

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

ORANGE COUNTY

**REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2002**

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

AUDIT REPORT

June 30, 2002

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3-15
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets	16
Statement of Revenues, Expenses and Changes in Net Assets.....	17
Statement of Cash Flows.....	18-19
Statement of Fiduciary Net Assets.....	20
Statement of Changes in Fiduciary Net Assets.....	21
NOTES TO FINANCIAL STATEMENTS	22-44
SUPPLEMENTARY INFORMATION:	
History and Organization.....	45
Schedule of Expenditures of Federal Awards.....	46
Schedule of State Financial Assistance - Grants.....	47
Schedule of Workload Measure for Program-Based Funding.....	48
Reconciliation of Annual Financial and Budget Report With Audited Fund Balances	49
Schedule of General Fund Financial Trends and Analysis.....	50
Notes to Supplementary Information.....	51
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	52-53
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 ..	54-55
Report on State Compliance	56-58
Schedule of Findings and Questioned Costs – Summary of Auditor Results.....	59
Schedule of Findings and Questioned Costs Related to Basic Financial Statements ..	60
Schedule of Findings and Questioned Costs Related to Federal Awards	61
Status of Prior Year Findings and Questioned Costs.....	62



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
North Orange County Community College District
1830 W. Romneya Drive
Anaheim, CA 92801

We have audited the accompanying basic financial statements of the North Orange County Community College District, as of and for the year ended June 30, 2002 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the North Orange County Community College District as of June 30, 2002, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1B to the basic financial statements, the North Orange County Community College District adopted provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and Statement No. 35, Basic Financial Statements and Management Discussion and Analysis of Public College and Universities, as of July 1, 2001. This results in a change in the formats and content of the basic financial statements.

Board of Trustees
North Orange County Community College District

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

In accordance with Government Auditing Standards, we have also issued a report dated November 26, 2002 on our consideration of the North Orange County Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial and statistical information identified as supplementary information, including the Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

VICENTI, LLOYD & STUTZMAN LLP

November 26, 2002

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

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, 2002. 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 was required to implement the reporting standards of Governmental Accounting Standards Board Statements No. 34 and 35 during fiscal year 2001-02 using the Business Type Activity (BTA) model. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements.

North Orange County Community College District includes two comprehensive community colleges and a large School of Continuing Education. Students in our colleges may complete the freshman and sophomore years of a baccalaureate degree and transfer to upper division study at a university or complete a certificated vocational program and move directly to the work force. Many of our students have already earned a college degree and attend classes to concentrate on job-related courses to update or enhance their expertise in specific fields.

The programs in the School of Continuing Education serve students with a variety of educational needs, ranging from completion of a high school diploma and learning English to training for a specific vocation or maintaining their professional skills. The District also provides contract education services to many of Orange County's business enterprises, tailoring these courses to the industry and its employees.

Financial Highlights

This section is to provide an overview of the District's financial activities. Since this is a year of transition to the new reporting format, only one year of information is presented in Management's Discussion and Analysis and in the accompanying audited financial statements. A comparative analysis will be provided in future years when prior year information is available.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

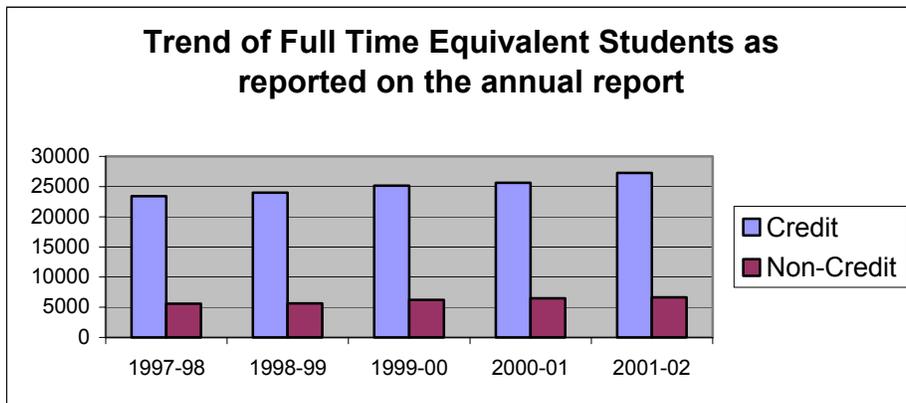
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

Selected Highlights

- During 2001-02, total full-time equivalent students increased approximately 6% for both credit and non-credit courses. Credit and non-credit FTES, along with other workload measures, are the basis for the District's state apportionment. Workload measures directly related to credit and non-credit FTES account for over 70% of the District's \$108 million state general apportionment.



- On March 5, 2002 the voters of the District approved a \$239 million bond measure with \$139 million issued in May, 2002. There are 22 projects to be undertaken that will provide better facilities for the students, faculty and community. Ground breaking has begun for some of the projects during 2001-02 and will continue through fiscal year 2007.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

Statement of Net Assets

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

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

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

A Statement of Net Assets as of June 30, 2002 is summarized below:

	(in thousands)
	<u>2002</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 204,704
Receivables	22,220
Inventory	2,333
Prepaid expenses	283
Total current assets	<u>229,540</u>
Non-current assets	
Restricted cash and cash equivalents	1,878
Capital assets, net	68,899
Total non-current assets	<u>70,777</u>
TOTAL ASSETS	<u>300,317</u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	21,444
Deferred revenue	3,552
Compensated absences	3,182
Long-term liabilities - current portion	1,393
Total current liabilities	<u>29,571</u>
Non-current liabilities	
Long-term liabilities less current portion	140,015
Total non-current liabilities	<u>140,015</u>
TOTAL LIABILITIES	<u>169,586</u>
NET ASSETS	
Invested in capital assets, net	65,326
Restricted	11,274
Unrestricted	54,131
TOTAL NET ASSETS	<u><u>\$ 130,731</u></u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

