RIVERSIDE COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

WITH

SUPPLEMENTARY INFORMATION

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Riverside Community College District
Riverside, California

We have audited the accompanying financial statements of the business–type activities of Riverside Community College District (the "District") as of and for the years ended June 30, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business–type activities of Riverside Community College District as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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.

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Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

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

Ahern • Adcock •Devlin LLP
Certified Public Accountants

October 27, 2006

By: Linda S. Devlin, CPA

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Management's Discussion and Analysis

June 30, 2006

This section of the Riverside Community College District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2006. This is prepared in compliance with the reporting standards required for public colleges and universities.

New Accounting Standards

The Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, in June 1999, which established a new reporting format for the annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. The District adopted and applied these new standards beginning in the 2002–03 fiscal year. In May 2002, GASB released statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB Statement No. 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards.

The California Community College Chancellor's Office recommends that all state community college districts follow the new standards using the Business–Type Activity (BTA) model. The District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

The following discussion and analysis provides an overview of the District's financial activities with emphasis on current–year data. As required by the aforementioned accounting principles, this report consists of three basic financial statements that provide information on the District as a whole: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

Financial Highlights

- The District's primary funding is received from the State of California. The State allocation is based on "Program–Based Funding" comprised of state apportionment, local property taxes, and student enrollment fees. The primary basis of this apportionment is the calculation of Full–Time Equivalent Students (FTES). During 2005–06, resident credit and noncredit FTES were 26,202 and 121, respectively, as reported on the annual apportionment attendance recalculation report. All 2005–06 credit and noncredit FTES will be funded according to the State Chancellor's Office.

- The District ended the year with an unrestricted general fund balance of $12.6 million, a decrease of $0.1 million. The State Chancellor's Office and District Board policy recommend that reserve levels of five percent be set aside for economic uncertainties. The District has exceeded this requirement.

- The primary expenditures of the District are for the salaries and benefits of our academic, classified, and administrative employees. These costs increased over the 2004–05 fiscal year by approximately $10.6 million. This increase reflects the addition of 23 new faculty positions; 23 new full–time and permanent part–time classified and management positions; step and column increases in compensation; a State funded Cost Of Living Adjustment (COLA) of 4.23 percent plus an additional one percent as part of employee compensation packages contained in negotiated bargaining unit agreements; and increased costs associated with medical, dental, and workers' compensation programs, particularly for claims associated with the District's indemnity plan.

- Available funds from August 2004 through June 2006, realized from bond proceeds, bond premiums, and interest earnings totaled $78.4 million. $65.5 million of this amount has been committed to approved Measure C projects as of June 30, 2006.

- The District utilized Measure C proceeds, State Construction Act funding, local monies or a combination of these sources to fund a number of major construction and building projects during the year including:

  MLK Remodel
  Parking Structure Phase I – Riverside
  PE Complex/Athletic Field Phase I – Riverside
  Love Kin Complex
  Bridge Space
  RCC System Office Purchase
  Center for Primary Education
  Quad Remodel
  Norco Phase III
  Moreno Valley Phase III
  Nursing/Science Project
  Business Education Remodel
  Administration Remodel
  PE Phase II

- The District provides student financial aid to qualifying students of the District. During the 2005–06 fiscal year, $15.1 million in direct grants and loans were provided to our students, a decrease of $0.2 million over the prior year. Additionally, approximately $6.1 million of enrollment fee waivers were provided to our students, a decrease of $0.3 million over the prior year. This decrease was a result of a decline in enrollment.

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 using the accrual basis of accounting, which is comparable to that used by most private–sector institutions. Net assets — the difference between assets and liabilities — are one way to measure the financial health of the District. Net asset data allows readers to determine the resources available to continue the operations of the District.

The net assets of the District consist of three major categories:

- *Invested in capital assets, net of related debt* – The District's equity in property, plant, and equipment.

- *Restricted net assets (distinguishing between major categories of restriction)* – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.

- *Unrestricted net assets* – The District can use them for any lawful purpose. Although unrestricted, the District's governing Board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

Condensed Statement of Net Assets
(in Thousands)

	June 30, 2006	June 30, 2005	Increase (Decrease) 2006–2005
ASSETS			
Currents assets			
Cash and short–term receivables	$ 56,166	$ 45,356	$ 10,810
Inventory and other assets	90	98	(8)
Total current assets	56,256	45,454	10,802
Noncurrent assets			
Restricted cash	36,481	52,337	(15,856)
Capital assets, net of depreciation	143,101	117,293	25,808
Total noncurrent assets	179,582	169,630	9,952
Total assets	$235,838	$215,084	$20,754
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	$ 9,588	$ 8,414	$ 1,174
Deferred revenue	2,977	2,767	210
Claims liability	2,477	2,416	61
Amounts held in trust for others	1,034	1,012	22
Current portion of long–term debt	7,238	5,633	1,605
Total current liabilities	23,314	20,242	3,072
Long–term debt	68,597	77,096	(8,499)
Total liabilities	91,911	97,338	(5,427)
NET ASSETS			
Invested in capital assets	110,337	99,611	10,726
Restricted for expendable sources	33,590	18,135	15,455
Total net assets	$143,927	$117,746	$26,181

This schedule has been prepared from the District's statement of net assets (page 15) which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Fiscal Year 2006 Compared to 2005

Cash and short–term receivables consist primarily of funds held at various financial institutions and in the Riverside County Treasury. The changes in the cash position are explained in the statement of cash flows (page 19).

The District's financial position, as a whole, improved during the fiscal year ended June 30, 2006. Its total net assets increased $26.2 million or about 22.3 percent from the previous year primarily due to a $3.1 million decrease in cash and cash equivalents and a $26.1 million increase in capital assets, net of depreciation. The District realized a significant improvement in apportionment revenue due to receipt of Equalization revenue and growth funding, all of which increase the District's base revenue. Accounts receivable have decreased $1.9 million over fiscal year 2004–05 primarily as a result of the receipt of third quarter state lottery revenue prior to June 30, 2006, and a Basic Skills apportionment adjustment accrual that did not occur in 2005-06. Accounts payable have increased by $0.6 million over fiscal year 2004–05 primarily due to an increase in construction activity. Finally, the District's Board has designated or reserved unrestricted net assets for such purposes as Federal and State grants, outstanding commitments on contracts, repair and replacement of equipment, capital outlay, insurance reserves, and general reserves for the ongoing financial health of the District.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the operating results of the District. The purpose of the statement is to present the revenues received by the District, both operating and nonoperating; and the expenses paid by the District, operating and nonoperating; and any other revenues, expenses, gains and losses received or spent by the District. State general apportionment funds, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Changes in total net assets on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets. Operating revenues are received for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses paid to acquire or produce the goods or services provided in return for the operating revenues and to carry out the mission of the District. Total revenue was $184,853,220 and total expenses were $158,671,995.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(in Thousands)

	June 30,		Increase (Decrease)
	2006	2005	2006–2005
Operating revenues			
Tuition and fees	$14,294	$ 13,875	$ 419
Grants and contracts	29,617	29,539	78
Total operating revenues	43,911	43,414	497

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(in Thousands)
(Continued)

	June 30, 2006	June 30, 2005	Increase (Decrease) 2006–2005
Operating expenses			
Salaries and benefits	$ 112,642	$102,016	$10,626
Supplies and maintenance	37,831	37,153	678
Depreciation	5,115	4,144	971
Total operating expenses	155,588	143,313	12,275
Loss on operations	(111,677)	(99,899)	11,778
Nonoperating revenues (expense)			
State apportionments	68,270	62,048	6,222
Property taxes	43,803	35,674	8,129
State revenues	4,689	3,844	845
Interest income	4,030	1,624	2,406
Interest expense	(3,036)	(3,333)	297
Other nonoperating revenues	6,128	8,506	(2,378)
Other nonoperating expenses	(48)	(1,609)	1,561
Total nonoperating revenues (expenses)	123,836	106,754	17,082
Other revenues			
State and local capital income	5,270	5,516	(246)
Loss on disposal of assets	8,752	(9)	8,761
Total other revenues	14,022	5,507	8,515
Net increase in net assets	$ 26,181	$ 12,362	$13,819

This schedule has been prepared from the statement of revenues, expenses, and changes in net assets presented on page 17.

Fiscal Year 2006 Compared to 2005

Tuition and fees increased $0.4 million due to an increase in the Health Services Fees from $10 per Spring term and $7 per Winter term, representing a 3.0 percent increase over the prior year.

Grant and contract revenues are related to student financial aid, as well as specific Federal and State grants received for programs serving the students of the District. These grant and program revenues are restricted as to the allowable expenses related to the programs. Grants and contracts revenue increased by $0.8 million primarily as a result of the increased number and size of programs managed by the District.

Interest income, primarily the result of cash held with the Riverside County Treasurer, increased by $2.4 million due to larger cash balances and higher interest rates. The interest expense relates to interest on loans and notes payable.

For the fourth year, the District is recording the depreciation expense related to capital assets. The detail of the changes in capital assets for the year is included in the notes to the financial statements as Note 4.

During fiscal year 2005–06, the District sold the remaining portion of its La Sierra property to The Griffin Homebuilding Group, LLC for a lump sum price of $9.0 million.

During fiscal year 2005–06, the District purchased property in Riverside using general fund monies for $3.8 million to serve as the District Office.

During fiscal year 2005-06, the District purchased property at University Avenue and Market Street in Riverside, using proceeds from the sale of its La Sierra property, for $4.2 million for the Riverside School for the Arts.

During fiscal year 2005-06, the District exercised its purchase option to purchase property located on Market Street in Riverside for $2.1 million. The property is being used for the Riverside Community College System Office.

Statement of Cash Flows

The statement of cash flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, its operating cash flows, and shows the cash flows from noncapital financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short–term investments and any interest paid or received on those investments.

The statement of cash flows provides information about cash receipts and payments during the year. This statement also assists the user in assessing the District's ability to meet its obligations as they come due and its need for external financing.

Statement of Cash Flows
(in Thousands)

	Year Ended June 30,	
	2006	2005
Cash provided by:		
Operating activities	$(104,666)	$ (89,229)
Noncapital financing activities	124,019	104,651
Capital financing activities	(26,488)	48,102
Investing activities	4,007	2,657
Net increase (decrease) in cash	(3,128)	66,181
Cash, beginning of year	83,449	17,268
Cash, end of year	$ 80,321	$ 83,449

The primary operating receipts are student tuition and fees, federal and state grants, and contracts. The primary operating expense of the District is the payment of salaries and benefits to instructional and classified support staff.

While state apportionment and property taxes are the primary source of noncapital related revenue, the new GASB accounting standards require that this source of revenue is shown as nonoperating revenue as it comes from the general resources of the state and not from the primary users of the colleges' programs and services (students). The District depends upon this funding as the primary source of funds to continue the current level of operations.

District cash at June 30, 2006 decreased over the same time period as the prior year primarily due to increased capital expenditures.

Capital Assets

At June 30, 2006, the District had $143.1 million invested in a broad range of capital assets including land, land improvements, buildings and improvements, and machinery and equipment (see following table). This amount represents a net increase (including additions and deductions) of $26.1 million or 22.3 percent over last year.

