# PALOMAR COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

**JUNE 30, 2016**

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**TABLE OF CONTENTS**
**JUNE 30, 2016**

## *FINANCIAL SECTION*

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Palomar Community College District
San Marcos, California

## Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Palomar Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the 2015-2016 *Contracted District Audit Manual*, issued by the California Community Colleges Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



9810 Scripps Lake Drive, Suite H San Diego, CA 92131-1001 Tel: 858-444-1726 www.vtdcpa.com

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 22, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 70, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 71, and the Schedule of District Contributions on page 72, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 20, 2016

PALOMAR COLLEGE®
Learning for Success
1140 West Mission Road, San Marcos, California 92069-1487 • 760-744-1150 • www.palomar.edu



The Management's Discussion and Analysis (MD&A) of Palomar Community College District of San Marcos, California (d/b/a Palomar College, the District, or the College) provides an overview of the District's financial activities and results of operations for the years ended June 30, 2016 and 2015. The District's administration prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Readers of the financial statements, including the MD&A, are encouraged to review the notes to the basic financial statements to enhance their understanding of the District's financial performance. Responsibility for the completeness and fairness of this information rests with the District's administration.

The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, has recommended that all State community college districts follow the Business-Type Activity (BTA) model for financial statement reporting purposes. The District is following the BTA model, which presents the financial statements using the full accrual basis of accounting.

As required by the Governmental Accounting Standards Board (GASB) reporting standards, the annual report consists of the following components that provide information on the District as a whole:

- Management's Discussion and Analysis
- Basic financial statements including the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows
- Notes to Financial Statements

***THE COLLEGE***

The California community colleges form the largest system of higher education in the nation composed of 72 districts encompassing 113 colleges serving approximately 2.1 million students per year. Community colleges supply certificate and degree programs, basic skills, and preparation for transfer to four-year institutions.

Palomar Community College District is a comprehensive single-college district and is the largest single community college district in San Diego County. The main campus is situated on 200 acres located in the City of San Marcos, about 30 miles from the City of San Diego. In addition to the San Marcos campus, the District operates an education center in the City of Escondido and offers classes throughout the northern communities of San Diego County: Camp Pendleton, Fallbrook High School, Mt. Carmel High School, Ramona High School, and Pauma Indian Reservation. Other instructional sites are located at the Public Safety Training Center in San Marcos, San Diego Carpenters Training Center, San Diego Electrical Training Center, San Diego Sheet and Metal Training Center, and Riverside and San Bernardino Joint Electrical Apprenticeship Training Center. To increase educational opportunities in the under-served areas of the District, Palomar College plans to establish two new State-approved educational centers, one near Fallbrook and another in Rancho Bernardo. The District plans to offer classes at both sites beginning in 2018.

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## JUNE 30, 2016

Palomar Community College District, a political subdivision of the State of California, was founded in 1946. It has been an important provider of higher education and training to the 2,555 square miles of the District's service area. The District is a public, two-year community college, serving approximately 25,000 students per semester. Approximately 31 percent of the students are enrolled full-time, while about 62 percent are enrolled part-time in credit courses, and 7 percent are enrolled in noncredit courses. About 63 percent of our students are 24 and under, while 37 percent are 25 and older. At Palomar, students may choose from a variety of courses and programs offered through face-to-face, distance education, or in a hybrid format that lead to associate degrees, certificates of achievement, and/or transfer to four-year institutions.

The College is organized into five instructional divisions: 1) Arts, Media, Business and Computer Science; 2) Career, Technical, and Extended Education; 3) Languages and Literature; 4) Mathematics and the Natural and Health Sciences; and 5) Social and Behavioral Sciences. Within those five divisions, the College offers 162 associate degrees and 155 certificates of achievement programs that meet the California Education Code of Regulations, Title 5 curriculum requirements. It also provides noncredit community development and personal entitlement courses for lifelong learning.