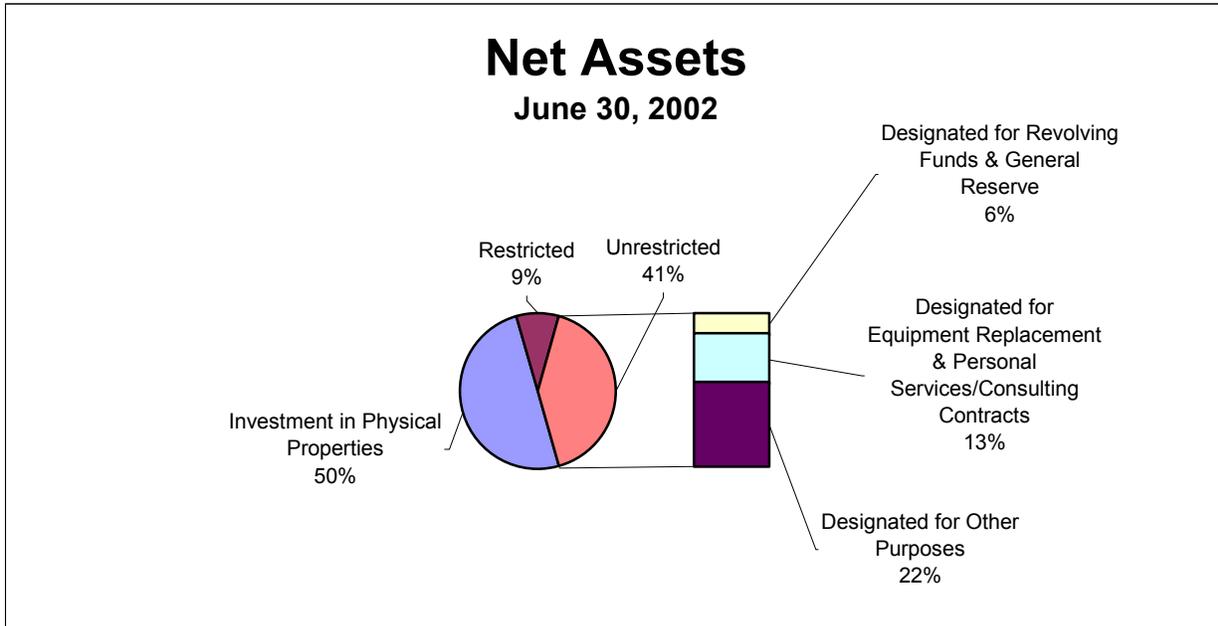
- Approximately 85% of the cash balance is cash deposited in the Orange County Treasury and approximately 15% is in Local Agency Investment Fund (LAIF). The increase in cash is primarily due to the issuance of the District's Series A general obligation bonds for \$139 million in May, 2002. The Statement of Cash Flows contained within these financial statements provides greater detail regarding the sources and uses of cash and the net increase in cash during fiscal year 2001-02.
- The majority of the accounts receivable balance is from federal and state sources for grant and entitlement programs. A receivable of \$3.4 million has been recorded from the state for general apportionment; the receivable was created when the state deferred \$115 million state-wide from the June payment in order to reduce the state general fund Proposition 98 payment. Also included is an accounts receivable for the 3rd and 4th quarter lottery payments of \$2.5 million.
- Capital assets had a net increase of \$19.5 million. The District had additions of \$22.8 million related to purchases of buildings and equipment and for construction in progress. Depreciation expense of \$3.3 million was recognized during 2001-02. The capital asset section of this discussion and analysis provides greater detail.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2002. Total accounts payable are \$11.7 million; \$5.4 million of the balance was accrued in the Capital Projects funds related to capital outlay. Accrued liabilities of \$11.0 million is for amounts to or on behalf of employees for wages, benefits, accrued vacation or load banking earned but not yet paid.
- The District currently has two debt issues outstanding that amount to \$141.1 million; \$139 million of this total is related to the issuance of the District's Series A general obligation bond and \$2.1 million is the District's portion of the note proceeds used to construct the Plummer Parking Facility. Long-term debt also includes capital leases. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)



Statement of Revenues, Expenses and Changes in Net Assets

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

The Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002 is summarized below:

	(in thousands)
	<u>2002</u>
Operating Revenues	
Net tuition and fees	\$ 10,644
Grants and contracts, non-capital	47,090
Sales	9,114
Total operating revenues	<u>66,848</u>
Total operating expenses	169,903
Operating loss	<u>(103,055)</u>
Non-operating revenues (expenses)	
State apportionments, non-capital	42,271
Local property taxes	60,907
State taxes and other revenues	5,833
Investment income, net	2,981
Transfers, net	(491)
Other non-operating expenses, net	(24)
Total non-operating revenues (expenses)	<u>111,477</u>
Other revenues, expenses, gains or losses	
Federal apportionment, capital	244
State apportionments, capital	3,152
Total other revenues, expenses, gains or losses	<u>3,396</u>
Change in net assets	11,818
Net assets, beginning of year	<u>118,913</u>
Net assets, end of year	<u>\$ 130,731</u>

- Tuition and fees are generated by the resident, non-resident and foreign fees paid by students attending North Orange County Community College District, including fees such as health fees, parking fees, community services classes and other related fees. As noted previously in this discussion and analysis, our enrollment continues to grow which translates into increased tuition and fees.
- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program.
- Sales are primarily related to the sale of merchandise in bookstores located at Fullerton College, Cypress College and the School of Continuing Education.

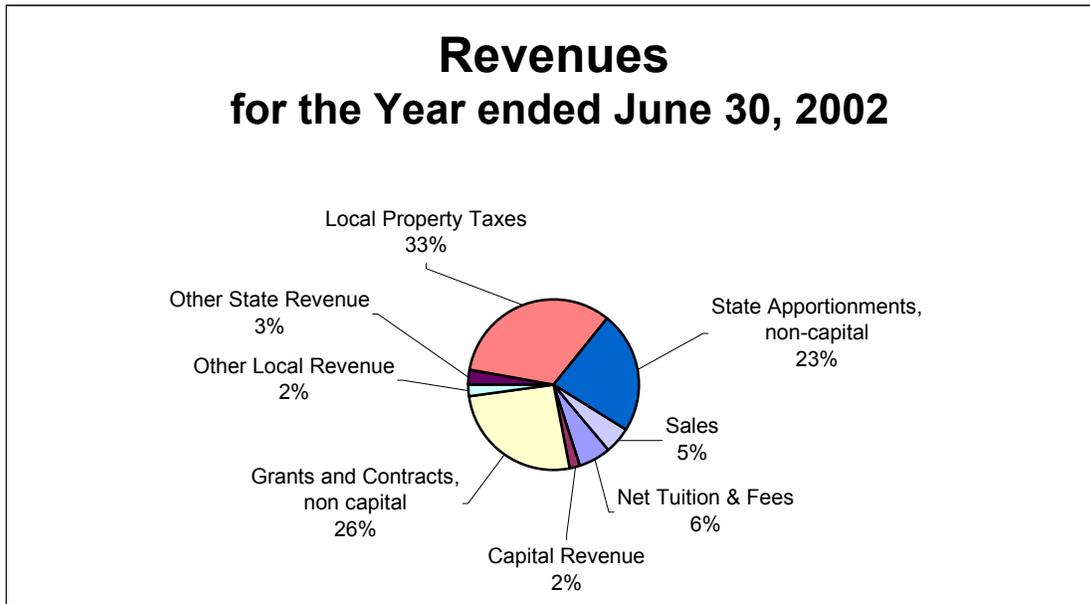
NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

- Operating expenses are 72% related to personnel costs. The balance of operating expenses is for supplies, other services, capital outlay items below the capitalization threshold, insurance, utilities and depreciation expense.
- State apportionment is generated based on the workload measures reported to the state by the District. The District has experienced increases in the various workload measures.
- 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 general apportionment amount calculated by the state for the District. The housing market has remained strong in California in spite of the struggling economy and stock market. Home sales are turning over quickly which keeps property tax revenues steady and increasing.
- State apportionments, capital are the amount of capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding received from the state through the Department of Finance. Capital outlay projects are typically funded 100% percent by the state while the other programs are funded at 50% to 90% of the project costs.
- Functional expenses are included in Note 13 of the financial statements.