Capital Assets at Year-End
(in Millions)

	June 30, 2006	June 30, 2005	Increase (Decrease) 2006–2005
Land	$ 32.50	$ 30.20	$ 2.30
Land improvements	4.95	4.66	.29
Buildings and improvements	104.37	84.59	19.78
Machinery and equipment	18.03	16.66	1.37
Construction in progress	21.38	14.34	7.04
Accumulated depreciation	(38.13)	(33.44)	(4.69)
	$143.10	$117.01	$26.09

Martin Luther King High Tech Center, PE Complex, Relocateable Swing Space, Bridge Space, Business Education Remodel, and the Administration Remodel were completed during the fiscal year ended June 30, 2006 and their total costs of $14.1 million were added to buildings, land improvements, and machinery and equipment.

Cost related to the Quad Remodel, Moreno Valley and Norco Phase III, Nursing and Science Project, Parking Structure, PE Phase II, and Center for Primary Education projects were added to construction in progress during the year to reflect the work completed through June 30, 2006.

Long–Term Debt

The District issued general obligation bonds in 2004–05. Outstanding at June 30, 2006 are:

	Principal June 30, 2005	Current Year Issue	Current Year Repayment	Principal June 30, 2006
General Obligation Bond Series 2004 A & B	$13,270,000		$3,750,000	$ 9,520,000
2005 General Obligation Refunding Bond	58,386,109		970,000	57,416,109
Total general obligation bonds	$71,656,109		$4,720,000	$66,936,109

In addition to these notes, the District has $2,066,140 in compensated absences payable, $657,322 for load banking liability, and $1,144,395 for golden handshake retirement liability.

District's Fiduciary Responsibility

The District is the trustee, or fiduciary for certain amounts 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 entity–wide 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.

General Fund Budgetary Highlights

Over the course of the year, the District revises the annual operating budget as it attempts to address unexpected changes in revenues and expenditures.

The District's final revised budget for the unrestricted general fund anticipated that expenditures would exceed revenue by $7.3 million. The actual results for the year showed expenditures exceeded revenue by $0.1 million.

The excess was primarily the result of receiving growth apportionment funding, salary and benefits cost savings resulting from vacant positions, and conservative fiscal spending practices employed by District staff.

District–wide credit and non-credit, Full–Time Equivalent Student (FTES) counts, as reported on the annual apportionment attendance report, increased by 1,657 FTES compared to the same reporting period in the prior year. Student enrollment was fully funded through the apportionment process. Of this amount, 1,937 FTES is attributable to the Summer 2006 term but reported as fiscal year-end 2005-06 FTES. The District would have experienced a decline of 280 base FTES had the Summer 2006 FTES not been "rolled back" into fiscal year-end 2005-06. It is speculated, though not definitively determined, that the enrollment decline was caused in part by a strong regional economy and the cumulative effect of two large tuition fee increases in successive years, going from $11 per unit to $18 per unit to finally $26 per unit.

The District was able to maintain a reserve level in the general unrestricted fund within the guidelines established by the California State Chancellor's Office and the Riverside Community College District Board of Trustees.

Economic Factors Affecting the Future of Riverside Community College District

The District's financial health is directly affected by the economic well–being of the State of California. Funding for California's community colleges improved during 2005–06. The State provided increased funding in a number of areas. The District received Equalization funding of $1.3 million, credit FTES was funded in full including all of the FTES "rolled back" from Summer 2006, and COLA was provided at 4.23 percent. On the expenditure side, cost pressures continued to mount in areas such as salaries health and welfare benefits. Demand for services remained relatively stable despite a small decline in base enrollment.

The budget outlook is significantly improved for 2006–07. Community colleges will receive an estimated 10.7 percent of the combined K–12 and Community College Proposition 98 revenues, compared to 10.46 percent for 2004–05. Enrollment fees will remain stable at $26 per credit unit, until December 31, 2006. Thereafter, enrollment fees will decrease to $20 per credit unit. Enrollment growth is funded at 2.00 percent system-wide and $97.5 million is provided, system-wide. COLA has been provided at 5.92 percent and Equalization funding has been provided at $159.4 million system-wide.

A new funding formula for California's community colleges, SB 361, will be implemented in fiscal year 2006-07. The new funding formula replaces Program Based Funding. SB 361 is a simplified yet comprehensive reform to the formulas that allocate general purpose apportionment to the 72 districts. Among its features, SB 361 provides for a basic allocation to each District (foundation grant) as well as equalized funding at or above the 90th percentile for credit, noncredit, and enhanced noncredit full-time equivalent students. The credit base and growth rates for fiscal year 2006-07 are $4,123 and $4,367, respectively.

We have built the 2006–07 General Fund Budget based upon the following assumptions and incorporating the provisions of SB 361:

- No growth in credit and noncredit FTES is assumed.
- Cost of Living Adjustment (COLA) of 5.92 percent for State apportionment funding.
- Step and column increases will cost approximately $650,000.
- No increase is anticipated for nonresident tuition revenue.
- Student enrollment fees are anticipated to decrease by 8.2 percent due to mid-year decrease to the rate per credit unit; however, the District will bear only 2.0 percent of this decrease.
- One-time funds from the State Proposition 98 reversion account and State General Purpose one-time funds will be received in the amounts of $519,000 and $1.8 million, respectively.
- Our PERS contribution rate will remain unchanged at 9.12 percent.
- We anticipate the hiring of 10 new tenure–track positions.
- Part–time faculty costs are anticipated to increase by $1.39 million primarily as a result of salary increases.
- We anticipate hiring 21 new full–time and permanent part–time classified and management positions.

- Health and welfare benefit costs are anticipated to increase by $1.27 million.

- Funds in the amount of $364,000 have been set aside for the establishment of the Rubidoux Annex.

- The District has a number of major remodeling and construction projects ongoing in the 2006–07 fiscal year. These projects are funded using State Construction Act funds, Measure C funds, local funds or a combination of these funding sources. These projects include remodeling and equipping the Quadrangle Building (Riverside), Parking Structure – Phase II (Riverside), the planning and working drawing portion of the Phase III build–out at the Norco and Moreno Valley campuses, planning for infrastructure improvements, the planning and working drawing phase of the Nursing/Health Sciences building, and the construction of The Learning Center, formerly known as the Center for Primary Education.

- Funds have been set aside for new remodel projects and noninstructional equipment needs in the amounts of $300,000 and $650,000, respectively.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need any additional information, please contact the District at: Riverside Community College District, 4800 Magnolia Avenue, Riverside, California 92506.

BASIC FINANCIAL STATEMENTS

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statements of Net Assets

June 30,	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 43,839,650	$ 31,111,858
Accounts receivable	12,326,465	14,244,161
Prepaid expenses	60,720	66,035
Stores inventory	28,916	31,692
Total current assets	56,255,751	45,453,746
Noncurrent assets		
Restricted cash and cash equivalents	36,480,752	52,336,972
Capital assets, net of depreciation	143,101,654	117,009,573
Land held for sale		284,000
Total noncurrent assets	179,582,406	169,630,545
Total assets	$235,838,157	$215,084,291

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

June 30,	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable	$ 8,342,437	$ 7,711,522
Accrued interest payable	1,246,044	702,325
Deferred revenue	2,976,852	2,767,416
Claims liability	2,476,763	2,415,956
Amounts held in trust on behalf of others	1,033,629	1,011,610
Compensated absences payable, current portion	516,535	408,186
General obligation bond, current portion	6,320,000	4,720,000
Lease obligation, current portion		119,724
Other long–term liabilities, current portion	402,234	385,231
Total current liabilities	23,314,494	20,241,970
Noncurrent liabilities		
Compensated absences payable, noncurrent portion	1,549,605	1,224,562
General obligation bond, noncurrent portion	60,616,109	66,936,109
Net debt premium	5,031,448	5,194,285
Lease obligation, noncurrent portion		2,050,594
Other long–term liabilities, noncurrent portion	1,399,483	1,690,978
Total noncurrent liabilities	68,596,645	77,096,528
Total liabilities	91,911,139	97,338,498
Net assets		
Invested in capital assets, net of related debt	110,337,049	99,611,177
Restricted for:		
Debt service	11,820,288	7,120,038
Capital projects	21,769,681	11,014,578
Total net assets	143,927,018	117,745,793
Total liabilities and net assets	$235,838,157	$215,084,291

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30,	2006	2005
Operating revenues		
Tuition and fees	$ 20,369,130	$ 20,292,327
Less: scholarship discount and allowance	(6,074,796)	(6,417,038)
Net tuition and fees	14,294,334	13,875,289
Grants and contracts, noncapital:		
Federal	21,480,732	21,441,062
State	8,136,160	8,097,912
Total operating revenues	43,911,226	43,414,263
Operating expenses		
Salaries	89,770,779	80,974,711
Employee benefits	22,870,792	21,041,099
Supplies, materials, and other operating expenses and services	34,503,306	34,910,056
Equipment, maintenance, and repairs	3,327,404	2,243,409
Depreciation	5,115,520	4,143,533
Total operating expenses	155,587,801	143,312,808
Operating loss	(111,676,575)	(99,898,545)
Nonoperating revenues (expenses)		
State apportionments, noncapital	68,269,940	62,048,060
Local property taxes	43,803,016	35,673,624
State taxes and other revenues	4,689,052	3,844,087
Investment income, net	4,029,786	1,604,261
Interest expense on capital–related debt	(3,035,759)	(3,333,271)
Interest income on capital asset–related debt, net		19,883
Other nonoperating revenue	6,127,895	8,506,038
Other nonoperating expense	(48,435)	(1,608,969)
Total nonoperating revenues (expenses)	123,835,495	106,753,713
Gain before other revenues	12,158,920	6,855,168
Other revenues		
State revenues, capital	5,270,334	5,504,033
Local revenues, capital		11,390
Gain (loss) on disposal of assets	8,751,971	(8,967)
Total other revenues	14,022,305	5,506,456
Increase in net assets	26,181,225	12,361,624

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30,	2006	2005
Increase in net assets	$ 26,181,225	$ 12,361,624
Net assets		
Beginning of year	117,745,793	105,384,169
End of year	$143,927,018	$117,745,793

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

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

For the Years Ended June 30,	2006	2005
Cash flows from operating activities		
Tuition and fees	$ 14,272,219	$ 14,082,356
Federal grants and contracts	21,449,482	21,324,273
State grants and contracts	9,204,102	9,713,236
Payments to vendors and suppliers	(37,310,057)	(34,795,281)
Payments to (on behalf of) employees	(112,303,511)	(99,658,451)
Other receipts	22,019	104,666
Net cash used in operating activities	(104,665,746)	(89,229,201)
Cash flows from noncapital financing activities		
State apportionments	69,476,010	59,651,549
Property taxes	43,132,892	35,396,678
Other state revenues	5,451,091	3,641,717
Other local revenues	5,958,900	5,961,387
Net cash provided by noncapital financing activities	124,018,893	104,651,331
Cash flows from capital financing activities		
State revenue, capital projects	5,270,334	5,504,033
Local revenue, capital projects		11,390
Other revenue provided for capital financing activities	6,559	2,057,325
Other expenses for capital financing activities	(48,435)	(1,608,969)
Proceeds from sale of capital assets	9,035,971	6,438
Acquisition and construction of capital assets	(31,207,601)	(20,563,306)
Proceeds from government obligation bond		132,055,394
Principal paid on capital debt and leases	(7,053,155)	(66,631,099)
Interest paid on capital debt and leases	(2,492,040)	(2,749,349)
Interest income on capital asset–related debt		19,883
Net cash provided by (used in) capital financing activities	(26,488,367)	48,101,740
Cash flows from investing activities		
Net change in investments		1,535,192
Investment income	4,006,792	1,121,370
Net cash provided by investing activities	4,006,792	2,656,562
Net increase (decrease) in cash and cash equivalents	(3,128,428)	66,180,432
Cash and cash equivalents		
Beginning of year	83,448,830	17,268,398
End of year	$ 80,320,402	$ 83,448,830