A community-elected five-member Board governs Palomar Community College District. Trustees are elected for four-year staggered terms. The Governing Board also seats an elected student trustee as a non-voting member. The Governing Board establishes policies, assures fiscal stability, and monitors the institutional performance and educational quality consistent with the mission and goals of the College. The Board appoints the Superintendent/President of the College, and all administrators are selected using appropriate State Chancellor's Office guidelines and District policies.

The College's mission statement, consisting of the vision, mission, and values, was last revised in 2013 and adopted by the Board in January 2014. Palomar College's vision is "***Learning for Success***". The District's mission is "*to provide an engaging teaching and learning environment for students of diverse origins, experiences, needs, abilities, and goals. As a comprehensive community college, we support and encourage our students who are pursuing transfer-readiness, general education, basic skills, career and technical training, aesthetic and cultural enrichment, and lifelong education*". Palomar College is dedicated to empowering students to succeed and cultivating an appreciation of learning. In March 2010, the Strategic Planning Council and Budget Committee formulated an Integrated Planning, Evaluation, and Resource Allocation Decision-Making Model (IPM) and a Resource Allocation Model (RAM). All fiscal and budget decisions have been made with the College's core mission in mind.

Palomar College is accredited through the Accrediting Commission for Community and Junior Colleges (ACCJC) and the Western Association of Schools and Colleges. The College has transfer agreements with the California State University and University of California systems, and its high-level coursework in transferable classes fully prepares students for success at four-year colleges and universities. In June 2015, the ACCJC reaffirmed Palomar College's accreditation, recognizing how well the College is achieving its stated purpose and meeting the Commission standards.

In August 2003, Palomar Community College District completed the comprehensive Educational and Facilities Master Plan 2022 containing the identified needs of the District: construction of new instructional and support buildings, modernization of existing buildings, infrastructure upgrades, and the development of two educational centers. In the November 2006 General Election, voters approved Proposition M, a $694 million educational facilities improvement bond. The total proposition is funded through the sale of several series of bonds with the first three series sold in May 2007 (Series A), November 2010 (Series B), and April 2015 (Series C), respectively. As of June 30, 2016, a total of $570 million of the 2006 authorization had been sold and proceeds are being used to fund approved projects. An Independent Citizens' Oversight Committee (ICOC) reviews the expenditure of funds to ensure that bond revenues are expended only for projects to be conducted in completion of Master Plan 2022. As a governmental unit, the District's financing activities and choices are bound by Federal and State restrictions.

Palomar Community College District is primarily dependent upon the State of California for funding of educational and support programs. Senate Bill 361 (Ch. 631, Stats. 2006) established the community college funding system. The sources for the Apportionment consist of three primary components: general apportionment, local property taxes, and student enrollment fees.

The County of San Diego is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the County. The County apportions property tax revenues in accordance with Section 4705 of the California Revenue and Taxation Code. Property taxes are recorded as local revenue source by the District.

The California Community College Chancellor's Office reduces the District's "Total Computational Revenue" entitlement by the District's local property tax revenue and student enrollment fees. The balance is paid from the State's General Fund and is referred to as the State's apportionment. The Chancellor's Office calculates the Base Revenue three times each year and retroactively for one fiscal year. Each district does not know the final recalculation until as late as the First Principal Apportionment (P1), which is usually released in February following the end of the fiscal year.

The District's base revenue is the amount of general purpose tax revenue, per Full-time Equivalent Student (FTES), that the District is entitled by law. In 2015-2016, the funded rate for credit FTES and non-credit CDCP FTES is $4,723.60 as specified in the Principal Apportionment Report. The non-credit FTES rate is $2,840.43. The Basic Allocation for Palomar continues to reflect a designation as a large district with over 19,880 FTES and one center with over 994 FTES.