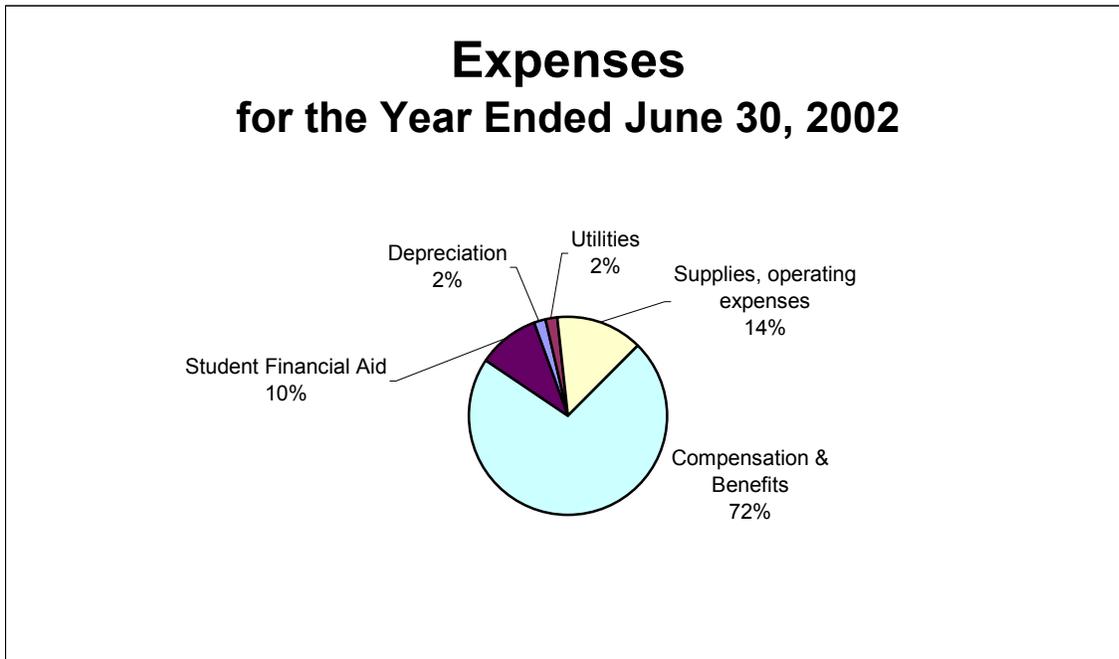


NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)



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 provided 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. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

	(in thousands)
	<u>2002</u>
Cash Provided By (Used in)	
Operating activities	\$ (101,633)
Non-capital financing activities	106,306
Capital and related financing activities	119,810
Investing activities	2,985
Net increase in cash and cash equivalents	<u>127,468</u>
Cash balance, beginning of year	79,114
Cash balance, end of year	<u><u>\$ 206,582</u></u>

- Cash receipts from operating activities are from student tuition and from federal, state and local grants. Use of cash are payments to employees, vendors and students related to the instructional program.
- State apportionment received based on the workload measures generated by the District accounts for 38% of non-capital financing. Cash received from property taxes accounts for 57% of the cash generated in this section.
- The issuance of general obligation bonds generated \$139 million in cash under the capital and related financing activities.
- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements and equipment).
- Cash from investing activities is interest earned on cash in bank and cash invested though the Orange County pool and on investments with LAIF. Approximately \$2.2 million was received from the Orange County pool that paid an average rate of 2.88%. Approximately \$782,000 was received from investments with LAIF at an average rate of 3.43%.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

District's Fiduciary Responsibility

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

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2002, the District had over \$68.9 million invested in net capital assets. Total capital assets of \$103.8 million consist of land, buildings and building improvements, construction in progress, vehicles, data processing equipment and other office equipment; these assets have accumulated depreciation of \$34.9 million. Significant capital asset additions of \$22.8 million occurred during 2001-02 and depreciation expense of \$3.3 million was recorded for the fiscal year.

Capital additions primarily comprise replacement, renovation and new construction of facilities, as well as significant investments in equipment, including information technology. Current year additions were funded with capital appropriations of \$3.4 million and debt proceeds of \$19.4 million. The balance of additions was funded by gifts and unrestricted net assets which were designated for capital purposes.

Construction in progress of \$18.5 million at June 30, 2002 includes \$2.3 million for scheduled maintenance projects, \$1 million for capital outlay projects including new libraries at Fullerton and Cypress Colleges and the seismic retrofit project on the 1000 building at Fullerton College, \$8 million of local funds for the District's new facility in Anaheim and \$6.2 million for bond projects.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

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

	(in thousands)
	<u>2002</u>
Land and improvements	\$ 13,071
Buildings and improvements	32,586
Equipment	4,746
Construction in progress	18,496
Net capital assets	<u>\$ 68,899</u>

Debt

At June 30, 2002, the District had \$141.4 million in debt; \$266,000 from capital lease obligations and \$139 million from general obligation bonds and \$2.1 million in notes payable. The general obligation bonds and notes 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.

These financial statements do not include the actuarially determined liability for retiree benefits of \$79.5 million. Current GASB pronouncements do not allow inclusion of this liability in the financial statements. It is believed that future GASB pronouncements will address the financial statement presentation related to this liability. Note 10 provides additional information.

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

	(in thousands)
	<u>2002</u>
Long-term debt	
Capital leases	\$ 266
Notes and bonds payable	<u>141,142</u>
Total long-term debt	141,408
Less current portion	(1,393)
Long term portion	<u>\$ 140,015</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2002

(Continued)

Economic Factors that May Affect the Future

The economic position of the District is closely tied to that of the State of California. We are concerned for fiscal year 2002-03 and even more so for fiscal year 2003-04 and beyond due to the economy and budget for the State of California. In 2001-02 and anticipated for 2002-03 is the Governor's deferral of payments to Community Colleges and others in order to reduce the state's general fund Proposition 98 payment as required. There are also concerns about the state's ability to increase funding for the workload measures generated by the District. In addition to reductions in funding, all industries, including education, in California are experiencing increased costs for services and especially increased costs for employee benefits, insurance and utilities. Beginning in 2002-03, the District will have to resume making contributions to PERS for retiree benefits for classified employees. The expected rate of contribution is 2.894% of classified payroll, which is estimated at \$893,000.

Other than the items discussed above, 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. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise.

BASIC FINANCIAL STATEMENTS

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 204,703,853
Accounts receivable, net	13,321,804
Due from fiduciary funds	8,898,030
Inventory	2,333,193
Prepaid expenses	<u>282,678</u>
Total current assets	<u>229,539,558</u>
Non-current assets:	
Restricted cash and cash equivalents	1,878,371
Capital assets, net of accumulated depreciation	<u>68,899,482</u>
Total non-current assets	<u>70,777,853</u>
TOTAL ASSETS	<u>\$ 300,317,411</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 11,693,097
Accrued liabilities	7,825,549
Due to fiduciary funds	72,271
Deferred revenue	3,552,338
Compensated absences	3,181,624
Capital leases - current portion	108,597
Notes payable - current portion	118,992
Bonds payable - current portion	1,165,000
Estimated liability for open claims and IBNR's	<u>1,853,366</u>
Total current liabilities	<u>29,570,834</u>
Non-current liabilities:	
Capital leases	157,492
Notes payable	2,022,868
Bonds payable	<u>137,835,000</u>
Total non-current liabilities	<u>140,015,360</u>
TOTAL LIABILITIES	<u>169,586,194</u>
NET ASSETS	
Invested in capital assets, net of related debt	65,326,533
Restricted for:	
Capital projects	9,334,383
Debt service	339,054
Other special services	1,600,551
Unrestricted	<u>54,130,696</u>
TOTAL NET ASSETS	<u>130,731,217</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 300,317,411</u>