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statements of Cash Flows

For the Years Ended June 30,	2006	2005
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	$(111,676,575)	$(99,898,545)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	5,115,520	4,143,533
Changes in assets and liabilities		
Receivables	788,118	1,731,559
Inventory	2,776	5,180
Prepaid items	5,315	14,799
Accounts payable and accrued liabilities	691,722	2,979,054
Deferred revenue	226,459	(25,957)
Funds held for others	22,019	104,666
Compensated absences and load banking	158,900	1,716,510
Total adjustments	7,010,829	10,669,344
Net cash used in operating activities	$(104,665,746)	$(89,229,201)

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

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Riverside Community College District (the "District") is a political subdivision of the State of California and provides educational services to the local residents of Riverside County. The District consists of one community college with three campuses located in Riverside, Norco, and Moreno Valley, California. While the District is a political subdivision of the state, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB Statement No. 39. The District operates under a locally elected five–member Board of Trustees form of government.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Riverside Community College District, this includes general operations, child development services, food services, and student–related activities of the District. Additionally, the Riverside Community College District Development Corporation and the Riverside County Schools Financing Corporation are included in the reporting entity.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt, or the levying of their taxes. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although legally a separate entity, is reported in the financial statements as if it were part of the District's operations because the Board of Trustees of the component unit is essentially the same as the Board of Trustees of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The Riverside Community College District Development Corporation is presented in the financial statements as R.C.C.D. Development Corporation Special Revenue Fund.

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with four joint powers agencies (JPAs). These organizations do not meet the criteria for inclusion as component units of the District. Summarized financial information is presented in Note 16 to the financial statements. The JPAs are the School Excess Liability Fund (SELF), the Riverside Community College—County Superintendent Self–Insurance Program for Employees (RCCCSSIPE), the Riverside Employers/Employees Plan (REEP), and Alliance of Schools for Cooperative Insurance Program (ASCIP).

1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Colleges and Universities*, issued in June and November 1999, respectively. These statements provide a comprehensive entity–wide perspective of the District's assets, liabilities, and cash flows and replaces the fund–group perspective previously required. The District uses the "business–type" activities reporting requirements of the statements that provide a comprehensive "one–look" at the District's financial activities. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB Statement No. 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District adopted and applied this standard for the 2004–05 fiscal year as required. The District now follows the financial statement presentation required by GASB Statement Nos. 34, 35, 37, 38, and 39.

Basis of Accounting – Measurement Focus

Entity–Wide Financial Statements

The entity–wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. All significant intra–agency transactions have been eliminated. The District has elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The District has not elected to apply FASB pronouncements issued after that date.

Exceptions to the accrual basis of accounting are as follows:

Summer session tuition and fees received before year–end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominately conducted. Summer session expenditures through June 30 are recorded as current expenses.

The entity–wide financial statement of activities presents a comparison between operating revenues and operating expenses of the District. Revenues and expenses that are not classified as operating revenues or expenses are presented as nonoperating revenues and expenses. Nonoperating revenues and expenses include state apportionments, property taxes, interest and investment income, or expenses as these sources and uses of funds are derived from the general population and not from operations.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies (Continued)

Revenues – Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year–end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include state apportionments, property taxes, certain grants, entitlements, and donations. Revenue from state apportionments is generally recognized in the fiscal year in which it is apportioned from the state. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements.

State Apportionments

Certain current–year apportionments from the state are based on various financial and statistical information of the previous year. Any prior–year corrections due to the recalculation in February 2007 will be recorded in the year computed by the state; however, an estimate of the corrections has been included in the financial statements, and we anticipate any further correction to be immaterial.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized. Certain federal and state grants received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. Allocations of costs, such as depreciation and amortization, are recognized in the entity–wide financial statements although they are not allocated in individual funds within the District's financial records.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and money market funds with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

1. Summary of Significant Accounting Policies (Continued)

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the general obligation bond covenants.

Investments

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*, investments are stated at fair value. Fair value is estimated based on quoted market prices at year–end.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary services provided to students, faculty, and staff. Accounts receivable also include amounts due from federal, state, and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District provides for an allowance for uncollectible accounts as an estimation of amounts that may not be received. This allowance is based upon management's estimates and analysis.

Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30.

Inventory

Inventory consists primarily of food and supplies within the District's food service fund held for resale to the students and faculty of the colleges. Inventories are stated at cost, utilizing the first–in, first–out method. The cost is recorded as an expense as the inventory is consumed.

Capital Assets and Depreciation

Capital assets are long–lived assets of the District as a whole. The District maintains a capitalization threshold of $5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is also capitalized.

When purchased, such assets are recorded as expenditures in the District's governmental funds and capitalized within the entity–wide financial statements. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated cost based on replacement cost or appraised value (assessed value at July 1, 2002). Donated capital assets are capitalized at estimated fair market value on the date donated.

1. **Summary of Significant Accounting Policies** (Continued)

Depreciation of capital assets is computed and recorded by the straight–line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Buildings	15 to 50 years
Improvements	10 years
Equipment	3 to 8 years

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity–wide financial statements. The amounts have been recorded in the fund from which the employees have accumulated the leave and from which the amounts are paid. The noncurrent portion of the liability is monitored but not recorded within the governmental funds. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year–of–service credit for each day of unused sick leave.

Accrued Liabilities and Long–Term Obligations

All payables, accrued liabilities, and long–term obligations are reported in the entity–wide financial statements.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "net assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of District obligations.

Invested in capital assets, net of related debt represents the District's total investment in capital assets, net of associated 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 invested in capital assets, net of related debt.

Restricted net assets include resources that the District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The District generally uses restricted resources prior to unrestricted resources where appropriate.

1. Summary of Significant Accounting Policies (Continued)

Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District and may be used at the discretion of the Board of Trustees to meet current expenses for any purpose. Although the governing board may designate these funds for special purposes, the funds remain unrestricted.

Operating Revenues and Expenses

Operating revenues include all revenues from programmatic sources. Nonoperating revenues include state apportionments, state and local tax revenues, investment income, and gifts.

Classifications of Revenues and Expenses

The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state apportionments, local property taxes, and investment income. Nearly all the District's expenses are from exchange transactions. Revenues and expenses are classified according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services for auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, and local grants and contracts, and federal appropriations; and (4) interest on institutional student loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and contributions and other revenue sources described in GASB Statement No. 35 such as state appropriations and investment income.

Operating expenses are necessary costs to provide the services of the District. Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded in the period they become available to the District.

1. Summary of Significant Accounting Policies (Continued)

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work–Study, and Stafford Loan programs, as well as other programs funded by the federal government. Financial aid to students is reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act of 1996, and the U.S. Office of Management and Budget's revised Circular A–133, *Audits of States, Local Governments and Non–Profit Organizations*, and the related *Compliance Supplement*. During the years ended June 30, 2006 and 2005, the District distributed $1,308,429 and $1,435,220, respectively, in direct lending through the U.S. Department of Education. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Reclassifications

Certain reclassifications of 2005 account balances have been made to conform to the current year presentation.

2. Deposits and Investments

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer. In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to $100,000. *California Government Code* Sections 16520 through 16522 require 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.

2. Deposits and Investment (Continued)

Under provision of the District's investment policy and in accordance with Sections 53601 and 53602 of the *California Government Code*, the District may also make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash and Cash Equivalents

The carrying amount of the District's deposits at June 30, 2006 and 2005 were $2,755,296 and $1,999,236, respectively, and the bank balances totaled $2,880,363 and $2,075,826, respectively. Of the balances in the bank at June 30, 2006 and 2005, $516,253 and $416,237 is federally insured by the Federal Deposit Insurance Corporation. The uninsured balances were classified as follows:

	June 30,	
	2006	2005
Category 1 – Uncollateralized	$208,381	$255,698
Category 2 – Collateralized with securities held by the pledging financial institution	$0	$0
Category 3 – Collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name	$2,155,729	$1,403,891

The cash held in the County Treasury is uncategorized and the fair value approximates carrying value as shown below. Deposits with the County Treasury are not categorized because they do not represent securities which exist in physical or book entry form. The deposits with the County Treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county. The County Treasury holds $36,004,215 of the Cash in County Treasury in a separate investment account. This account is specifically used to hold the bond proceeds to be used for the District's construction projects. The funds are fully collateralized and the risk of loss is with the County. The underlying value is treated the same as the other cash held by the County.

	June 30,	
	2006	2005
Cash in County Treasury	$77,565,106	$81,449,594
Cash on hand and in bank	2,755,296	1,999,236
Total cash and cash equivalents	$80,320,402	$83,448,830

3. Accounts Receivables

Receivables at June 30, 2006 consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	June 30, 2006	June 30, 2005
Federal government		
Grants and contracts	$ 2,611,114	$ 2,579,864
State government		
Apportionment	1,175,217	2,381,287
Lottery	897,935	1,659,974
Categorical and other state sources	2,601,198	3,420,566
Local government		
Interest	568,053	545,059
Property taxes	2,650,019	1,979,895
Foundation	70,036	112,149
Other local sources	1,752,893	1,565,367
	$12,326,465	$14,244,161

4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets not being depreciated				
Land	$ 30,199,218	$ 2,303,479		$ 32,502,697
Construction in progress	14,342,285	21,037,262	$14,001,509	21,378,038
Total capital assets not being depreciated	44,541,503	23,340,741	14,001,509	53,880,735
Capital assets being depreciated				
Land improvements	4,660,871	286,491		4,947,362
Buildings and improvements	84,585,492	19,783,838		104,369,330
Machinery and equipment	16,657,556	1,798,040	424,609	18,030,987
Total capital assets being depreciated	105,903,919	21,868,369	424,609	127,347,679
Total capital assets	150,445,422	45,209,110	14,426,118	181,228,414

4. Capital Assets (Continued)

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Less accumulated depreciation				
Land improvements	$ 4,239,936	$ 102,336		$ 4,342,272
Buildings and improvements	19,983,918	2,797,429		22,781,347
Machinery and equipment	9,211,995	2,215,755	$ 424,609	11,003,141
Total accumulated depreciation	33,435,849	5,115,520	424,609	38,126,760
Net capital assets	$117,009,573	$40,093,590	$14,001,509	$143,101,654

Depreciation expense for the year was $5,115,520.

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets not being depreciated				
Land	$ 29,206,770	$ 992,448		$ 30,199,218
Construction in progress	6,677,496	16,227,882	$8,563,093	14,342,285
Total capital assets not being depreciated	35,884,266	17,220,330	8,563,093	44,541,503
Capital assets being depreciated				
Land improvements	4,660,871			4,660,871
Buildings and improvements	76,022,399	8,563,093		84,585,492
Machinery and equipment	13,473,587	3,342,976	159,007	16,657,556
Total capital assets being depreciated	94,156,857	11,906,069	159,007	105,903,919
Total capital assets	130,041,123	29,126,399	8,722,100	150,445,422

4. Capital Assets (Continued)

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Less accumulated depreciation				
Land improvements	$ 4,166,249	$ 73,687		$ 4,239,936
Buildings and improvements	18,132,722	1,851,196		19,983,918
Machinery and equipment	7,136,947	2,218,650	$ 143,602	9,211,995
Total accumulated depreciation	29,435,918	4,143,533	143,602	33,435,849
Net capital assets	$100,605,205	$24,982,866	$8,578,498	$117,009,573

Depreciation expense for the year was $4,143,533.

