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

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 2, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2014

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.063, 84.268, 84.007, 84.033	Student Financial Assistance Cluster
84.002	Adult Education and Family Literacy Act (AEFLA)
84.002	English Literacy and Civics Education Grant (EL Civics)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

To Be Arranged (TBA) Hours

2013-001 Finding

Criteria or Specific Requirement

The District is required to list TBA hours in the schedule of classes and describe them in the course outline. The District needs to accurately track students' participation to ensure the District does not claim apportionment for students who have unsupported hours as of the census point for a particular course.

Condition

The District could not provide supporting documentation (attendance rosters) to justify the TBA hours associated with certain courses tested at Fullerton College. Based on our testing, the auditors reviewed 25 classes from both colleges. It was noted that 5 out of 25 classes at Fullerton College were not maintaining records for their TBA classes including positive attendance rosters or sign-in sheets. The District evaluated all TBA classes at Fullerton College and noted that the Art and Music departments were not maintaining the supporting documentation.

Questioned Costs

The questioned costs were total hours related to the TBA classes in the Arts and Music departments.

Context

Fullerton College claimed a total of 56.84 FTES for TBA hours related to the classes within these two departments.

Effect

The District's FTES for TBA hours were not properly supported as required. However, the District revised its annual attendance report to remove all TBA hours related to the classes within these two departments; therefore, there is no effect on the District's apportionment funding.

Cause

Attendance records were not being maintained and submitted by certain departments at Fullerton College. The attendance records were not made available to the auditors for these classes.

Recommendation

It is recommended that proper procedures be implemented to closely monitor courses with TBA hours to ensure that all attendance records are maintained to adequately support all FTES that are reported on the District's annual attendance report.

Current Status

Implemented.

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General	Bookstore	Cafeteria
ASSETS			
Cash and cash equivalents	$ 147,070	$ 5,507,342	$ 1,706,612
Investments	41,780,041	-	-
Accounts receivable	27,376,808	30,594	63,416
Student loans receivable	260	2,462	-
Due from other funds	5,142,876	40,190	-
Prepaid expenses	-	199,472	-
Stores inventories	61,229	570,679	-
Total Assets	$ 74,508,284	$ 6,350,739	$ 1,770,028
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 9,349,341	$ 49,747	$ -
Due to other funds	14,518,720	314,573	-
Unearned revenue	1,860,583	-	-
Total Liabilities	25,728,644	364,320	-
FUND BALANCES			
Nonspendable	211,229	570,678	-
Restricted	5,080,783	-	-
Assigned	4,520,665	5,415,741	1,770,028
Unassigned	38,966,963	-	-
Total Fund Balances	48,779,640	5,986,419	1,770,028
Total Liabilities and Fund Balances	$ 74,508,284	$ 6,350,739	$ 1,770,028

See accompanying note to additional supplementary information.

	Child Development	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
	$ -	$ -	$ -	$ -	$ 7,361,024
	96,398	17,357,532	26,165,467	4,704,311	90,103,749
	4,019	-	481,924	1,700	27,958,461
	-	-	-	-	2,722
	13,527	-	4,472,298	-	9,668,891
	-	-	-	-	199,472
	-	-	-	-	631,908
	$ 113,944	$ 17,357,532	$ 31,119,689	$ 4,706,011	$ 135,926,227
	$ 66,644	$ -	$ 1,193,460	$ 25,183	$ 10,684,375
	44,745	-	-	-	14,878,038
	-	-	1,288,151	-	3,148,734
	111,389	-	2,481,611	25,183	28,711,147
	-	-	-	-	781,907
	-	17,357,532	28,638,078	4,680,828	55,757,221
	2,555	-	-	-	11,708,989
	-	-	-	-	38,966,963
	2,555	17,357,532	28,638,078	4,680,828	107,215,080
	$ 113,944	$ 17,357,532	$ 31,119,689	$ 4,706,011	$ 135,926,227