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2002

OPERATING REVENUES	
Tuition and fees (gross)	\$ 13,106,521
Less: scholarship discounts & allowances	<u>(2,462,307)</u>
Net tuition and fees	<u>10,644,214</u>
Grants and contracts, non-capital:	
Federal	17,982,000
State	26,067,393
Local	3,040,416
Sales	<u>9,114,341</u>
TOTAL OPERATING REVENUES	<u>66,848,364</u>
OPERATING EXPENSES	
Salaries	97,719,813
Employee benefits	25,780,317
Supplies, materials, and other operating expenses and services	23,146,478
Financial aid	16,750,860
Utilities	3,207,997
Depreciation	<u>3,298,054</u>
TOTAL OPERATING EXPENSES	<u>169,903,519</u>
OPERATING LOSS	<u>(103,055,155)</u>
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	42,270,926
Local property taxes	60,907,018
State taxes and other revenue	5,833,152
Interest and investment income	2,980,734
Transfers in from fiduciary funds	86,942
Proceeds from sale of equipment	23,342
Transfers out to fiduciary funds	(578,374)
Debt service	<u>(46,510)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>111,477,230</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>8,422,075</u>
OTHER REVENUES, EXPENSES, GAINS AND LOSSES	
Federal grants, capital	244,562
State apportionments, capital	<u>3,152,029</u>
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	<u>3,396,591</u>
INCREASE IN NET ASSETS	11,818,666
NET ASSETS, BEGINNING OF YEAR	<u>118,912,551</u>
NET ASSETS, END OF YEAR	<u>\$ 130,731,217</u>

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 11,139,567
Federal grants and contracts	16,667,611
State grants and contracts	24,538,472
Local grants and contracts	2,040,421
Sales	8,968,773
Payments to suppliers	(21,473,621)
Payments to/on-behalf of employees	(121,632,280)
Payments to/on-behalf of students	(16,415,778)
Net amounts due from fiduciary funds	<u>(5,466,429)</u>
Net cash used by operating activities	<u>(101,633,264)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	40,307,535
Property taxes	60,797,474
Grants and gifts for other than capital purposes	5,731,650
Transfers out to fiduciary funds	<u>(530,649)</u>
Net cash provided by non-capital financing activities	<u>106,306,010</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	139,000,000
Federal grants for capital purposes	154,193
State apportionment for capital purposes	3,411,141
Purchase of capital assets	(22,568,147)
Principal paid on capital debt	(255,666)
Interest paid on capital debt	(165,800)
Interest on capital investments	<u>234,670</u>
Net cash provided by capital and related financing activities	<u>119,810,391</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>2,985,328</u>
Net cash provided by investing activities	<u>2,985,328</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	127,468,465
CASH BALANCE - Beginning of Year	79,113,759
CASH BALANCE - End of Year	<u><u>\$ 206,582,224</u></u>

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

**Reconciliation of Operating Loss to
Net Cash Used by Operating Activities**

CASH USED BY OPERATING ACTIVITIES

Operating Loss	\$ (103,055,155)
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation expense	3,298,054
Changes in assets and liabilities:	
Receivables, net	(4,482,315)
Due from fiduciary funds	(3,871,462)
Inventory	(790,228)
Prepaid expenses	(235,659)
Accounts payable	5,566,995
Accrued liabilities	2,331,488
Deferred revenue	(85,687)
Compensated absences	(345,388)
Estimated liability for open claims and IBNR's	<u>36,093</u>
Net cash used by operating activities	<u>\$ (101,633,264)</u>

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2002

	<u>Cypress College Scholarship and Loan Fund</u>	<u>Fiduciary Funds</u>
ASSETS		
Cash in county treasury	\$ -	\$ 1,636,655
Cash on hand and in banks	22,265	10,869,849
Accounts receivable		
Miscellaneous	53,376	265,133
Due from governmental funds		<u>72,271</u>
TOTAL ASSETS	<u>\$ 75,641</u>	<u>\$ 12,843,908</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 5,844	\$ 654,566
Due to governmental funds		8,898,030
Amounts held for others	<u>69,797</u>	<u>1,960,588</u>
TOTAL LIABILITIES	<u>75,641</u>	<u>11,513,184</u>
NET ASSETS		
Undesignated		<u>1,330,724</u>
TOTAL NET ASSETS	<u>-</u>	<u>1,330,724</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 75,641</u>	<u>\$ 12,843,908</u>

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2002

	Fiduciary Funds
ADDITIONS	
Interest and investment income	\$ 143,271
Student representation fee	1,630
Other local revenues	326,250
TOTAL ADDITIONS	471,151
DEDUCTIONS	
Classified salaries	418,638
Employee benefits	91,333
Supplies and materials	77,282
Other operating expenses & services	428,339
Capital outlay	5,480
TOTAL DEDUCTIONS	1,021,072
Excess (deficiency) of additions over deductions	(549,921)
OTHER FINANCING SOURCES (USES)	
Transfers in from governmental funds	578,374
Transfers out to governmental funds	(86,942)
TOTAL OTHER FINANCING SOURCES (USES)	491,432
Excess (deficiency) of additions over deductions and other sources (uses)	(58,489)
Fund Balances at Beginning of Year	1,389,213
Fund Balances at End of Year	\$ 1,330,724

See the accompanying notes to the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement No. 14. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Board of Trustee's ability to exercise oversight responsibility. A second criterion used in evaluating potential component units is the scope of public service. A third criterion used to evaluate potential component units is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

Cypress College Foundation, North Orange County Community College Foundation and Fullerton College Foundation – The Foundations are separate not-for-profit corporations. Their Board of Directors are appointed independent of any District Board of Trustee's appointments. Their Boards are responsible for approving their own budgets and accounting and finance related activities.

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

B. FINANCIAL STATEMENT PRESENTATION

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

C. BASIS OF ACCOUNTING

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

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

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

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

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

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB. The District has elected to not apply FASB pronouncements issued after the applicable date.

1. Cash and Cash Equivalents

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

3. Inventory

Inventories are presented at cost on an average basis and are expensed when used. Inventory consists of expendable instructional, custodial, health and other supplies held for consumption.

4. Restricted Cash and Cash Equivalents

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

5. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Buildings as well as renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Interest incurred during construction is not capitalized.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

5. Capital Assets (continued)

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

6. Accounts Payable

Accounts payable consists of amounts due to vendors.

7. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable and deferred summer pay of \$7,825,549.

8. Deferred Revenue

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

9. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

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

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

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

10. Net Assets

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

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

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

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

11. State Apportionments

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

Any prior year corrections due to the recalculation in February of 2003 will be recorded in the year computed by the State.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

C. BASIS OF ACCOUNTING (continued)

12. Property Taxes

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

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis.

13. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement System on behalf of all Community College and school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$2,173,500.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

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

C. BASIS OF ACCOUNTING: (continued)

14. Classification of Revenues

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

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

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

15. Scholarship Discounts and Allowances

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

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

C. BASIS OF ACCOUNTING: (continued)

16. Accounting Changes

As a result of the adoption of GASB Statements No. 34 and No. 35, the District was also required to make certain changes in accounting principles, specifically the adoption of depreciation on capital assets for all funds and the recording of long-term debt. Net assets at July 1, 2001 were increased by \$45,420,016 for the cumulative effect of these changes on years prior to fiscal year ended June 30, 2002.