## *FINANCIAL AND ATTENDANCE HIGHLIGHTS FOR THE FISCAL YEAR 2015-2016*

- The 2015-2016 Budget Act reflects the State's continued reinvestment in public education, with greater funding augmentations for the California Community Colleges system. Specifically, the 2015-2016 Budget Act provided for 3.0 percent funding for access ($156.5 million), 1.02 percent ($61 million) for Cost of Living Adjustment (COLA), $266 million for general operating increase, $200 million increase in the Student Success and Support Program, $29 million for Apprenticeship programs, $2.5 million COLA for EOPS, DSPS, CalWORKS, and Childcare Tax Bailout Programs, $148 million for deferred maintenance, instructional equipment, and drought resistance, $94.5 million to eliminate system deferrals, $632 million to pay down mandates (allocated per FTES), and $38.7 million for Proposition 39.

- Fiscal year 2015-2016 ended with a strong unrestricted fund balance of $21.8 million or 19.8 percent of expenditures. The District benefited from increased State funding levels (i.e. Prior Year Apportionment adjustments, Prop 39, categorical programs, etc.), and savings resulting from the Supplemental Employee Retirement Plan offered in 2014-2015. The District has also joined SISC (Self-Insured Schools of California) in an effort to control its health care costs.

- Salaries and benefits continue to comprise the largest portion of the District's expenses. In 2015-2016, 85.8 percent of the unrestricted funds were spent on salaries and benefits.

- The District met or exceeded all Federal and State mandate requirements including the 50% Law and Faculty Obligation Numbers (FON).

- The District entered into its first year of Stabilization period and reported 16,603 Full-Time Equivalent Students (FTES) on the 2015-2016 Annual Attendance Report, representing 18.2 percent below base. The recent decline in enrollment is attributable to a convergence of factors including changes in the State's course enrollment repeatability policy, changes in financial aid regulations, slight reductions in unemployment, and an improved economy. Budget Stability, Title 5 CCR § 58776, provides a one-year "hold harmless" for declines in FTES during which the District receives at least the same funding for enrollment as the prior year. The State applied $14.2 million in stability funds to the District's Apportionment calculation despite the reduction in FTES. In the subsequent three years, Palomar is eligible for Restoration, which allows the District to generate FTES back to or above the pre-decline base and potentially earn any reductions in Apportionments. Restoration covers three years following the initial year of FTES decline (Education Code § 84750.5).

- The District is funding its Other Postemployment Benefit (OPEB) obligation in advance through its Annual Required Contribution (ARC) in accordance with GASB Statement No. 45. This represents the cost of providing postemployment health and dental benefits to eligible employees through a closed single employer defined benefit plan. As part of the funding plan, the District maintains a post-retirement benefits fund to designate resources for retiree health costs and an irrevocable trust fund established with the Community College League of California. Future expenditures to fund the OPEB obligation will be dependent on actuarial studies completed every two years.

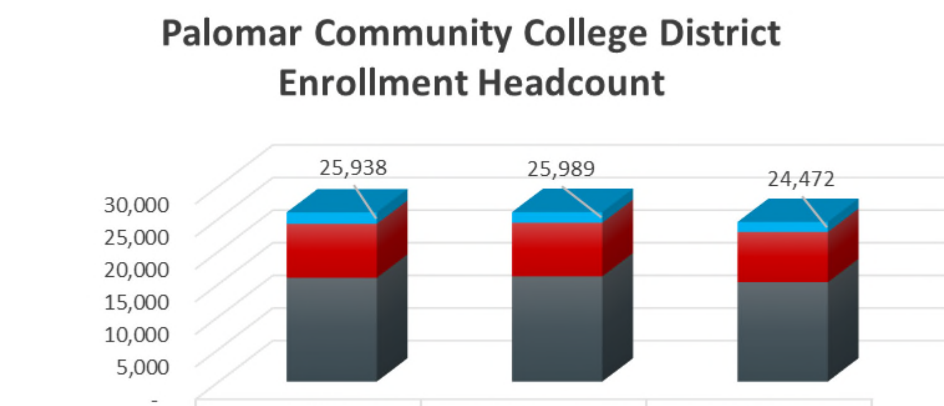
- Mandated block grant continued at $28 per FTES.

- The District met all of its repayment obligations for Proposition M General Obligation Bonds.