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Bookstore	Cafeteria
REVENUES			
Federal revenues	$ 6,311,922	$ -	$ -
State revenues	100,748,574	-	-
Local revenues	87,478,069	4,914,224	241,072
Total Revenues	194,538,565	4,914,224	241,072
EXPENDITURES			
Current Expenditures			
Academic salaries	79,400,532	-	-
Classified salaries	43,466,247	835,280	-
Employee benefits	37,044,723	322,009	-
Books and supplies	3,393,514	3,633,291	-
Services and operating expenditures	15,098,056	127,157	-
Capital outlay	3,567,867	6,838	-
Debt service - principal	-	2,500	-
Debt service - interest	119,308	-	-
Total Expenditures	182,090,247	4,927,075	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,448,318	(12,851)	241,072
OTHER FINANCING SOURCES (USES)			
Operating transfers in	13,575	-	-
Operating transfers out	(9,453,109)	(3,850)	(75,000)
Other sources	651	-	-
Other uses	(713,127)	-	-
Total Other Financing Sources (Uses)	(10,152,010)	(3,850)	(75,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	2,296,308	(16,701)	166,072
FUND BALANCES, BEGINNING OF YEAR	46,483,332	6,003,120	1,603,956
FUND BALANCES, END OF YEAR	$ 48,779,640	$ 5,986,419	$ 1,770,028

See accompanying note to additional supplementary information.

Child Development	Bond Interest and Redemption	Capital Outlay Projects	Revenue Bond Construction	Total Governmental Funds (Memorandum Only)
$ 18,107	$ -	$ -	$ -	$ 6,330,029
105,075	145,708	3,426,549	-	104,425,906
272,348	18,149,078	1,751,476	16,404	112,822,671
395,530	18,294,786	5,178,025	16,404	223,578,606
-	-	-	-	79,400,532
284,050	-	-	-	44,585,577
147,505	-	-	-	37,514,237
27,310	-	8,820	8,785	7,071,720
25,193	-	677,645	147,250	16,075,301
-	-	6,301,474	296,530	10,172,709
-	12,155,000	-	-	12,157,500
-	3,895,011	-	-	4,014,319
484,058	16,050,011	6,987,939	452,565	210,991,895
(88,528)	2,244,775	(1,809,914)	(436,161)	12,586,711
88,527	-	5,550,000	-	5,652,102
-	-	-	-	(9,531,959)
-	148	-	-	799
-	-	-	-	(713,127)
88,527	148	5,550,000	-	(4,592,185)
(1)	2,244,923	3,740,086	(436,161)	7,994,526
2,556	15,112,609	24,897,992	5,116,989	99,220,554
$ 2,555	$ 17,357,532	$ 28,638,078	$ 4,680,828	$ 107,215,080

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND
BALANCE SHEET
JUNE 30, 2014

	Internal Service Fund
ASSETS	
Cash and cash equivalents	$ 75,000
Investments	23,624,250
Accounts receivable	8,845
Due from other funds	7,294,469
Total Assets	$ 31,002,564
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	$ 1,091
Due to other funds	342,122
Claim liabilities	5,033,528
Total Liabilities	5,376,741
FUND EQUITY	
Retained earnings	25,625,823
Total Liabilities and Fund Equity	$ 31,002,564

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2014

	Internal Service Fund
OPERATING REVENUES	
Premium contributions	$ 7,294,469
OPERATING EXPENSES	
Classified salaries	146,139
Employee benefits	4,454,479
Books and supplies	314
Services and other operating expenditures	3,946,588
Total Operating Expenses	8,547,520
Operating Loss	(1,253,051)
NONOPERATING REVENUES	
Interest income	90,714
NET LOSS	(1,162,337)
RETAINED EARNINGS, BEGINNING OF YEAR	26,788,160
RETAINED EARNINGS, END OF YEAR	$ 25,625,823

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, 2014

	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	$ 7,294,469
Cash payments to employees for services	(146,139)
Cash payments for insurance claims	(4,454,479)
Cash payments to suppliers for goods and services	(314)
Cash payments for other operating expenses	(2,123,718)
Net Cash Provided from Operating Activities	569,819
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	86,670
Net change in cash and cash equivalents	656,489
Cash and cash equivalents - Beginning	23,042,761
Cash and cash equivalents - Ending	$ 23,699,250
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES	
Operating Loss	$ (1,253,051)
Changes in assets and liabilities:	
Due from other funds	(500,527)
Accounts payable	(14,704)
Due to other funds	(58,236)
Claim liabilities	2,396,337
NET CASH PROVIDED FROM OPERATING ACTIVITIES	$ 569,819