17. Estimates

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

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Cash and cash equivalents at June 30, 2002, consisted of the following:

	Governmental Funds	Fiduciary Funds	Total
Deposits:			
Cash on Hand and in Banks	\$ 812,268	\$10,892,114	\$ 11,704,382
Cash in Revolving Fund	125,000		125,000
Cash Collections Awaiting Deposit	258,758		258,758
Pooled Funds:			
Cash in County Treasury	175,212,486	1,636,655	176,849,141
Local Agency Investment Fund	30,173,712		30,173,712

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. In addition, the California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging Government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. All cash held by the financial institutions is insured or collateralized as indicated below.

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the Orange County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2002, as provided by the pool sponsor, was \$177,237,850. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

A. Deposits (continued)

Deposits at June 30, 2002, held on behalf of the North Orange County Community College District, are presented below, categorized separately to give an indication of the level of risk associated with each deposit:

	Category*			Bank Balance	Carrying Amount
	1	2	3		
Cash on Hand and in Banks	\$361,089	\$	\$12,378,516	\$12,739,605	\$11,704,382
Cash in Revolving Fund	97,744			97,744	125,000
Cash Collections Awaiting Deposit	<u>42,019</u>	—	<u>196,852</u>	<u>238,871</u>	<u>258,758</u>
Total	<u>\$500,852</u>	<u>\$ 0</u>	<u>\$12,575,368</u>	<u>\$13,076,220</u>	<u>\$12,088,140</u>

* Category 1 includes amounts that are insured or collateralized. Category 2 includes amounts that are insured or collateralized by the pledging financial institution's trust department or agent in the District's name. Category 3 includes amounts that are fully insured or collateralized but not in the District's name.

B. Investments

Under provisions of California Government Code Sections 53601 and 53602 and District Board Policy Section 6006, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- Orange County Investment Pools (OCIP)
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Fully insured and collateralized credit union accounts

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments (continued)

The District maintains investments with the State of California Local Agency Investment Fund (LAIF) amounting to \$30,173,712 as of June 30, 2002. LAIF pools these funds with other governmental agencies and invests in various investment vehicles. These pooled funds approximate fair value. Regulatory oversight is provided by the State Pooled Money Investment Board and the Local Investment Advisory Board. LAIF is not subject to categorization as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the District at year end.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2002 consists of the following:

Federal and State	\$9,714,710
Miscellaneous	3,607,094

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund activity has been eliminated in the basic financial statements as required by GASB No. 34.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2002:

	<u>Balance</u> <u>July 1, 2001*</u>	<u>Net Change in</u> <u>Capital Assets</u>	<u>Balance</u> <u>June 30, 2002</u>
<u>Capital Assets</u>			
Land and improvements	\$ 13,566,862	\$	\$ 13,566,862
Site and site improvements	62,420,911		62,420,911
Equipment	5,057,755	4,307,183	9,364,938
Construction in progress	<u>0</u>	<u>18,495,977</u>	<u>18,495,977</u>
Total Cost	<u>81,045,528</u>	<u>22,803,160</u>	<u>103,848,688</u>
<u>Accumulated Depreciation</u>			
Land improvements	(485,775)	(10,350)	(496,125)
Site and site improvements	(27,442,356)	(2,392,433)	(29,834,789)
Equipment	<u>(3,723,021)</u>	<u>(895,271)</u>	<u>(4,618,292)</u>
Total Accumulated Depreciation	<u>(31,651,152)</u>	<u>(3,298,054)</u>	<u>(34,949,206)</u>
Net Capital Assets	<u>\$ 49,394,376</u>	<u>\$19,505,106</u>	<u>\$ 68,899,482</u>

*The balance at July 1, 2001 has been restated to reflect changes in capitalization and reporting policies for implementation of GASB 34/35.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 6 - CAPITAL LEASES:

The District leases equipment valued at approximately \$1,019,000 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2002-03	\$108,597
2003-04	69,778
2004-05	67,040
2005-06	58,002
2006-07	<u>28,960</u>
Total	332,377
Less amount representing interest	<u>(66,288)</u>
Present value of net minimum lease payments	<u>\$266,089</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

NOTE 7 – NOTES AND BONDS PAYABLE:

A. 1993 Refunding Certificates of Participation (COP)

In December 1988, the District, along with the Redevelopment Agency of the City of Fullerton, became a party to an \$11,000,000 COP sale in connection with the Local Government Finance Joint Powers Authority. The District's portion of the proceeds was used to construct the Plummer Parking Facility, which is used by both the City and the District. On August 1, 1993, the COP was refunded with an issue of \$12,580,000, with a variable interest rate and maturing in the year 2014.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 7 – NOTES AND BONDS PAYABLE: (continued)

A. 1993 Refunding Certificates of Participation (COP) (continued)

The District's portion of the reissue was \$2,934,914. The District's outstanding portion of the principal and interest payments at June 30, 2002 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 118,992	\$ 112,167	\$ 231,159
2004	124,825	106,131	230,956
2005	131,825	99,648	231,473
2006	137,658	92,708	230,366
2007	144,657	85,295	229,952
2008-2012	852,778	295,745	1,148,523
2013-2015	<u>631,125</u>	<u>51,939</u>	<u>683,064</u>
Totals	<u>\$2,141,860</u>	<u>\$ 843,633</u>	<u>\$2,985,493</u>

B. General Obligation Bonds

On March 5, 2002, the District voters authorized the issuance and sale of general obligation bonds totaling \$239,000,000. In May 2002, \$139,000,000 of general obligation bonds were sold. Proceeds from the sale of the bonds will be used to finance the construction, acquisition, and modernization of certain property and District facilities.

The outstanding bonded debt for North Orange County Community College District at June 30, 2002 is:

<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2001</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2002</u>
5/21/02 A	3.125-5.375%	8/1/2027	\$139,000,000	\$ 0	\$139,000,000	\$ 0	\$139,000,000

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 7 – NOTES AND BONDS PAYABLE: (continued)

B. General Obligation Bonds (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2002, are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 1,165,000	\$ 6,021,997	\$ 9,186,997
2004	2,785,000	6,895,513	9,680,513
2005	3,185,000	6,784,113	9,969,113
2006	1,355,000	6,656,713	8,011,713
2007	1,640,000	6,614,369	8,254,369
2008-2012	13,305,000	31,825,495	45,130,495
2013-2017	24,760,000	27,553,974	52,313,974
2018-2022	41,380,000	19,263,123	60,643,123
2023-2027	<u>49,425,000</u>	<u>6,476,250</u>	<u>55,901,250</u>
Totals	<u>\$139,000,000</u>	<u>\$120,091,547</u>	<u>\$259,091,547</u>

NOTE 8 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2002 is shown below:

	<u>Balance</u> <u>July 1, 2001*</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2002</u>
Capital leases	\$ 172,416	\$ 235,013	\$ 141,340	\$ 266,089
Notes payable (COP)	2,256,186		114,326	2,141,860
Bonds payable	<u> </u>	<u>139,000,000</u>	<u> </u>	<u>139,000,000</u>
Totals	<u>\$ 2,428,602</u>	<u>\$139,235,013</u>	<u>\$ 255,666</u>	<u>\$141,407,949</u>

*Balances have been restated due to the implementation of GASB No. 34/35.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 9 - EMPLOYEE RETIREMENT PLANS:

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2001-02 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 9 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes required supplementary information. Copies of the CalPERS' annual financial report may be obtain from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary; currently the District contributes the employees' portion for California School Employees Association and confidential staff members. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. There was no required employer contribution for fiscal year 2001-02. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

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

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2000	\$3,331,653	100%	\$0	100%
2001	3,791,740	100%	0	100%
2002	3,984,734	100%	0	100%

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 9 - EMPLOYEE RETIREMENT PLANS: (continued)

Alternative Retirement Plan

Plan Description

The District contributes to a qualified tax deferred group annuity, under Section 403(b) of the Internal Revenue Code. This plan is administered by Zahorik Life Investors Insurance Company of America (ZLI) and is available to certain employees who are not active members of the PERS or STRS systems. The plan provides an annuity to plan members and beneficiaries. ZLI furnishes an annual report for each participant in the plan. This plan is no longer available to new participants.