- Under AB 1469, the CalSTRS employer contribution rate for fiscal year 2015-2016 was 10.73 percent, an increase of 1.85 percent over fiscal year 2014-2015. The CalPERS employer contribution rate for fiscal year 2015-2016 was 11.85 percent, an increase of .08 percent over the prior year.

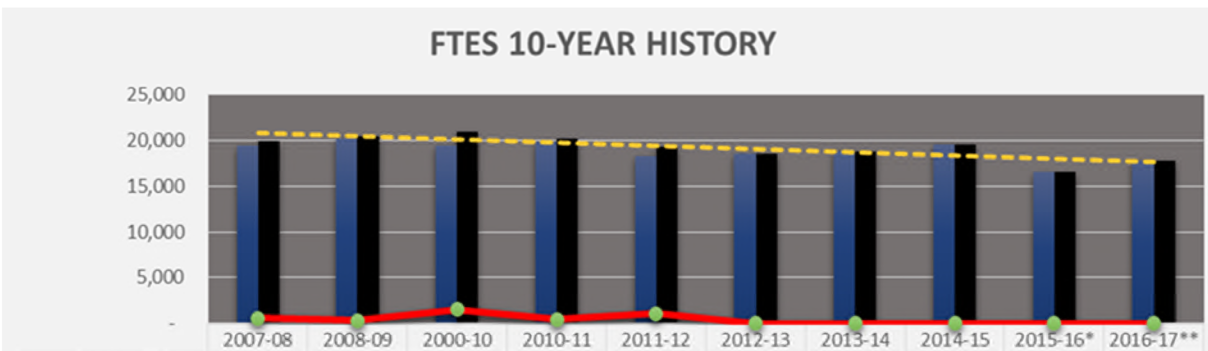
- The District has consistently maintained a 7.0 percent Governing Board reserve level for contingencies and expansion.

***ENROLLMENT TRENDS***




| | Fall 2013 | Fall 2014 | Fall 2015 |
|---|---|---|---|
| Non-Credit | 1,746 | 1,641 | 1,531 |
| Full-Credit | 8,265 | 8,212 | 7,702 |
| Part-Time Credit | 15,927 | 16,136 | 15,239 |

Part-Time Credit   Full-Credit   Non-Credit




| | 2007-08 | 2008-09 | 2000-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16* | 2016-17** |
|---|---|---|---|---|---|---|---|---|---|---|
| Funded FTES | 19,469 | 20,183 | 19,438 | 19,797 | 18,292 | 18,531 | 18,802 | 19,630 | 16,603 | 17,800 |
| Actual FTES | 20,005 | 20,461 | 20,958 | 20,251 | 19,368 | 18,531 | 18,802 | 19,630 | 16,603 | 17,800 |
| Unfunded FTES | 536 | 278 | 1,520 | 454 | 1,077 | - | - | - | - | - |

Funded FTES   Actual FTES   Unfunded FTES   Linear (Actual FTES)

*****Projected (Final numbers will be released by the Chancellor's Office at Recalculation, February 2017)
******The District has made conservative revenue assumptions for all major sources of funding for the next fiscal year. Enrollment revenue for fiscal year 2016-2017 is conservatively based on 17,800 Target FTES.

## *OVERVIEW OF THE FINANCIAL STATEMENTS*

Palomar Community College District's financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These entity-wide financial statements focus on the District as a whole, whereby all of the District's overall financial activities and results of operations are consolidated into one total rather than the traditional presentation of individual fund groups.

Effective for the year ended June 30, 2015, the District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These standards introduce and define *deferred outflows of resources* and *deferred inflows of resources* as elements of the annual financial report and incorporate these elements in the computation of the District's net position, previously referred to as net assets. These elements represent the consumption (deferred outflow) or acquisition (deferred inflow) of resources by the District that are applicable to a future reporting period, but do not require any further exchange of goods or services. As prescribed by GASB Statements No. 63 and No. 65, certain prior period amounts have been reclassified to conform to the current year's presentation.

Effective for the year ended June 30, 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These new statements require that the District reflect its proportionate share of pension liabilities in the financial statements. Previously, these pension liabilities were only reflected in the State of California's financial statements. As a result, most K-14 districts will show a negative net position on their financial statements.