5. Land Held for Sale

During the year ended June 30, 2004, the District signed an agreement with the Riverside County Education Foundation (RCEF) for the option to purchase land owned by the District. RCEF subsequently assigned its interest in the purchase option to the Griffin Homebuilding Group, LLC. The option was exercised during the year ended June 30, 2006.

6. Short–Term Debt – Tax Anticipation Notes

The District issues tax anticipation notes in order to provide for operational expenses until property tax revenues are received. Short–term debt activity for the years ended June 30, 2006 and 2005 was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
Tax anticipation note – June 30, 2006	$-0-	$2,730,000	$2,730,000	$-0-
Tax anticipation note – June 30, 2005	$-0-	$4,555,000	$4,555,000	$-0-

7. Operating Transfers

Operating transfers between District governmental funds are used to (1) move revenue from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These operating transfers have been eliminated through consolidation within the entity–wide financial statements.

8. Accounts Payable

Accounts payable consisted of the following:

	June 30, 2006	June 30, 2005
Accrued salaries and benefits	$1,127,213	$ 948,053
Other governmental entities	913,928	737,112
Other	6,301,296	6,026,357
Total	$8,342,437	$7,711,522

9. Deferred Revenue

Deferred revenue consisted of the following:

	June 30, 2006	June 30, 2005
State categorical aid	$ 476,606	$ 228,032
Summer enrollment fees	897,463	919,578
Theater subscriptions	208,583	256,087
Other local	1,394,200	1,363,719
Total	$2,976,852	$2,767,416

10. Long–Term Debt

Long–Term Liabilities

The changes in the District's long–term obligations consisted of the following:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Due in One Year
General Obligation Bond Series 2004 A & B	$13,270,000		$ 3,750,000	$ 9,520,000	$ 4,500,000
2005 General Obligation Refunding Bond	58,386,109		970,000	57,416,109	1,820,000
Total general obligation bonds	71,656,109		4,720,000	66,936,109	6,320,000

10. Long–Term Debt (Continued)

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Due in One Year
Other liabilities					
Compensated absences	$ 1,632,748	$433,392		$ 2,066,140	$ 516,535
Load banking	550,350	240,550	$ 133,578	657,322	20,769
Golden Handshake	1,525,859		381,464	1,144,395	381,465
Capital leases	2,170,318		2,170,318		
Total other liabilities	5,879,275	673,942	2,685,360	3,867,857	918,769
Total long-term debt	$77,535,384	$673,942	$7,405,360	$70,803,966	$7,238,769

The changes in the District's long-term obligations consisted of the following:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due in One Year
Notes payable					
Certificates of participation – 2001 Series B	$ 9,595,000		$ 9,595,000		
Certificates of participation – 2001 Series 1993	1,720,000		1,720,000		
Total notes payable	11,315,000	$ -	11,315,000	$ -	$ -
General Obligation Bond Series 2004A & B		55,205,000	41,935,000	13,270,000	3,750,000
2005 General Obligation Refunding Bond		68,181,109	9,795,000	58,386,109	970,000
Total general obligation bonds	-	123,386,109	51,730,000	71,656,109	4,720,000
Other liabilities					
Compensated absences	1,462,748	170,000		1,632,748	408,186
Load banking	529,699	192,618	171,967	550,350	3,766
Golden Handshake		1,907,324	381,465	1,525,859	381,465
Capital leases	2,281,417		111,099	2,170,318	119,724
Total other liabilities	4,273,864	2,269,942	664,531	5,879,275	913,141
Total long-term debt	$15,588,864	$125,656,051	$63,709,531	$77,535,384	$5,633,141

10. Long–Term Debt (Continued)

Description of Debt

In October 2001, the District issued $10,585,000 of certificates of participation (2001 Series B) to refund the 1989 and 1993 certificates of participation. The certificates mature through June 2018. At June 30, 2004, the balance outstanding was $9,595,000. These certificates were defeased as part of the general obligation bond issue. Funds from the issue have been deposited into an irrevocable escrow account for subsequent repayment of the certificates at the appropriate dates. The balance of funds in the escrow account approximated $9,123,000 at June 30, 2005.

In an election on March 2, 2004, the sale of $350,000,000 principal amount of general obligation bonds of the District were authorized. As a result of the authorization, General Obligation Bonds Series 2004A "Series A Bonds" and Series 2004B (federally taxable) "Series B Bonds" were issued in August 2004.

Series A Bonds were issued in the aggregate principal amount of $55,205,000 with interest rates ranging from 4 to 5.25 percent. Series A Bonds were used to finance the acquisition, construction, and modernization of property and school facilities, to refund outstanding certificates of participation (1993 Financing Project) (the "1993 Certificates"), and to pay certain costs of the bond issue. The refunded bonds are considered defeased. This current refunding was undertaken to decrease total debt service payments over the next 13 years by $2,762,260. Series B Bonds were issued in the amount of $9,795,000 with interest rates ranging from 3.5 to 4.5 percent and were used to advance refund the District's outstanding certificates of participation (2001 Refunding Project) Series B (the "2001 Certificates"). The refunded bonds are considered defeased. This advance refunding was undertaken to reduce total debt service payments over the next 13 years by $2,298,036 and to obtain an economic gain of $237,565. Upon issuance of Series A and B Bonds, the District's certificates of participation were refunded.

The bonds are general obligations of the District. The Riverside County Board of Supervisors is obligated to levy *ad valorem* taxes upon all property within the District subject to taxation by the District for the payment of interest and principal on the bonds when due.

Series A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. Series B Bonds are not subject to redemption prior to maturity.

On April 19, 2005, the Board of Trustees adopted a resolution to issue bonds. On May 17, 2005, the District issued 2005 General Obligation Refunding Bonds with interest rates ranging from 3 to 5 percent. The proceeds of the bonds were used to advance refund a portion of the outstanding principal amount of the general obligation bonds. Principal and interest on the refunded debt will be paid until such time as they can be redeemed on August 1, 2014. The refunded bonds were the Series A Bonds issued as a result of voter authorization to issue and sell $350,000,000 principal amount of general obligation bonds including the cost of issuance of the bonds except for $3,475,000 of the debt. The refunded bonds are considered defeased.

10. Long–Term Debt (Continued)

The bonds issued are current interest bonds and capital appreciation bonds. Interest on the current interest bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year commencing on August 1, 2005. The current interest bonds cannot be redeemed prior to August 1, 2016. The capital appreciation bonds accrete interest, compounded semiannually on February 1 and August 1 of each year from the date of delivery commencing August 1, 2005. The capital appreciation bonds can only be redeemed upon maturity. The payment of the principal and interest on the bonds is guaranteed under an insurance policy issued concurrently with the delivery of the bonds. These bonds are considered general obligations of the District and are payable solely from proceeds of *ad valorem* taxes which are pledged to the repayment. The bonds issued with a premium in the amount of $7,689,321 and debt issue cost of $807,172, both of which will be amortized over the term of the bonds.

Net debt premium consists of the following:

	June 30, 2006	June 30, 2005
Deferred loss on refunding	$ 4,073,935	$ 4,414,941
Debt issue costs	871,827	920,262
Debt premium	(9,977,210)	(10,529,488)
Net unamortized debt premium	$(5,031,448)	$ (5,194,285)

The balances above are amortized over periods ranging from 2-24 years using the straight-line method. During the year ended June 30, 2006, amortization for the deferred loss on refunding was $341,006 and is recorded in interest expense; amortization for the debt issue costs was $48,435 and is recorded in debt issue costs; and amortization of the debt premium was $552,278 and is included in interest income. There was no amortization during the year ended June 30, 2005.

The District has utilized a capital lease purchase agreement with option to purchase real property. The lease purchase agreement anticipated payment through 2017 unless the option was exercised. The District exercised the option during the year ended June 30, 2006.

10. Long–Term Debt (Continued)

General Obligation Bonds

Principal payments on this issue for the next five years and thereafter are as follows:

	2005 Refunding Bonds Principal Amount	2004 Series A Principal Amount	2004 Series B Principal Amount	Total
For the years ending June 30,				
2007	$ 1,820,000		$4,500,000	$ 6,320,000
2008	475,000		1,545,000	2,020,000
2009	1,260,000			1,260,000
2010	1,495,000			1,495,000
2011	1,740,000			1,740,000
2012 – 2016	4,661,109	$2,930,000		7,591,109
2017 – 2021	20,195,000	105,000		20,300,000
2022 – 2026	25,770,000	195,000		25,965,000
2027 – 2030		245,000		245,000
	$57,416,109	$3,475,000	$6,045,000	$66,936,109

Capital Leases

The District’s liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2004	$3,550,076
Payments	278,438
Balance, June 30, 2005	3,271,638
Exercised option to purchase	3,271,638
Balance, June 30, 2006	$ -0-

11. Post–Employment Health Care Benefits

In accordance with Board policy 3097 – 4097, the District will continue to pay medical benefits for employees retiring at age 55 with ten or more years of service. These benefit payments will continue until the employee reaches age 65. In addition, the District has entered into agreements with former Board members and various retired employees whereby the District will continue to pay medical benefits and life insurance for the remainder of their lives.

On June 30, 2006 and 2005, there were 51 and 58 retirees eligible to receive post–employment health care benefits, respectively. The estimated future cost to the District at June 30, 2006 and 2005 is approximately $3,500,000 and $3,600,000, respectively. This amount is calculated based on expected years until either age 65 or a 15–year life expectancy times the current insurance rates. No actuarial evaluation has been performed.

Expenditures for post–employment benefits are recognized on a pay–as–you–go basis as retirees' premiums are paid. During the years ended June 30, 2006 and 2005, the District recognized expenditures of $734,780 and $711,199, respectively, related to post–employment health care benefits.

12. Risk Management – Claims

Description

Some of the District's risk management activities are recorded in the Health and Liability Self–Insurance Fund and the Workers' Compensation Self–Insurance Fund. The purpose of the Health and Liability Self–Insurance Fund is to administer the employee life and health programs and property and liability program of the District on a cost–reimbursement basis. The funds account for the risk financing activities of the District but do not constitute a transfer of risk from the District.

Significant losses are covered by commercial insurance and/or coverage by joint powers authorities. The District maintained a self–insurance retention (SIR) of $250,000 for employee health risks, $100,000 for liability and property risks, and $350,000 for workers' compensation risks. There have been no significant reductions in insurance coverage for the District's insured programs or the Health Maintenance Organization programs used by the District.

Claims Liabilities

The District records an estimated liability for indemnity health care, workers' compensation, torts, and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of the reported claims including future claim adjustment expenses and an estimate for claims incurred, but not reported based on historical experience. The estimated liabilities are calculated using historical experience and internal actuarial analysis.

12. Risk Management – Claims (Continued)

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2004 to June 30, 2006:

Liability balance, July 1, 2004	$ 1,779,919
Claims and changes in estimates	3,666,549
Claims payments	(3,030,512)
Liability balance, June 30, 2005	2,415,956
Claims and changes in estimates	4,028,096
Claims payments	(3,967,288)
Liability balance, June 30, 2006	$ 2,476,764

Cash and investments available to pay claims at June 30, 2006 and 2005 were $5,682,338 and $4,405,710, respectively.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of property; injuries to students, campus visitors, or employees; natural disasters; medical claims of District employees; and employment-related liabilities. The District maintains Internal Service Funds to account for and finance its uninsured risks of loss.