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
BALANCE SHEET
JUNE 30, 2014

	Associated Students Trust	Student Representation Fee	Student Financial Aid
ASSETS			
Cash and cash equivalents	$ 851,788	$ 58,939	$ -
Investments	-	-	3,304,642
Accounts receivable	2,707	-	3,388,474
Student loans receivable	-	738	659,955
Due from other funds	-	-	5,518
Prepaid expenses	-	-	-
Total Assets	$ 854,495	$ 59,677	$ 7,358,589
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 12,121	$ -	$ 7,298,858
Due to other funds	29,767	-	9,731
Unearned revenue	-	-	-
Due to student groups	75,958	-	-
Total Liabilities	117,846	-	7,308,589
FUND BALANCES			
Reserved	-	-	50,000
Unreserved			
Designated	736,649	59,677	-
Total Fund Balances	736,649	59,677	50,000
Total Liabilities and Fund Balances	$ 854,495	$ 59,677	$ 7,358,589

See accompanying note to additional supplementary information.

Retiree Benefits	Other Trust	Other Agency Fund	Total
$ -	$ 5,443,051	$ 38,461	$ 6,392,239
59,932,761	4,097,583	-	67,334,986
20,908	2,578,096	19,000	6,009,185
-	847,825	12,760	1,521,278
2,669,787	70,445	-	2,745,750
-	500	-	500
$ 62,623,456	$ 13,037,500	$ 70,221	$ 84,003,938
$ 3,454	$ 421,412	$ -	$ 7,735,845
-	4,449,452	-	4,488,950
-	3,532,937	-	3,532,937
-	3,450,364	70,221	3,596,543
3,454	11,854,165	70,221	19,354,275
-	-	-	50,000
62,620,002	1,183,335	-	64,599,663
62,620,002	1,183,335	-	64,649,663
$ 62,623,456	$ 13,037,500	$ 70,221	$ 84,003,938

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS
STATEMENTS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	Associated Students Trust	Student Representation Fee	Student Financial Aid
REVENUES			
Federal revenues	$ -	$ -	$ 48,816,042
State revenues	-	-	2,783,979
Local revenues	312,457	17,472	12,869
Total Revenues	312,457	17,472	51,612,890
EXPENDITURES			
Current Expenditures			
Classified salaries	74,109	-	-
Employee benefits	27,899	-	-
Books and supplies	50,627	-	-
Services and operating expenditures	81,472	12,872	3,144
Capital outlay	3,872	-	-
Total Expenditures	237,979	12,872	3,144
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	74,478	4,600	51,609,746
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	(15,000)	-	(9,725)
Other uses	-	-	(51,600,021)
Total Other Financing Sources (Uses)	(15,000)	-	(51,609,746)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	59,478	4,600	-
FUND BALANCES, BEGINNING OF YEAR	677,171	55,077	50,000
FUND BALANCES, END OF YEAR	$ 736,649	$ 59,677	$ 50,000

See accompanying note to additional supplementary information.

Retiree Benefits	Other Trust	Total
$ -	$ -	$ 48,816,042
-	-	2,783,979
1,164,644	168,369	1,675,811
1,164,644	168,369	53,275,832
-	46,487	120,596
-	3,666	31,565
-	23,539	74,166
45,500	323,237	466,225
-	-	3,872
45,500	396,929	696,424
1,119,144	(228,560)	52,579,408
3,699,730	214,852	3,914,582
-	(10,000)	(34,725)
-	-	(51,600,021)
3,699,730	204,852	(47,720,164)
4,818,874	(23,708)	4,859,244
57,801,128	1,207,043	59,790,419
$ 62,620,002	$ 1,183,335	$ 64,649,663

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION
JUNE 30, 2014

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.