Included in this discussion is an analysis of the District's Statement of Net Position, which presents the assets, liabilities, and the net position of the District and, when applicable, deferred outflows of resources and deferred inflows of resources as of the end of the fiscal years June 30, 2016 and 2015. The Statement of Revenues, Expenses, and Changes in Net Position reflects revenues and expenses recognized during the fiscal year. Further, the Change in Cash Position provides information about cash receipts and cash payments during the fiscal year.

## *STATEMENT OF NET POSITION*

The Statement of Net Position presents all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the District as a whole. It is prepared using the full accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Position provides a snapshot of the District's overall financial condition as of June 30, 2016.

Assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally measured using current values. One exception is capital assets, which are stated at historical cost less an allowance for depreciation. Deferred outflows and deferred inflows of resources are recognized through the consumption or acquisition of resources by the District that is applicable to a future reporting period.

**Assets**

The District's assets consist of cash, investments, net accounts receivable, capital assets, and other assets. These assets are resources with present capability to enable the College to provide services and continue its operations.

Current cash and investments consist mainly of unrestricted and restricted cash in the County Treasury ($331.3 million). The change from last year reflects the use of the funds on capital projects. The Statement of Cash Flows included in these financial statements provides greater detail of the sources and uses of District's cash during fiscal year 2015-2016.

Accounts receivables include income earned but not received from State and Federal grants, interest income, and lottery revenues. Other current assets include prepayments to vendors for goods or services that will not be received until the following fiscal year.

The net increase in capital assets of $19.8 million relates primarily to the Measure M bond construction spending. "Total Assets" include the value of capital assets (net of accumulated depreciation).

**Deferred Outflows of Resources**

Deferred outflows of resources include amounts associated with the refunding of debt and pension contributions made during the fiscal year that are removed from expenses. The net increase of $14.2 million from last year reflects increases in statutory rates for pension contributions.

**Liabilities**

The liabilities of the District consist of current liabilities and long-term obligations. The major components of the current liabilities outstanding debt and related interest payable, accrued payroll, State apportionment liability, and amounts payable to vendors. A decrease of $1.3 million in Accounts Payable and Accrued Liabilities relates to more timely receipt and payment of invoices.

Long-term obligations are debt with maturities of more than one year, which consist of General Obligation Bond repayments, Lease Revenue Bonds, compensated absences payable, load banking, PARS Supplemental Early Retirement Program (SERP) obligation, net OPEB obligation, and aggregate net pension liability.

**Deferred Inflows of Resources**

Deferred inflows of resources represent pension costs, resulting from the difference between projected and actual earnings on pension plan investments. This amount is deferred and amortized over five years.

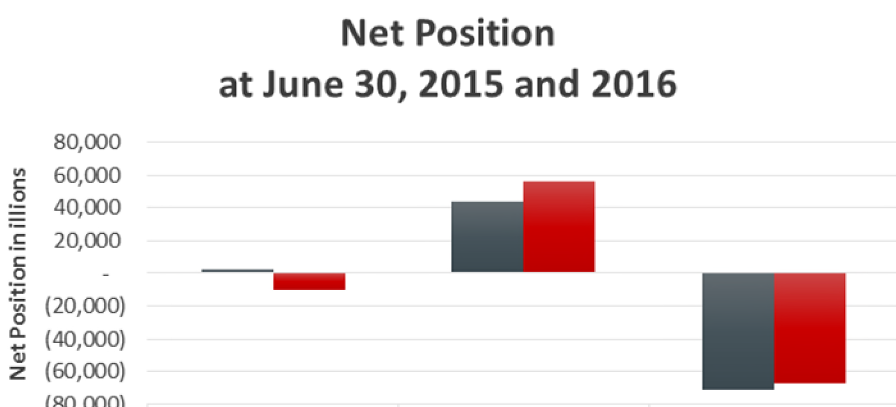
**Net Position**

The total net position is one indicator of the District's financial health. Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The change in net position reveals whether the overall financial condition has improved or worsened during the year. Over time, increases or decreases in net position will point out the improvement or erosion of the District's financial health when considered with nonfinancial facts, such as enrollment levels, State changes in funding, facility changes, etc.