All funds of the District, with the exception of the Expendable Trust, the Riverside Community College District Development Corporation, Bond Interest and Redemption Fund, the certificates of participation 1993 Debt Service Fund, and the certificates of participation 2001 Capital and Debt Service Funds, participate in the program and payments are made to the fund based on estimates of the amounts needed to fund prior year and current year claims and to establish a reserve for losses relating to catastrophes. This liability is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. At June 30, 2006, the reserve totaled $3,247,479.

13. Employee Retirement Systems

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

13. Employee Retirement Systems (Continued)

State Teachers' Retirement System

Plan Description

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full–time equivalent position participate in the Defined Benefit Plan (DB Plan). Part–time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement System (STRS), a cost–sharing, multiple–employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRS, a defined benefit pension plan, provides retirement, disability, and death benefits and depending on which component of the STRS the employee is in, post–retirement cost–of–living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied. Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half–time or more, the member will automatically become a member of the DB Plan.

Funding Policy

Active members of the DB Plan are required to contribute eight percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution for fiscal year 2005–2006 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by state statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the DB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

13. Employee Retirement Systems (Continued)

Annual Pension Cost

The District's total contribution to STRS for the fiscal years ended June 30, 2006, 2005, and 2004 were $4,399,919, $3,850,938 and $3,468,997, respectively, and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the state. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

CalPERS

Plan Description

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

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 "P" Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute seven percent of their salary (seven percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. CalPERS approved a school employer contribution rate of 9.116 for the fiscal year 2005–06 and 9.952 for the fiscal year 2004–05.

13. Employee Retirement Systems (Continued)

Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2006, 2005, and 2004 were $2,330,410, $2,291,598, and $2,256,154, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2004 actuarial valuation (the most recent actuarial information available) included (a) an 8.25 percent investment rate of return (net of administrative expense), (b) an overall growth in payroll of 3.75 percent annually, and (c) an inflation component of 3.50 percent compounded annually that is a component of assumed wage growth, and assumed future post–retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short–term volatility in the market value of investments.

On Behalf Payments

The State of California makes contributions to STRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to STRS which amounted to $2,408,236 (4.517 percent of salaries subject to STRS) for June 30, 2006 and $2,108,307 (4.517 percent of salaries subject to STRS) for the year ended June 30, 2005 and $0 (zero percent of salaries subject to PERS) for the years ended June 30, 2006 and 2005. A contribution to CalPERS was not made for the years ended June 30, 2006 and 2005. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the California Community College's Annual Financial and Budget Report (CCFS–311). These amounts also have not been recorded in these financial statements.

14. Functional Expenses

Functional expenses for the year ended June 30, 2006 were as follows:

	Salaries and Employee Benefits	Supplies, Materials, and Other Operating Expenses and Services	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	$ 56,284,994	$3,120,078	$ 339,202		$59,744,274
Academic support	28,238,614	7,770,073	420,033		36,428,720
Student services	12,650,613	1,622,924	73,013		14,346,550
Plant operations and maintenance	5,134,222	3,272,285	188,517		8,595,024
Instructional support services	3,585,236	379,588	78,933		4,043,757

14. Functional Expenses (Continued)

	Salaries and Employee Benefits	Supplies, Materials, and Other Operating Expenses and Services	Equipment, Maintenance, and Repairs	Depreciation	Total
Community services and economic development	$ 1,206,536	$ 449,845	$ 19,359		$ 1,675,740
Ancillary services and auxiliary operations	5,541,356	2,427,118	484,442		8,452,916
Physical property and related acquisitions		333,326	1,723,905		2,057,231
Depreciation				$5,115,520	5,115,520
Financial aid awarded students		15,128,069			15,128,069
	$112,641,571	$34,503,306	$3,327,404	$5,115,520	$155,587,801

Functional expenses for the year ended June 30, 2005 were as follows:

	Salaries and Employee Benefits	Supplies, Materials, and Other Operating Expenses and Services	Equipment, Maintenance, and Repairs	Depreciation	Total
Instructional activities	$ 51,108,371	$ 2,386,212	$ 749,239		$ 54,243,822
Academic support	24,836,627	7,839,810	641,273		33,317,710
Student services	11,693,834	1,730,445	160,228		13,584,507
Plant operations and maintenance	4,869,402	2,616,765	216,785		7,702,952
Instructional support services	3,308,820	380,108	182,344		3,871,272
Community services and economic development	1,068,699	333,945	22,316		1,424,960
Ancillary services and auxiliary operations	5,130,057	2,181,752	270,284		7,582,093
Physical property and related acquisitions		2,052,284	940		2,053,224
Depreciation				$4,143,533	4,143,533
Financial aid awarded students		15,388,735			15,388,735
	$102,015,810	$34,910,056	$2,243,409	$4,143,533	$143,312,808

15. Commitments and Contingencies

Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all pending litigation for which insurance coverage is applicable is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2006. The District could have exposure should the insurance carrier deem a case to be not covered due to various circumstances.

The District acquired real property during the year ended June 30, 2006, and as a result of this acquisition, the District may have potential liability related to relocating/evicting some of the occupants of the building, should amounts provided for in escrow be exceeded.

Construction Commitments

The District had the following commitments with respect to the unfinished capital projects:

	June 30, 2006		June 30, 2005	
	Construction in Progress	Remaining Budget	Construction in Progress	Remaining Budget
Quad Remodel-Planning	$ 844,171	$ 29,206		
Quad Modernization	4,917,610	12,431,758	$ 782,382	$15,828,684
Norco Phase III	378,412	551,588	367,244	17,391,738
Martin Luther King High–Tech Center			8,020,458	957,278
Parking Structure	13,753,249	6,485,565	1,572,883	18,065,210
Moreno Valley Phase III	123,879	1,033,441	31,647	11,689
Nursing and Science Project	151,192	4,931,494	73,116	4,020
Relocatable Swing Space			3,494,555	323,903
Physical Education Phase II	178,298	16,248		
Center for Primary Education	1,031,227	7,266,510		
	$21,378,038	$32,745,810	$14,342,285	$52,582,522

15. Commitments and Contingencies (Continued)

The District has entered into a lease-leaseback with a contractor using the construction delivery method. The project is for the construction of the Center for Primary Education. This project is being jointly constructed with Alvord Unified School District (Alvord). On January 24, 2006 the Board approved a site lease with the contractor for a term of 137 months commencing on March 9, 2006. Lease payments will be made by the contractor to the District at the rate of $1 per year for fourteen years. The Board approved leasing the site and project from the contractor pursuant to a sublease agreement. The District will be required to make sublease payments to the contractor for the use and occupancy of the site and the project. The sublease requires the District to pay the contractor monthly lease payments of $45,540 for 136 months and $26,146 for the 137th month subject to adjustment upon guaranteed maximum price of construction services agreement adjustments. At any time during the term of the sublease prepayments on the sublease may be made.

As part of the sublease, the District was granted the option to purchase the entire project at an amount equal to the guaranteed maximum price of the construction services agreement as adjusted during the construction less any sublease payments and prepayments made on the agreement.

The construction services agreement is being jointly constructed with Alvord. The District owns real property approximately three acres in size while Alvord owns approximately 13 contiguous acres. This project is for the purpose of constructing and operating integrated facilities to include a kindergarten through fifth grade elementary school, teacher training, child care and other related facilities (Learning Center). In facilitating the construction, joint use and operation of the Learning Center, the District and Alvord will lease their respective acreage and facilities to be constructed thereon to each other for a term of forty years.

On June 20, 2006, the Board approved a guaranteed maximum price for the District's share of the construction costs for the project of $8,216,737. The Board has approved use of Measure C funding at $5,853,105 for the project, the balance to be covered by the District's share of a Governor's Grant. The term of construction of this project is 699 consecutive calendar days beginning March 9, 2006. Construction in progress at June 30, 2006 was $1,031,227.

16. Participation in Public Entity Risk Pools and Joint Powers Authorities

The District is a member of the School Excess Liability Fund (SELF), the Riverside Community College—County Superintendent Self–Insurance Program for Employees (RCCCSSIPE), the Riverside Employers/Employees Plan (REEP), and Alliance of Schools for Cooperative Insurance Programs (ASCIP) Joint Powers Authorities (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

16. Participation in Public Entity Risk Pools and Joint Powers Authorities (Continued)

The JPAs reported no long–term debt outstanding at June 30, 2006 and 2005. The District's share of year–end assets, liabilities, or fund equity has not been calculated.

Current year condensed audited financial information is as follows:

A. Entity	Schools' Excess Liability Fund (SELF)	Riverside Community Colleges – County Superintendent Self–Insurance Program for Employees (RCCCSSIPE)	Riverside Employers/ Employees Plan (REEP)	Alliance of Schools for Cooperative Insurance Programs (ASCIP)
B. Purpose	Provides excess liability and workers' compensation insurance for its members.	Provided workers' compensation for its members from 1978–1995. Currently handles the runoff of existing claims for that period.	Provides dental insurance for its members.	Provides excess property and liability insurance for its members.
C. Participants	Various educational districts statewide.	Various educational districts in Riverside County.	Various educational districts in Riverside County.	Various educational districts statewide.
D. Governing Board	Representatives from each member district.	Representatives from each member district.	Representatives from each member district.	Representatives from each member district.

E. Condensed Audited Financial Information Follows	(SELF) June 30, 2005*	(RCCCSSIPE) June 30, 2005*	(REEP) June 30, 2005*	(ASCIP) June 30, 2005*
Assets	$ 177,635,435	$2,693,230	$ 10,977,539	$108,715,729
Liabilities	(174,412,337)	(720,879)	(7,593,854)	(78,635,152)
Fund equity	$ 3,223,098	$1,972,351	$ 3,383,685	$ 30,080,577
Revenues	$ 38,195,479	$ 222,517	$ 77,759,196	$ 59,625,187
Expenses	(60,768,157)	75,166	(78,928,390)	(52,667,141)
Net increase (decrease) in fund equity	$ (22,572,678)	$ 297,683	$ (1,169,194)	$ 6,958,046

*Most recent information available.

17. Bookstore Agreement

The District extended its 1999 agreement with Barnes and Noble College Bookstores, Inc. to operate and provide services for the District's bookstores for an additional two–year term from October 1, 2002 through September 30, 2004. Unless the termination provisions are exercised by the District's Board of Trustees, this agreement will automatically extend for additional one–year terms beginning on October 1, 2004. As of June 30, 2006, the District has not terminated the agreement. Anticipated receipts through September 30, 2006 are $131,250.

18. Foundation

The Riverside Community College District Foundation (the "Foundation"), whose purpose is to provide support to the District, is a separate not–for–profit 501(c)(3) organization. The Foundation has been determined to not be a component unit of the District. The Foundation received a separate audit report for the fiscal years ended June 30, 2006 and 2005. A summary of their report is presented below:

	June 30,	
	2006	2005
Assets	$4,494,587	$4,281,796
Liabilities	400,878	136,777
Net assets	$4,093,709	$4,145,019

	June 30,	
	2006	2005
Changes in net assets		
Revenues	$1,231,539	$1,332,075
Expenses	1,282,849	1,286,462
Increase (decrease) in net assets	$ (51,310)	$ 45,613

19. Other Transactions

Related Party Transactions

During the year ended June 30, 1999, the District entered into an agreement with Riverside Community College District Foundation in which the Foundation is to reimburse the District $400,000 for a building purchased by the District to be utilized jointly by the District and the Foundation. The Foundation has reimbursed the District. Ownership of the building remains with the District and the Foundation will lease the property at a cost of $1 per year until November 30, 2008.