Funding Policy

Active plan members contribute 4.9% of their salary and the District contributes 2.6% of the participant's salary as determined by the District. The District's contributions to the plan for the fiscal years ended June 30, 2000, 2001 and 2002 were \$38,162, \$29,704 and \$27,000, respectively.

NOTE 10 - RETIREE BENEFITS:

The District currently provides employee health benefit coverage to employees who are eligible to retire under the Public Employees' Retirement System (PERS) or the State Teachers' Retirement System (STRS) and meet District requirements. Retirees can select coverage under two indemnity plans or the five Health Maintenance Organization (HMO) health plans offered by PERS.

Under these plans, the District pays for 100 percent of the premium for retiree coverage, and the retiree pays for the cost of dependent coverage. The estimated total future liability, based upon an actuarial study dated August 14, 2001 for the year ended June 30, 2002 is approximately \$79.5 million. Of the \$79.5 million, \$31,749,518 has been pre-funded in the Retiree Benefits Fund.

The total estimated liability of \$79,480,074 is not reflected in these financial statements as long-term debt; awaiting additional guidance from the Governmental Accounting Standards Board.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 11 - JOINT POWERS AGREEMENT:

The District participates in two joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); and the Schools Excess Liability Fund (SELF). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

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

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

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

	ASCIP 6/30/2002 <u>(Unaudited)</u>	SELF 6/30/2002 <u>(Audited)</u>
Total assets	\$62,924,878	\$112,123,757
Total liabilities	<u>35,786,048</u>	<u>64,483,431</u>
Retained earnings	<u>\$27,138,830</u>	<u>\$ 47,640,326</u>
Total revenues	\$36,367,086	\$ 25,828,579
Total expenditures	<u>27,743,612</u>	<u>11,022,709</u>
Net increase/(decrease) in retained earnings	<u>\$ 8,623,474</u>	<u>\$ 14,805,870</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 12 - INTERNAL SERVICE FUND:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical claims. During the fiscal year, the District maintained an Internal Service Fund to account for and finance its uninsured risks of loss. The Self Insurance Fund provides coverage for up to a maximum of \$150,000 for each worker's compensation claim, \$25,000 for each general liability claim and \$5,000 for each property damage claim. The District participates in a JPA to provide excess insurance coverage above the self-insured retention level for property and liability claims. Settled claims have not exceeded the coverage provided by the JPA in any of the past three fiscal years.

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

At June 30, 2002, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of liability is estimated at \$1,853,366. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Property and Liability	\$ 473,337	\$ 516,900	\$480,807	\$ 509,430
Workers' Compensation	<u>1,343,936</u>	<u>504,945</u>	<u>504,945</u>	<u>1,343,936</u>
	<u>\$1,817,273</u>	<u>\$1,021,845</u>	<u>\$985,752</u>	<u>\$1,853,366</u>

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(Continued)

NOTE 13 - FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Material & Other Expenses & Services	Financial Aid	Depreciation	Total
Instructional Activities	\$ 57,622,724	\$ 11,281,012	\$ 2,844,299	\$ 60,984	\$ -	\$ 71,809,019
Academic Support	7,886,221	1,792,019	2,565,455	34,766		12,278,461
Student Services	12,859,945	2,636,092	1,643,078	779,346		17,918,461
Operation & Maintenance of Plant	5,433,082	1,612,431	4,592,482			11,637,995
Institutional Support Services	9,294,459	7,496,023	3,120,083	142,811		20,053,376
Community Services & Economic Development	1,430,951	178,101	463,025	3,222		2,075,299
Ancillary Services & Auxiliary Operations	2,833,335	721,344	7,367,405	654,487		11,576,571
Physical Property & Related Acquisitions	359,096	63,295	3,758,648			4,181,039
Transfers, Student Aid & Other Outgo				15,075,244		15,075,244
Depreciation Expense					3,298,054	3,298,054
Total	<u>\$ 97,719,813</u>	<u>\$ 25,780,317</u>	<u>\$ 26,354,475</u>	<u>\$ 16,750,860</u>	<u>\$ 3,298,054</u>	<u>\$ 169,903,519</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

State and Federal Allowances, Awards and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION

June 30, 2002

The North Orange County Community College District was established in 1965 and serves communities in both Orange and Los Angeles counties. The District currently operates two colleges; Cypress College and Fullerton College, as well as three Continuing Education facilities.

BOARD OF TRUSTEES

<u>Member</u>	<u>Office</u>	<u>Term Expiration</u>
Mr. Manuel Ontiveros	President	2004
Mr. Leonard L. Lahtinen	Vice President	2004
Ms. Nancy M. Rice	Secretary	2004
Mr. Jeffery Brown	Member	2002
Mr. Otto J. Lacayo	Member	2002
Ms. Donna Miller	Member	2002
Ms. Molly McClanahan	Member	2004
Ms. Brianna Padilla	Student Trustee, Cypress College	May 2003
Mr. Dhruvin Shah	Student Trustee, Fullerton College	May 2003

DISTRICT EXECUTIVE OFFICERS

Dr. Jerome Hunter	Chancellor
Dr. Rodney Fleeman	Vice Chancellor, Finance and Facilities
Mr. Jeffrey Horsley	Vice Chancellor, Human Resources
Dr. Marjorie Lewis	President, Cypress College
Dr. Michael Viera	President, Fullerton College
Dr. Gary McGuire	Provost, School of Continuing Education
Mr. Jack Raubolt	District Director, Information Services
Ms. Donna Hatchett	District Director, Public Affairs

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal year Ended June 30, 2002**

Program Name	Program Entitlements		Program Revenues
	Federal Catalog Number	Pass-Through Entity Identifying Number	Total Program Expenditures
U.S. Department of Education			
Federal Pell Grant Program	84.063	N/A	\$ 12,047,776
Federal Work Study Program	84.033	N/A	672,130
FSEOG	84.007	N/A	782,707
Administration Allowance	(1)	N/A	34,393
Federal Student Direct Loan Program	84.268	N/A	2,071,972
Title III Strengthening Learning	84.031A	N/A	363,132
VTEA Title II C	84.048	03578	741,755
VTEA Tech Prep	84.048	13929	137,999
VTEA Equipment	84.048	N/A	119,907
VTEA Success	84.048	N/A	18,235
Independent Living Skills Program	84.177	N/A	22,053
Title V Hispanic Service Institution	84.031S	N/A	92,619
Adult Ed Family Literacy	84.002A	13973	302,689
Child Care Access Means Parents in School Program	84.335	N/A	51,696
National Science Foundation:			
GIS Access	47.070	N/A	47,872
NSF Flash Chemistry Consortium	47.049	N/A	5,481
Department of Health and Human Services:			
Foster Care	93.658	N/A	86,725
Temporary Assistance for Needy Family (TANF)	93.558	N/A	124,986
Orange County Headstart, Inc.	93.600	N/A	160,607
OC Bridge to BioMed	93.960	N/A	2,051
U.S. Federal Emergency Management Agency			
FEMA- Hazard Mitigation Grant Program	83.548	10041	244,562
Department of Veteran's Affairs			
Veteran's Services	19.405	N/A	2,899
Department of Labor:			
WIA Assessment	17.259	N/A	29,927
Department of Agriculture:			
FC Childcare Food Program	10.558	03755	62,389
			<u>\$ 18,226,562</u>

(1) Administrative Allowance for the Pell Grant, SEOG and FWS Programs.