Net position represents residual District assets and deferred outflows after liabilities and deferred inflows are deducted. The net position is categorized between net investment in capital assets, restricted net assets, and unrestricted net assets. The net investment in capital assets represents the equity amount in property, plant, and equipment owned by the District. Restricted net position represents funds that are limited in terms of the purpose and time for which the funds can be spent. It is subject to externally imposed restrictions governing their use. Unrestricted net position is defined by GASB Statements No. 34 and No. 35 as those assets that do not have external legal restrictions against them, including any amounts designated by the Governing Board.

GASB Statements No. 68 and No. 71 require all governmental agencies to report their proportional shares of net pension liabilities, resulting in a negative net position for the District.

The District's Net Position shows an overall increase of $3.7 million from the prior year.




| | Investment in Capital Assets | Restricted | Unrestricted |
|---|---|---|---|
| 2014-15 | 2,241 | 43,895 | (70,894) |
| 2015-16 | (9,896) | 56,039 | (67,185) |

***STATEMENT OF NET POSITION FOR FISCAL YEARS 2016 AND 2015***

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2016 and 2015, is presented below:

***THE DISTRICT AS A WHOLE***

**Net Position**

(Amounts in thousands)

| | 2016 | 2015 | Change |
|---|---|---|---|
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | $ 331,341 | $ 348,784 | $ (17,443) |
| Accounts receivable (net) | 12,663 | 7,801 | 4,862 |
| Other current assets | 478 | 187 | 291 |
| Total Current Assets | 344,482 | 356,772 | (12,290) |
| Capital Assets (net) | 360,591 | 340,792 | 19,799 |
| Total Assets | 705,073 | 697,564 | 7,509 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charge on refunding | 10,028 | 13,271 | (3,243) |
| Current year pension contribution | 21,349 | 7,122 | 14,227 |
| Net change in proportionate share of net pension obligation | - | 68 | (68) |
| Total Deferred Outflows | 31,377 | 20,461 | 10,916 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 19,034 | 20,294 | (1,260) |
| Unearned revenue | 5,172 | 3,550 | 1,622 |
| Current portion of long-term debt | 12,834 | 5,839 | 6,995 |
| Total Current Liabilities | 37,040 | 29,683 | 7,357 |
| Long-Term Obligations | 697,718 | 689,267 | 8,451 |
| Total Liabilities | 734,758 | 718,950 | 15,808 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Difference between projected and actual earnings on pension plan investments | 22,734 | 23,833 | (1,099) |
| NET POSITION | | | |
| Net investment in capital assets | (9,896) | 2,241 | (12,137) |
| Restricted | 56,039 | 43,895 | 12,144 |
| Unrestricted | (67,185) | (70,894) | 3,709 |
| Total Net Position | $ (21,042) | $ (24,758) | $ 3,716 |

## *STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION*

The Statement of Revenues, Expenses, and Changes in Net Position presents the District's financial results of operations for the fiscal year. The revenues and expenses are categorized as operating and nonoperating, and expenses are reported by natural classification. The purpose of this statement is to report the operating and nonoperating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District.

### Operating Revenues and Expenses

Generally, operating revenues are earned for providing educational and programmatic services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire goods or provide services in return for the operating revenues used to fulfill the mission of the District.

The operating revenues are generated by the resident enrollment fees, non-resident, and out-of-State tuition paid by students, including fees such as health fees, parking fees, and other related fees. The decrease in Total Operating Revenues directly related to the decrease in enrollment.

The primary operating expenses of the District are for the salaries and benefits of academic, classified, and administrative personnel, comprising of $111.6 million or 62.7 percent of the total operating expenses from a District-wide full accrual perspective. This amount includes the activity from all District funds. These costs decreased $9.7 million from the previous fiscal year, from $121.3 million to $111.6 million. The net decrease is primarily due to the number of faculty, classified, and management employees who participated in the Supplemental Early Retirement Plan at the end of fiscal year 2014-2015.