20. Operating Leases

The District's future minimum rental commitments of a vehicle, copiers, Dental Clinic, warehouse buildings, and March Education Center accounted for as operating leases at June 30, 2006, are as follows:

Year ending June 30,	
2007	$ 191,117
2008	207,283
2009	46,374
2010	33,624
2011	25,218
Total	$503,616

Rental expense paid during the years ended June 30, 2006 and 2005 was $116,471 and $68,569, respectively.

21. Early Retirement Incentive Program

In June 2004, the District adopted, under California Government Code Sections 53215 – 53224, an early retirement incentive program in the form of a qualified governmental defined benefit plan for the benefit of eligible academic and classified employees. To be eligible, the employee had to be a full–time equivalent employee, be at least 55 years of age, completed ten years of employment and terminated employment as of August 31, 2004 for classified and Tier I academic employees and December 31, 2004 for Tier II academic employees. For academic employees, the supplemental retirement benefits are in addition to the benefits employees will receive from the California State Teachers' Retirement System. Nineteen academic employees and eight classified employees elected to participate in the early retirement incentive program. During the year ended June 30, 2005, the District fully funded the classified portion of the plan in the amount of $80,800. The academic portion of the plan is to be paid in five annual installments of $381,465. The schedule of remaining retirement costs is as follows:

For the year ending June 30,	
2007	$ 381,465
2008	381,465
2009	381,465
	$1,144,395

SUPPLEMENTARY INFORMATION

RIVERSIDE COMMUNITY COLLEGE DISTRICT

District Organization

June 30, 2006

The Riverside Community College District was founded in 1916 and is comprised of an area approximately 440 square miles in the western portion of Riverside County. Riverside Community College District is a California public community college fully accredited by the Western Association of Schools and Colleges.

Board of Trustees

Member	Office	Term Expires
Mr. Mark Takano	President	2008
Mr. Jose Medina	Vice President	2006
Ms. Kathleen Daley	Secretary	2006
Ms. Mary Figueroa	Member	2008
Ms. Grace Slocum	Member	2006

Administration

Dr. Salvatore G. Rotella	Chancellor
Dr. Ray Maghroori	Vice Chancellor, Academic Affairs
Dr. James L. Buysse	Vice Chancellor, Administration and Finance
Dr. Linda Lacy	Vice Chancellor, Student Services and Operations

See accompanying note to supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2006

Federal Grantor/Pass–Through Grantor/Program or Cluster Title	Federal Catalog Number	Pass–Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
STUDENT FINANCIAL AID CLUSTER:			
SEOG – administration costs	84.007		$ 46,144
Supplemental Education Opportunity Program – SEOG	84.007		730,012
Pell Program	84.063		12,387,635
Pell – administration costs	84.063		41,888
Federal Work Study Program – administration costs	84.033		30,425
Federal Work Study	84.033		510,752
Federal Family Education Loans	84.032		1,308,429
HIGHER EDUCATION ACT:			
Title V – Moreno Valley	84.031S		457,278
Title V – Norco	84.031S		544,048
Title V – Riverside	84.031S		519,442
Business and International Education Projects Title VI	84.153A		58,516
Student Support Services – TRIO	84.042		144,589
Talent Search – TRIO Norco	84.044		168,456
Talent Search – TRIO Moreno Valley	84.044		194,564
Upward Bound	84.047		321,951
Veteran Outreach Program – administration	84.064		4,939
Fund for Improvement of Post–Secondary Education (FIPSE)	84.116		104,058
GEAR–Up/Passport Plus	84.334A		964,371
Child Care Access Means Parents in School (CCAMPIS)	84.335A		10,485
Passed through from University of California, Riverside			
Teacher Quality Enhancement Grants	84.336	*	118,331
Passed through from Chaffey Community College			
Title V – Higher Education Institutional Aid	84.031S	*	207,193
REHABILITATION ACT:			
Passed through from Riverside County Department of Rehabilitation			
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	*	216,854

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2006

Federal Grantor/Pass–Through Grantor/Program or Cluster Title	Federal Catalog Number	Pass–Through Entity Identifying Number	Federal Expenditures
ELEMENTARY AND SECONDARY EDUCATION ACT:			
Center for Primary Education – General Plan	84.215		$ 28,488
Riverside School of Arts – Planning and Design Development	84.215K		223,260
CARL PERKINS VOCATIONAL AND TECHNOLOGY EDUCATION AMENDMENT:			
Tech-Prep Demonstration Grants (Gateway to College)	84.353A		16,438
Passed through from California Community Colleges Chancellor's Office			
Vocational Technology Education Act IIA – VTEA	84.048	03929	1,475,356
Total U.S. Department of Education			20,833,902
U.S. Department of Health and Human Services:			
Nurse Education, Practice, and Retention	93.359		267,955
CalWORKS New Visions Lifelong Learning Project	93.647		80,611
Health Care and Other Facilities HRSA	93.887		111,586
Medical Assistance Program (Medi-Cal Administrative Activities)	93.778		8,505
Adoption Assistance	93.659		3,882
Passed through from California Community Colleges Chancellor's Office			
Foster Care Education Program	93.658	*	74,016
Temporary Assistance for Needy Families (TANF)	93.558	*	120,655
Passed through from California Community Colleges Foundation			
Independent Living Program	93.674	*	573,348
Passed through from Yosemite Community College			
ECS Consortium Grant	93.575	*	35,715
Total U.S. Department of Health and Human Services			1,276,273
U.S. Department of Labor:			
WORKFORCE INVESTMENT ACT:			
Passed through from California Department of Education (CDE)			
Post–Assistance Self–Sufficiency Services (CalWORKS)	17.258	*	109,460
Total U.S. Department of Labor			109,460

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of Federal Awards

June 30, 2006

Federal Grantor/Pass–Through Grantor/Program or Cluster Title	Federal Catalog Number	Pass–Through Entity Identifying Number	Federal Expenditures
U.S. Department of Defense:			
Procurement Assistance Center (PAC)	12.002		$ 144,248
National Science Foundation:			
Academic Success Project – NSF	47.070		29,643
Passed through from California State University, San Bernardino			
Education and Human Resources	47.076	*	82,205
Total National Science Foundation			111,848
National Aeronautics and Space Administration:			
Technology Transfer	43.002		19,397
U.S. Department of Agriculture:			
Hispanic Serving Institutions Education Grants (Water Quality Research)	10.223		1,398
Passed through from California Department of Education (CDE)			
Child and Adult Care Food Program	10.558	*	13,091
Upward Bound – Summer Food Reimbursement	10.559	*	1,423
Total U.S. Department of Agriculture			15,912
U.S. Department of Commerce:			
Market Developer Cooperator Program – CITD	11.112		101,553
Corporation for National and Community Service:			
Passed through from Maricopa Community College			
SAFE (Supporting Actions for Engagement)	94.005	*	12,635
Passed through from California Community Colleges			
Foundation AmeriCorps	94.006	*	156,723
Total Corporation for National and Community Service			169,358
Corporation for National and Community Service:			
Passed through from California State University Fullerton Auxiliary Services Corporation			
Small Business Development Center	59.037	*	77,804
Total Federal Programs			$22,859,755

* Pass–Through Entity Identifying Number not available

See accompanying note to supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of State Awards

For the Year Ended June 30, 2006

	Program Entitlement		
Program	**Current Year**	**Prior Year**	**Total Entitlement**
Board Financial Assistance Program (BFAP)	$ 126,372		$ 126,372
Basic Skills			
Part–Time Faculty Insurance	7,781		7,781
Part–Time Faculty Office Hours	135,590		135,590
Part–Time Faculty Compensation	1,083,773		1,083,773
Partnership for Excellence	604,250		604,250
State Lottery	3,344,422		3,344,422
Homeowner Property Tax Relief	452,623		452,623
Timber Tax	1,314		1,314
ETP Training	57,741		57,741
ETP Retraining	53,779		53,779
Extended Opportunity Program and Services – EOPS	679,914		679,914
Extended Opportunity Program and Services – EOPS/CARE	87,552		87,552
Disabled Students Program and Services – DSPS	1,409,054		1,409,054
Butte Community College Video Captioning – DSPS		$ 13,137	13,137
Telecommunications Technology Infrastructure Program – TCO	15,635	39,534	55,169
Telecommunications Technology Infrastructure Program Plan E – Library Automation	36,697	751	37,448
Instructional Equipment and Library Material	590,942		590,942
Associate Degree Nursing Enrollment Growth	63,937	2,787	66,724
Board Financial Assistance Program	873,689		873,689
Hazardous Substances Program		126,640	126,640
Matriculation Grant	1,066,948		1,066,948
Foster Care Education Program	68,432		68,432
Middle College High School	266,212		266,212
Economic Development – Center for Applied Computer Technology	198,184		198,184
California Alliance for Digital Manufacturing	52,445		52,445
Economic Development – Center for International Trade Development	178,875		178,875
Teacher Reading and Development Program			
Economic Development – Center for International Trade Development State Leadership	178,875		178,875

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Accounts Payable/ Deferred Revenue	Total	Program Expenditures
$ 126,372			$ 126,372	$ 126,372
(600,000)			(600,000)	(600,000)
6,650			6,650	6,650
132,534			132,534	132,534
1,083,773			1,083,773	1,083,773
604,250			604,250	604,250
2,907,622	$ 436,799		3,344,421	3,344,421
452,623			452,623	452,623
1,314			1,314	1,314
57,741			57,741	57,741
10,291	43,488		53,779	53,779
679,914		$ (4,353)	675,561	675,561
87,552		(328)	87,224	87,224
1,409,054			1,409,054	1,409,054
13,137			13,137	13,137
55,169		(44,533)	10,636	10,636
37,448			37,448	37,448
590,942			590,942	590,942
66,724			66,724	66,724
873,689		(100)	873,589	873,589
8,317			8,317	8,317
1,066,948			1,066,948	1,066,948
34,216	32,134		66,350	66,350
188,063	48,486		236,549	236,549
123,784	77,058		200,842	200,842
19,446	26,980		46,426	46,426
150,255	28,620		178,875	178,875
150,255	28,483		178,738	178,738

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Expenditures of State Awards

For the Year Ended June 30, 2006

Program	Program Entitlement Current Year	Program Entitlement Prior Year	Program Entitlement Total Entitlement
Staff Diversity	$ 26,783	$ 67,219	$ 94,002
First Five – Training for Children with Special Needs	37,165		37,165
CalWORKS	539,587		539,587
Economic Development – VTEA	42,000		42,000
State Lottery	740,240		740,240
Nursing Capacity Building – Program Expansion/FP1	179,290		179,290
Nursing Capacity Building – Renovation FP1	299,406		299,406
Campus Child Care Tax Bailout	n/a	n/a	
Child Nutrition Program	n/a	n/a	
Cal Grant B			
Cal Grant C			
Governor's Grant	2,444,632		2,444,632
ECS Equipment Project – Moreno Valley		56,960	56,960
ECS Equipment Project – Norco		58,860	58,860
MLK Equipment – State Construction		166,847	166,847
MLK Remodel Construction		24,294	24,294
Quad Modernization State Construction	12,187,000		12,187,000
Scheduled Maintenance 2002/2003		100,685	100,685
Total state awards	$28,131,139	$657,714	$28,788,853