N/A indicates not available and/or not applicable.

See the accompanying notes to the supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE - GRANTS

For the Fiscal Year Ended June 30, 2002

Program Name	Program Entitlements			Program Revenues					Total Program Expenditures
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue	Accounts Payable	Total	
State Categorical Aid Programs:									
IDRC for Intergrating TQM	\$ 173,888	\$ 7,300	\$ 181,188	\$ 153,005	\$ 26,794	\$	\$	\$ 179,799	\$ 179,799
Extended Opportunity Programs and Services	1,843,348	12,468	1,855,816	1,855,816		2,047	35,525	1,818,244	1,818,244
New Multimedia/Entertainment Center	178,875		178,875	157,392	17,745			175,137	175,137
General Childcare Grant	749,763		749,763	514,386		84,622		429,764	429,764
FC Childcare Food Program	2,500	22,200	24,700	4,093	19,877			23,970	23,970
Child Development Training Consortium	15,000		15,000	-	14,999	9,193		5,806	5,806
Childcare Repair & Renovation	40,000		40,000	-				-	-
Childcare Facilities Revolving Fund	450,000		450,000		30,923			30,923	30,923
Disabled Students Programs and Services	1,672,298	84,272	1,756,570	1,746,592	10,776	1,669		1,755,699	1,755,699
Staff Development	232,213		232,213	232,213		66,218		165,995	165,995
CMTC/CACT	27,640		27,640	17,176	29			17,205	17,205
Mesa California Community College Program	81,500		81,500	81,500		81,500		-	-
CARE	235,916		235,916	235,916		6,468	17,830	211,618	211,618
Black Studies	27,500	5,500	33,000	20,625	11,488			32,113	32,113
Workplace Learning	178,875		178,875	157,393		1,693		155,700	155,700
Matriculation	1,551,517		1,551,517	894,127		86,409		807,718	807,718
Non Credit Matriculation	1,127,553		1,127,553	1,127,553		140,438		987,115	987,115
ATTI	178,875		178,875	157,393	18,858			176,251	176,251
Referee and Lane Technician	34,000		34,000	9,000		5,357		3,643	3,643
CANS	10,000	3,600	13,600	10,000	2,829			12,829	12,829
Transfer and Articulation	34,258		34,258	34,258	102	25,828		8,532	8,532
Staff Diversity	69,584		69,584		34,877	170		34,707	34,707
Ed Net	138,500		138,500	121,867	3,164			125,031	125,031
Cal Works Fullerton	1,019,457	1,700	1,021,157	987,389				987,389	987,389
Foster Care	72,397		72,397	24,784	47,613			72,397	72,397
REBRAC	178,875	16,520	195,395	173,916	21,482	3		195,395	195,395
CACT	178,875	750	179,625	157,393	22,232			179,625	179,625
Anaheim Family Literacy	80,000	35,151	115,151	115,151				115,151	115,151
Magnolia Family Literacy	46,000	8,811	54,811	53,629				53,629	53,629
Buena Park Family Literacy	20,000	5,542	25,542	10,955		5,413		5,542	5,542
Meat Cutting	18,480		18,480	13,783		12,306		1,477	1,477
Cal Grants	764,029	280,800	1,044,829	1,017,278		182,111		835,167	835,167
TANF	125,471		125,471	125,471		1,503		123,968	123,968
BFAP	149,937	2,247	152,184	149,937	2,247			152,184	152,184
Puente Project	20,000		20,000	20,000		14,596		5,404	5,404
Capacity Building	50,000		50,000	26,153				26,153	26,153
Paraprofessional Teacher Training	8,279		8,279	2,800				2,800	2,800
Total State Programs	\$ 11,785,403	\$ 486,861	\$ 12,272,264	\$ 10,408,944	\$ 286,035	\$ 727,544	\$ 53,355	\$ 9,914,080	\$ 9,914,080

See the accompanying notes to the supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR PROGRAM-BASED FUNDING

For the Fiscal Year Ended June 30, 2002

<u>Full Time Equivalent Students</u>	<u>Annual FTES Claimed by District *</u>
A. Credit Full-Time Equivalent Students	
1. Weekly census	21,252.03
2. Daily census	1,318.24
3. Actual hours of attendance	1,692.74
4. Independent study/work experience	649.96
5. Summer intersession	2,319.27
Total	<u>27,232.24</u>
B. Non-Credit FTES	
1. Actual hours of attendance	5,938.88
2. Summer intersession	713.17
Total	<u>6,652.05</u>
C. Basic Skills Courses	
1. Credit	1,680.74
2. Non-Credit	2,854.28
Total	<u>4,535.02</u>
<u>Gross Square Footage - Existing Facilities</u>	<u>1,772,293</u>
<u>FTES in Leased Facilities</u>	<u>3,127.16</u>

* Includes "Flex Factor" Calculation.

See the accompanying notes to the supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FUND BALANCES**

For the Fiscal Year Ended June 30, 2002

The audit resulted in no adjustments to the fund balances reported on the June 30, 2002 Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles. Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

See the accompanying notes to the supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30,

	(Budget) 2003		2002		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%
GENERAL FUND:								
Revenues								
Federal	\$ 1,596,739	1.06	\$ 2,804,854	1.83	\$ 2,702,116	2.00	\$ 2,529,410	1.96
State	68,526,844	45.52	72,569,241	47.30	68,025,106	50.28	57,953,658	44.95
County and Local	78,125,506	51.89	74,631,430	48.64	70,358,582	52.00	64,645,831	50.13
Total Revenue	<u>148,249,089</u>	<u>98.47</u>	<u>150,005,525</u>	<u>97.77</u>	<u>141,085,804</u>	<u>104.28</u>	<u>125,128,899</u>	<u>97.04</u>
Expenditures								
Academic Salaries	65,237,298	43.33	62,638,287	40.83	57,400,748	42.43	51,601,399	40.02
Classified Salaries	34,429,596	22.87	32,012,676	20.87	29,725,288	21.97	26,234,136	20.35
Employee Benefits	26,634,227	17.69	21,903,963	14.28	18,739,769	13.85	18,877,235	14.64
Supplies and Materials	4,497,979	2.99	3,522,373	2.29	3,799,342	2.81	3,612,388	2.80
Other Operating Expenses & Services	11,222,378	7.45	12,332,400	8.04	10,733,779	7.93	9,547,629	7.40
Capital Outlay	5,402,711	3.60	5,863,666	3.82	6,400,909	4.73	5,116,913	3.96
Interfund Transfers (Net)	2,098,000	1.39	14,197,347	9.25	7,219,203	5.34	12,991,586	10.08
Student Financial Aid	637,598	0.42	764,553	0.50	631,784	0.47	512,914	0.40
Other Uses (Net)	388,569	0.26	187,849	0.12	646,005	0.47	446,288	0.35
Total Expenditures	<u>150,548,356</u>	<u>100.00</u>	<u>153,423,114</u>	<u>100.00</u>	<u>135,296,827</u>	<u>100.00</u>	<u>128,940,488</u>	<u>100.00</u>
Change in Fund Balance	<u>\$ (2,299,267)</u>	<u>(1.53)</u>	<u>\$ (3,417,589)</u>	<u>(2.23)</u>	<u>\$ 5,788,977</u>	<u>4.28</u>	<u>\$ (3,811,589)</u>	<u>(2.96)</u>
Ending Fund Balance	<u>\$ 26,699,036</u>	<u>17.73</u>	<u>\$ 28,998,303</u>	<u>18.90</u>	<u>\$ 32,415,892</u>	<u>23.96</u>	<u>\$ 26,626,915</u>	<u>20.65</u>
Full-Time Equivalent Students	<u>33,679</u>		<u>33,884</u>		<u>32,089</u>		<u>31,395</u>	
Total Long-Term Debt, including retiree benefit liability	<u>\$ 223,649,044</u>		<u>\$ 223,851,010</u>		<u>\$ 83,454,434</u>		<u>\$ 84,524,899</u>	