Given all community colleges' dependency on revenues such as State appropriations, property taxes, sales taxes and other revenues, and investment income, which are prescribed by GASB as nonoperating revenues, operating expenses exceed operating revenues, resulting in a loss on operations.

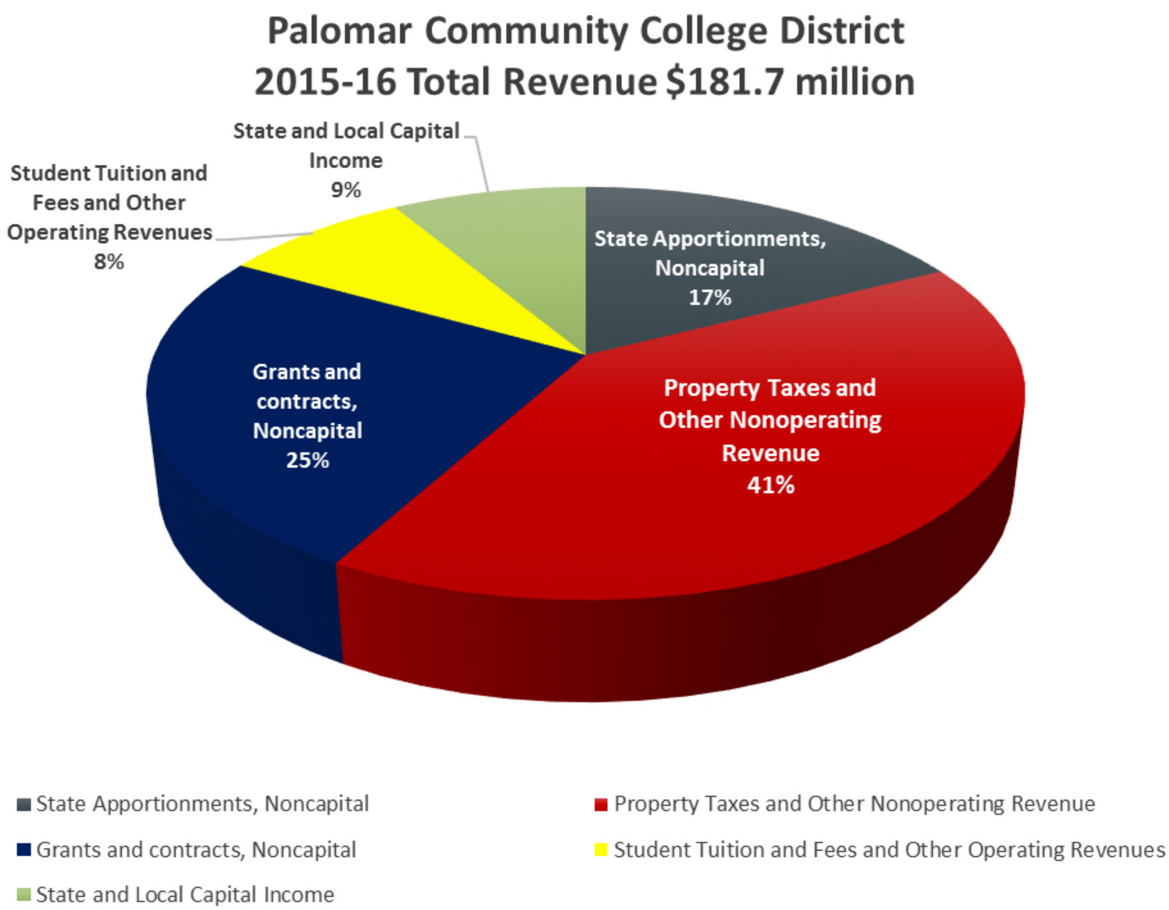
### Nonoperating Revenues and Other Revenues

Nonoperating revenues and other State and local revenues are those received or pledged for which goods and services are not provided to the entity providing the revenues. For example, State appropriations are nonoperating revenues because they are provided by the State Legislature to the District without the Legislature directly receiving commensurate goods and services for the revenues. Total nonoperating revenues or expenses are an integral component in determining the increases or decreases in net position.