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable	Accounts Payable/ Deferred Revenue	Total	Program Expenditures
$ 94,002		$ (63,389)	$ 30,613	$ 30,613
	$ 29,218		29,218	29,218
539,587		(24,977)	514,610	514,610
42,000		(42,000)		
279,105	461,136		740,241	740,241
179,290		(127,700)	51,590	51,590
299,406		(198,984)	100,422	100,422
129,652			129,652	129,652
407	113		520	520
1,368,500			1,368,500	1,368,500
52,155			52,155	52,155
1,024,644			1,024,644	1,024,644
15,617	593		16,210	16,210
32,348	4,630		36,978	36,978
166,847			166,847	166,847
5,890			5,890	5,890
1,740,626	2,279,140		4,019,766	4,019,766
100,685			100,685	100,685
$16,408,844	$3,496,878	$(506,364)	$19,399,358	$19,399,358

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Workload Measures for State Apportionment
Annualized Attendance and Annual Apprenticeship Hours of Instruction

For the Year Ended June 30, 2006

Categories	Reported Data	Audit Adjustments	Audited Data
A. Credit Full-Time Equivalent Student (FTES)			
Summer	4,106		4,106
Weekly census	16,330		16,330
Daily census	2,633		2,633
Actual hours of attendance	1,563		1,563
Independent study/work experience	1,969		1,969
Subtotal	26,601	-	26,601
B. Noncredit FTES			
Summer	57		57
Actual hours of attendance	66		66
Subtotal	123		123
Total FTES	26,724	-	26,724
C. Basic Skills Courses			
Credit			1,949
D. FTES generated in leased space			397
E. Gross square footage			
Existing facilities			910,412

NOTE: The District submitted a revised Apportionment Attendance report subsequent to audit fieldwork. The revised numbers are not reflected above.

See accompanying note to supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Reconciliation of Annual Financial and Budget Report (CCFS–311) with Audited Financial Statements

For the Year Ended June 30, 2006

	Self-Insurance Fund
June 30, 2006 Annual Financial and Budget Report (Form CCFS–311) fund balances	$2,415,724
Adjustments and reclassifications increasing (decreasing) fund balances:	
Overstatement of accounts receivable	(15,476)
Understatement of claims liability	(168,642)
Net adjustments and reclassifications	(184,118)
June 30, 2006 audited financial statement fund balances	$2,231,606

See accompanying note to supplementary information.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Note to Supplementary Information

PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of state awards includes the state grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

C. Schedule of Workload Measures for Program-Based Funding

Full–Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to community college districts. This schedule provides information regarding the attendance of students throughout the District.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

OTHER INDEPENDENT AUDITORS' REPORTS

Michael R. Adcock, CPA
Thomas E. Ahern, CPA
Linda S. Devlin, CPA
Janell M. Fratt, CPA
Wing K. Lau, CPA
Andrew Steinke, CPA
Nora L. Teasley, CPA
A California Limited Liability Partnership
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Audit Quality Center
California Society of
Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Riverside Community College District
Riverside, California 92506

We have audited the basic financial statements of Riverside Community College District (the "District") as of and for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the basic 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.

Compliance and Other Matters

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

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

Ahern • Adcock • Devlin LLP
Certified Public Accountants

October 27, 2006

By: Linda S. Devlin, CPA

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Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A–133

Board of Trustees
Riverside Community College District
Riverside, California 92506

Compliance

We have audited the compliance of Riverside Community College District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A–133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contacts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Riverside 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, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A–133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06–1.

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Internal Control Over Compliance

The management of Riverside 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 the 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 06–1.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

Ahern • Adcock • Devlin LLP
Certified Public Accountants

October 27, 2006

By: Linda S. Devlin, CPA

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Independent Auditors' Report on State Compliance

Board of Trustees
Riverside Community College District
Riverside, California 92506

We have audited the financial statements of Riverside Community College District (the "District") for the year ended June 30, 2006 and have issued our report thereon dated October 27, 2006.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and, accordingly, include such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's *California Community Colleges Contracted Audit Manual* (CDAM).

General Directives

Management Information System Implementation – Required Data Elements

Each district shall have the ability to support timely, accurate, and complete information for the following workload measures used in the calculation of State General Apportionment:

- Credit Full–Time Equivalent Student (FTES) in weekly census, daily census, actual hour of attendance, and apprenticeship courses.
- Noncredit FTES in actual hour of attendance and distance education courses.
- Credit Student Headcount Data.
- Gross square footage and FTES in less than 100 percent leased space.

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Administration

Apportionment – Instructional Service Agreements/Contracts

Compliance Requirement

Community colleges may claim FTES for state funding of classes conducted at a contractor's site and instructed by the contractor's employees (although the classes may also be conducted on District property) if all of the following regulatory requirements are met:

- Programs are approved by the State Chancellor's Office and courses are part of those approved programs or the District has received delegated authority to separately approve those courses and has done so.
- Courses are open to all admitted students who meet any approved prerequisites for the courses.
- Students are under the immediate supervision of a District employee.
- The District employee possesses valid credentials or meets the minimum qualifications required for the assignment.
- The District and public or private agency, individual, or group of individuals with whom the District has an instructional services agreement may not receive full compensation for the direct education costs for the conduct of the class from any other source.
- For all courses conducted under an instructional services agreement, including those pursuant to *California Code of Regulations*, Section 58058, the District must obtain certification verifying that the instructional activity conducted was not fully funded by other sources.

Apportionment – Residency Determination for Credit Classes

Compliance Requirement

Each district must act to ensure that only the attendance of California residents is claimed for state support of credit classes.

Apportionment – Concurrent Enrollment of K–12 Students in Community College Courses

Compliance Requirement

A community college district may claim FTES for the attendance of K–12 pupils who take courses offered by the District under this concurrent enrollment arrangement only if it complies with all related *California Education Code* sections.

Apportionment – Enrollment Fee

Compliance Requirement

Community college districts are required to report the total amount the students should have paid for enrollment fees for purposes of determining each district's share of apportionments annually.

Students Actively Enrolled

Compliance Requirement

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course sections.)

Fiscal Operations – Salaries of Classroom Instructors (50 Percent Law)

Compliance Requirement

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the District's current expense of education in accordance with Education Code Section 84362.

Open Enrollment

Compliance Requirement

Community college districts shall comply with *California Code of Regulations*, Title 5 provisions related to open enrollment by the general public for all courses being submitted for state apportionment funding.

Minimum Conditions – Standards of Scholarship

Compliance Requirements

Each district must adopt regulations and procedures consistent with the "Standards of Scholarship" contained in the *California Code of Regulations* and publish statements of those regulations under appropriate headings in their catalogs.

Student Fees – Instructional Material Fees and Health Fees

Compliance Requirements

If a district requires students to provide various types of instructional materials, the Board of Trustees of that district must have adopted policies or regulations regarding the authority of the district to require students to provide various types of instructional materials. The policies and regulations must specify the conditions under which such materials will be required, and they must be in accordance with the *California Code of Regulations*. With respect to health fees, the district must advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions.

Student Services

Matriculation – Uses of Matriculation Funds

Compliance Requirement

The District is required to use local funds to support at least 75 percent of the credit matriculation activities with the remaining expenditures claimable against the state credit matriculation allocation. All expenditures related to the allocation, both state and locally funded portions, must be consistent with the District's state–approved matriculation plan and identifiable as matriculation–related activities as authorized by the Seymour–Campbell Matriculation Act of 1986. This 25 percent state funds, 75 percent local funds ratio applies district–wide, not per college or within individual activity groups.

California Work Opportunity and Responsibility to Kids (CalWORKs)

Compliance Requirement

Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

Special Programs

Extended Opportunity Programs and Services (EOP&S) and Disabled Student Program and Services (DSPS) – Allocation of Costs

Compliance Requirement

Salaries of instructors teaching FTES generating classes, school counselors providing advisement, Student Services at the Dean level or above, and financial aid officers conducting need analysis are not considered supportable charges against either EOP&S or DSPS accounts unless their activities require them to perform additional functions for the EOP&S or DSPS programs that are beyond the scope of services provided to all students in the normal performance of the regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S or DSPS.

Educational Services

Noncredit Courses

Compliance Requirement

The District is required to be in compliance with noncredit apportionment criteria. They should have completed a self-assessment for each noncredit course.

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the Riverside Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2006.

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

Ahern • Adcock • Devlin LLP
Certified Public Accountants

October 27, 2006

By: Linda S. Devlin, CPA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Summary of Auditors' Results

June 30, 2006

Section I – Summary of Independent Auditors' Results

Financial Statements

Type of independent auditors' report issued:	Unqualified			
Internal control over financial reporting:				
• Material weaknesses identified?	____	Yes	√	No
• Reportable conditions identified that are not considered to be material weaknesses?	____	Yes	√	None reported
Noncompliance material to financial statements noted?	____	Yes	√	No

Federal Awards

Internal control over major programs:				
• Material weakness identified?	____	Yes	√	No
• Reportable conditions identified that are not considered to be material weaknesses?	√	Yes	____	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified			
Any audit findings disclosed that are required to be reported in accordance with Circular A–133, Section .510(a)?	√	Yes	____	No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007, 84.032, 84.033, 84.063	Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$646,540			
Auditee qualified as low–risk auditee?	√	Yes	____	No

State Awards

Internal control over state programs:				
• Material weaknesses identified?	____	Yes	√	No
• Reportable conditions identified not considered to be material weaknesses?	____	Yes	√	None reported
Type of auditors' report issued on compliance for state programs:	Unqualified			

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Audit Findings and Questioned Costs

Section II – Financial Statement Findings

There were no findings representing reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Awards Findings

Federal Program Information: U.S. Department of Education
Student Financial Aid Cluster – 84.007, 84.032, 84.033, and 84.063

06–1 Condition: Refund calculations were calculated incorrectly and some refunds were not returned to the Department of Education in a timely manner.

Criteria: When a recipient of Title IV grant or loan assistance withdraws from an institution, during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. The refund calculation is based on the number of days in a term and the date the student withdrew or dropped classes. Title IV refunds are required to be deposited or transferred to the Department of Education as soon as possible, but no later than 30 days after the date the institution determines that the student withdrew.

Questioned Costs: Unknown.

Context: We noted incorrect drop dates were used for several students during our testing of refund calculations. The date of determination used was the date that the refund calculation was performed instead of the date the last class was officially dropped in certain instances. In addition, we noted two drop reports that were run during Winter semester which listed students who had dropped during Fall semester. The refund calculations for these students were not performed timely.

Effect: The miscalculation of refunds resulted in an underpayment of funds to the Department of Education for several students selected for testing. The return of Title IV refunds were not made within the 30-day requirement in certain instances.

Cause: The calculation errors were due to backdating the drop dates in the computer and due to human error when determining the correct drop date. The date of determination error was due to not consistently selecting the appropriate determination date. The computer reports run during the Winter semester were done after determining a computer error had occurred in drop reports run during the Fall semester.

Section III – Federal Awards Findings (Continued)

Recommendation: We recommend a responsible individual within the Student Financial Services review the computer reports and computer programming in order to determine drop reports that include all Title IV students who dropped in the specified time period and that all computer programming is in accordance with Department of Education refund calculation requirements. We also recommend the Student Financial Services provide adequate training and supervision for staff responsible for refund calculations.