IMPORTANT NOTES:

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

Fiscal Year Ended June 30, 2000 was audited by another firm and the Long-Term Debt was restated to reflect the District's actuarially determined liability for retiree post-employment medical benefits.

The 2003 Budget includes an amount for contingencies not reflected in the actual amounts for 2002, 2001 and 2000.

See the accompanying notes to the supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2002

NOTE 1 - PURPOSE OF SCHEDULES:

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

The audit of the North Orange County Community College District for the year ended June 30, 2002 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the North Orange County Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for Program-Based Funding

The Schedule of Workload Measures for Program-Based Funding represents the basis of apportionment of the North Orange County Community College District's annual source of funding.

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

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

D. Schedule of General Fund Financial Trends and Analysis

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

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENEE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
WADE N. McMULLEN
KARIN HECKMAN NELSON
ARVEE ROBINSON
COLLEEN K. TAYLOR

The Board of Trustees
North Orange County Community College District
1830 W. Romneya Drive
Anaheim, CA 92801

We have audited the basic financial statements of the North Orange County Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 26, 2002. We conducted our audit in accordance with auditing standards generally accepted by 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.

Compliance

As part of obtaining reasonable assurance about whether North Orange County Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Orange County Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, the California Department of Finance, the State Chancellor's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

November 26, 2002

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

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENEE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. MCCUTCHEON
WADE N. McMULLEN
KARIN HECKMAN NELSON
ARVEE ROBINSON
COLLEEN K. TAYLOR

The Board of Trustees
North Orange County Community College District
1830 W. Romneya Drive
Anaheim, CA 92801

Compliance

We have audited the compliance of the North Orange County Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. North Orange County Community College District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of North Orange County Community College District's management. Our responsibility is to express an opinion on North Orange County Community College District's compliance based on our audit.

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

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

(Continued)

In our opinion, the North Orange County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the North Orange County Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered North Orange County Community College District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, the California Department of Finance, the State Chancellor's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

November 26, 2002

REPORT ON STATE COMPLIANCE

The Board of Trustees
North Orange County Community College District
1830 W. Romneya Drive
Anaheim, CA 92801

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENEE S. GRAVES
CARL PON
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. McCUTCHEON
WADE N. McMULLEN
KARIN HECKMAN NELSON
ARVEE ROBINSON
COLLEEN K. TAYLOR

We have audited the basic financial statements of North Orange County Community College District, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 26, 2002.

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

In connection with our audit, we performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the California Department of Finance's 2002 transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to the North Orange County Community College District is to determine with reasonable assurance:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.
- Whether the District's salaries of instructors teaching FTES generating classes, school counselors providing academic advisement, and financial aid officers conducting need analysis tests, are not considered supportable charges against either Extended Opportunity Programs and Services (EOPS) or Disabled Student Program Services (DSPS) accounts unless their activities require them to perform additional functions for the EOPS or DSPS program which are beyond the scope of services provided to all students in the normal performance of the regular duty assignments.

REPORT ON STATE COMPLIANCE

(Continued)

- Whether the District contributed 100% of the salary and benefits for the EOP&S Director/Administrator from funds other than EOP&S. In addition, the District must employ a full-time 100% Director to manage the daily operations of the EOP&S program unless a waiver has been obtained.
- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.
- Whether the District has claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether the Gann Limit Calculation was properly supported by adequate documentation and approved by the governing board.
- Whether the District had local funds to support at least 75 percent of the matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan. Also, whether the District used the State matriculation allocation to expand levels of services that were in place in 1986-87 or to add entirely new services.
- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District is complying with the standard grant conditions for the Economic Development Program as well as all state laws and regulations concerning: 1) procedures for subcontracts or grant amendments, including appropriate authorization by the Chancellor's Office; 2) procurement procedures; 3) travel authorization; 4) hiring procedures; and 5) appropriate use of fiscal agents.
- Whether the District spent at least one dollar of District funds for each dollar provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was \$9,084,353.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.

REPORT ON STATE COMPLIANCE

(Continued)

In our opinion, North Orange County Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that North Orange County Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

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

This report is intended solely for the information and use of the Board, management, the California Department of Finance, and the State Chancellor's Office and is not intended to be and should not be used by anyone other than these specified parties.

VICENTI, LLOYD & STUTZMAN LLP

November 26, 2002

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

June 30, 2002

This information is provided to meet the requirements of OMB Circular A-133.

- A. An unqualified opinion was issued.
- B. No reportable conditions in internal control were disclosed by the audit of the basic financial statements.
- C. The audit did not disclose any items of non-compliance which are material to the basic financial statements of the District.
- D. There were no reportable conditions in internal control over major programs.
- E. An unqualified opinion was issued on compliance for major programs.
- F. There were no audit findings which are required to be reported under Section .510(a) of OMB Circular A-133.
- G. The major programs for 2001-02 are:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033 and 84.063	Student Financial Assistance Cluster of Programs
84.002A	Adult Education Family Literacy

- H. The dollar threshold to distinguish between Type A and Type B programs is \$546,797 for 2001-02.
- I. The District qualifies as a low risk auditee as defined in OMB Circular A-133 for fiscal year 2001-02.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

June 30, 2002

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2002.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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

June 30, 2002

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2002.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2002

Finding: During our testing of equipment purchases, we noted discrepancies in nine out of ten transactions. In some cases, purchases were not included in the fixed asset inventory listing. The following were excluded from the listing:

- 3 Ford Econoline vans valued at \$69,300
- 1 Chevrolet truck valued at \$30,600
- 6 computers with an estimated total value of \$12,000

We also noted discrepancies in values for other items. One printing press, which cost \$86,000, was valued on the inventory at \$150,000 and a lathe with a purchase price of \$61,600 was valued at \$30,000.

Finally, we noted one purchase of global tracking equipment devices valued at approximately \$33,000 that was not included in the fixed asset inventory listing. The items were not tagged and were locked up during the inventory process.

Recommendation: The District needs to obtain an accurate listing of fixed assets. In preparation of the implementation of GASB 34, an accurate valuation is necessary to properly account for fixed assets on an ongoing basis.

Current Status: No exceptions noted in 2001-02. The District has been working closely with the appraisal company to ensure that all fixed assets above the capitalization threshold are properly accounted for.