Management's Response: Information Services corrected the error that occurred on the Fall semester drop reports which resulted in the incorrect reporting of students who had withdrawn in a timely manner. Student Financial Services will provide adequate training and supervision of staff responsible for refund calculations.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Schedule of Audit Findings and Questioned Costs

Section IV – State Awards Findings

There were no findings representing instances of noncompliance related to the state program laws and regulations that are required to be reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Summary Schedule of Prior Audit Findings

Section II – Financial Statement Findings

There were no matters to report.

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Summary Schedule of Prior Audit Findings

Section III – Federal Awards Findings

Federal Program Information: U.S. Department of Education
Student Financial Aid Cluster – 84.007, 84.032, 84.033, and 84.063

05–1 Condition: Refund calculations for the Spring semester were calculated incorrectly and some refunds were not returned in a timely manner.

Recommendation: We recommend a responsible individual review refund calculations and recalculate the refunds to ensure accuracy. We also recommend the District include on their calendar the return of Title IV refunds due dates in order to ensure timely deposits.

Current Status: Partially implemented. The District corrected the error in the computer programming that caused Spring semester refunds to be calculated incorrectly. A breakdown in the process of calculating refunds still exists. See current year finding 06-1.

District Response: The Student Financial Services department will put in place procedures needed to ensure the proper calculation of Title IV refunds and the timely return of Title IV refunds.

Federal Program Information: U.S. Department of Education
Student Financial Aid Cluster – 84.007, 84.032, 84.033, and 84.063

05–2 Condition: Reports submitted to the National Student Clearinghouse (NSC) included inaccurate information on the status of students receiving Federal Family Education Loans (FFEL).

Recommendation: We recommend the software programming for Datatel be revised in order to capture the correct date.

Current Status: Implemented

Section III – Federal Awards Findings (Continued)

Federal Program Information: U.S. Department of Education
GEAR–Up/Passport Plus – 84.334A

05–3 Condition: The expenses were overstated on the annual report for GEAR–Up.

Recommendation: We recommend the personnel responsible for preparing reports review report preparation instructions in order to ensure that information provided is in accordance with report requirements. We also recommend someone other than the person preparing the report review and approve the report prior to submission.

Current Status: Implemented

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Summary Schedule of Prior Audit Findings

Section IV – State Awards Findings

05–4	**Condition:**	The EOP&S Advisory Committee did not meet during the academic year.
	Recommendation:	We suggest that the EOP&S Advisory Committee meet at least annually each academic year.
	Current Status:	Implemented

ADDITIONAL SUPPLEMENTARY INFORMATION

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Balance Sheet – All Governmental Funds

June 30, 2006

	General Unrestricted	General Restricted	Food Service	Child Development	R.C.C.D. Development Corporation
ASSETS					
Cash and cash equivalents	$13,361,369	$1,512,025	$221,688	$111,049	$16,253
Accounts receivable	5,352,238	3,655,537	14,300	39,969	
Due from other funds	85,929	1,106,264	6,539	155	
Prepaid expenses	23,042	37,676			
Stores inventory			28,916		
Total assets	$18,822,578	$6,311,502	$271,443	$151,173	$16,253
LIABILITIES AND FUND EQUITY					
Liabilities					
Accounts payable	$ 2,770,534	$1,356,659	$ 42,897	$ 50,089	
Due to other funds	2,176,068	316	1,272	927	
Deferred revenue	1,237,131	679,675		778	
Total liabilities	6,183,733	2,036,650	44,169	51,794	$ -
Fund equity					
Fund balances					
Reserved	23,042	4,274,852	28,916		
Unreserved					
Designated	900,000				
Undesignated	11,715,803		198,358	99,379	16,253
Total fund equity	12,638,845	4,274,852	227,274	99,379	16,253
Total liabilities and fund equity	$18,822,578	$6,311,502	$271,443	$151,173	$16,253

Capital Outlay Projects	Bond Interest and Redemption	Totals
$45,578,045	$11,820,288	$72,620,717
2,555,867		11,617,911
1,069,654		2,268,541
		60,718
		28,916
$49,203,566	$11,820,288	$86,596,803
$ 3,142,545		$ 7,362,724
		2,178,583
		1,917,584
3,142,545	$ -	11,458,891
		4,326,810
	11,820,288	12,720,288
46,061,021		58,090,814
46,061,021	11,820,288	75,137,912
$49,203,566	$11,820,288	$86,596,803

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Balance Sheet – Proprietary Funds

June 30, 2006

	Workers' Compensation	Health and Liability	Total
ASSETS			
Cash and cash equivalents	$1,886,736	$3,815,602	$5,702,338
Accounts receivable		64,368	64,368
Due from other funds	931		931
Total assets	$1,887,667	$3,879,970	$5,767,637
LIABILITIES AND FUND EQUITY			
Liabilities			
Deferred revenue		$1,059,268	$1,059,268
Claim liabilities	$1,581,482	895,281	2,476,763
Total liabilities	1,581,482	1,954,549	3,536,031
Fund equity			
Retained earnings	306,185	1,925,421	2,231,606
Total liabilities and fund equity	$1,887,667	$3,879,970	$5,767,637

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Balance Sheet – Fiduciary Funds

June 30, 2006

	Associated Students' Trust	Student Financial Aid	Total
ASSETS			
Cash and cash equivalents	$1,882,491	$114,856	$1,997,347
Accounts receivable	12,048	632,138	644,186
Due from other funds	35,024		35,024
Total assets	$1,929,563	$746,994	$2,676,557
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	$ 856,657	$660,358	$1,517,015
Due to other funds	39,277	86,636	125,913
Total liabilities	895,934	746,994	1,642,928
Fund equity			
Fund balances			
Unreserved			
Undesignated	1,033,629	-	1,033,629
Total fund equity	1,033,629	-	1,033,629
Total liabilities and fund equity	$1,929,563	$746,994	$2,676,557

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Balance Sheet Reconciliation

June 30, 2006

Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balance and due to student groups:		
General funds	$16,913,697	
Special revenue funds	342,906	
Debt service funds	11,820,288	
Capital project funds	46,061,021	
Internal service funds	2,231,606	
Fiduciary funds	1,033,629	$ 78,403,147
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	181,228,414	
Accumulated depreciation is	(38,126,760)	143,101,654
Amounts held in trust on behalf of others (fiduciary funds)		(1,033,629)
In governmental funds, unmatured interest on long–term debt is recognized in the period when it is due. On the government–wide statements, unmatured interest on long–term debt is recognized when it is incurred.		(1,246,044)
Long–term liabilities at year–end consist of:		
General obligation bond	(66,936,109)	
Net debt premium	(5,031,448)	
Compensated absences (vacations)	(1,549,605)	
Load banking	(636,553)	
Golden Handshake	(1,144,395)	(75,298,110)
Total net assets		$143,927,018

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Funds

For the Year Ended June 30, 2006

	General Unrestricted	General Restricted	Food Service	Child Development	R.C.C.D. Development Corporation
Revenues					
Federal revenues	$ 52,802	$ 7,777,935		$ 21,596	
State revenues	72,179,819	7,214,054		130,172	
Local revenues	47,328,097	4,319,175	$1,221,257	992,400	$ 17
Total revenues	119,560,718	19,311,164	1,221,257	1,144,168	17
Expenditures					
Current expenditures					
Academic salaries	55,384,964	2,993,932		837,349	
Classified salaries	23,080,254	6,087,509	624,505	165,242	
Employee benefits	20,190,941	2,574,182	229,286	199,107	
Books and supplies	1,827,852	1,562,465	689,248	41,684	
Services and other operating expenses	11,938,935	3,549,055	103,355	49,942	
Capital outlay	5,740,181	3,034,636	468	2,014	
Debt service - principal					
Debt service - interest and other					
Total expenditures	118,163,127	19,801,779	1,646,862	1,295,338	
Excess of revenues over (under) expenditures	1,397,591	(490,615)	(425,605)	(151,170)	17
Other financing sources (uses)					
Operating transfers-in	1,123,870	1,559,561	356,930	220,000	
Operating transfers-out	(2,636,491)				
Other sources	6,559				
Other uses		(336,723)			
Total other financing sources (uses)	(1,506,062)	1,222,838	356,930	220,000	
Excess of revenues and other financing sources over (under) expenditures and other uses	(108,471)	732,223	(68,675)	68,830	17
Fund balances					
Beginning of year	12,747,316	3,542,629	295,949	30,549	16,236
End of year	$ 12,638,845	$4,274,852	$ 227,274	$ 99,379	$16,253

Capital Outlay Projects	Bond Interest and Redemption	Totals
		$ 7,852,333
$ 5,371,019	$ 150,452	85,045,516
2,154,008	11,421,932	67,436,886
7,525,027	11,572,384	160,334,735
		59,216,245
		29,957,510
		23,193,516
25,307		4,146,556
262,810		15,904,097
27,890,269		36,667,568
	4,720,000	4,720,000
	2,151,034	2,151,034
28,178,386	6,871,034	175,956,526
(20,653,359)	4,701,350	(15,621,791)
		3,260,361
(1,123,870)		(3,760,361)
9,035,971		9,042,530
	(1,100)	(337,823)
7,912,101	(1,100)	8,204,707
(12,741,258)	4,700,250	(7,417,084)
58,802,279	7,120,038	82,554,996
$46,061,021	$11,820,288	$ 75,137,912

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Proprietary Funds

For the Year Ended June 30, 2006

	Workers' Compensation	Health and Liability	Total
Operating revenues			
Local revenues	$1,150,767	$4,408,195	$5,558,962
Operating expenditures			
Classified salaries	42,340	139,672	182,012
Employee benefits	13,915	44,825	58,740
Books and supplies	1,071	3,307	4,378
Services and other operating expenditures	1,593,640	2,868,095	4,461,735
Capital outlay		37,756	37,756
Total operating expenditures	1,650,966	3,093,655	4,744,621
Excess of revenues over (under) expenditures	(500,199)	1,314,540	814,341
Nonoperating revenues			
Operating transfers in		500,000	500,000
Total nonoperating revenues		500,000	500,000
Net income (loss)	(500,199)	1,814,540	1,314,341
Fund balances			
Beginning of year	806,384	110,881	917,265
End of year	$ 306,185	$1,925,421	$2,231,606

RIVERSIDE COMMUNITY COLLEGE DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances
Fiduciary Funds

For the Year Ended June 30, 2006

	Associated Students' Trust	Student Financial Aid	Total
Revenues			
Federal revenues		$13,628,399	$13,628,399
State revenues		1,420,655	1,420,655
Local revenues	$ 590,082		590,082
Total revenues	590,082	15,049,054	15,639,136
Expenditures			
Books and supplies	297,202		297,202
Services and other operating expenses	245,591		245,591
Capital outlay	46,328		46,328
Total expenditures	589,121	-	589,121
Excess of revenues over expenditures	961	15,049,054	15,050,015
Other financing sources (uses)			
Other sources	21,057		21,057
Other uses		(15,049,054)	(15,049,054)
Total other financing sources (uses)	21,057	(15,049,054)	(15,027,997)
Excess of revenues and other financing sources over expenditures and other uses	22,018	-	22,018
Fund balances			
Beginning of year	1,011,611	-	1,011,611
End of year	$1,033,629	$ -	$1,033,629