### Total Revenue

Total operating, nonoperating, and other revenues increased $14.1 million, a 8.4 percent increase from $167.6 million to $181.7 million mainly due to increases in Federal and State categorical programs, adjustments to the Prior Year Apportionment, increases in State Lottery allocations, and COLA. Grants and contracts are received from Federal, State, and local sources and are used for instructional and student support activities. Property taxes received through the Auditor-Controller's Office for San Diego County also increased by $13.7 million or 18.6 percent; however, the amount received for property taxes is deducted from the total apportionment amount calculated by the State for the District.

The following chart shows the sources of revenue to the District. The largest sources are Property Taxes and Other Nonoperating Revenue (41 percent), Grants and Contracts – Noncapital (combined Federal and State, 25 percent) and State Apportionments, Noncapital (17 percent), which is derived from the State's funding formula for community colleges.




As presented in the Statement of Revenues, Expenses, and Changes in Net Position, total revenues were $181.7 million while total expenditures were $177.9 million. The cumulative effect of the GASB Statements No. 68 and No. 71 change in accounting principles resulted in a $3.8 million increase to the District's net position as of June 30, 2016.

A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2016 and 2015, is presented below:

**Operating Results for Fiscal Years 2016 and 2015**

(Amounts in thousands)

| | 2016 | 2015 | Change |
|---|---|---|---|
| Operating Revenues | | | |
| Tuition and fees, net | $ 14,959 | $ 16,061 | $ (1,102) |
| Auxiliary sales and charges | 112 | 93 | 19 |
| Total Operating Revenues | 15,071 | 16,154 | (1,083) |
| Operating Expenses | | | |
| Salaries and benefits | 111,639 | 121,286 | (9,647) |
| Supplies, maintenance, and equipment | 39,369 | 35,302 | 4,067 |
| Student financial aid | 20,293 | 19,508 | 785 |
| Depreciation | 6,657 | 5,681 | 976 |
| Total Operating Expenses | 177,958 | 181,777 | (3,819) |
| Loss on Operations | (162,887) | (165,623) | 2,736 |
| Nonoperating Revenues | | | |
| State apportionments, noncapital | 31,781 | 29,780 | 2,001 |
| Property taxes | 87,523 | 73,820 | 13,703 |
| Grants and contracts, noncapital | 45,583 | 41,163 | 4,420 |
| State taxes and other revenues | 4,953 | 5,146 | (193) |
| Investment income | 1,686 | 779 | 907 |
| Other nonoperating revenues (expenses), net | (20,480) | (2,348) | (18,132) |
| Total Nonoperating Revenue | 151,046 | 148,340 | 2,706 |
| Other Revenues | | | |
| State and local capital income | 15,557 | 3,089 | 12,468 |
| Net Change in Net Position | $ 3,716 | $ (14,194) | $ 17,910 |

The following represents the fiscal year 2016 operating expenses by function:

| | Salaries | Employee Benefits | Supplies, Material, and Other Expenses and Services | Equipment, Maintenance, and Repairs | Student Financial Aid | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Instructional activities | $ 38,138 | $ 12,098 | $ 5,196 | $ 836 | $ - | $ - | $ 56,268 |
| Academic support | 13,545 | 5,243 | 7,351 | 1,195 | - | - | 27,334 |
| Student services | 13,227 | 3,994 | 2,683 | 525 | 198 | - | 20,627 |
| Plant operations and maintenance | 3,479 | 2,032 | 5,443 | 2,744 | - | - | 13,698 |
| Instructional support services | 8,360 | 7,463 | 4,410 | 577 | - | - | 20,810 |
| Community services and economic development | 151 | 54 | 11 | 35 | - | - | 251 |
| Ancillary services and auxiliary operations | 2,789 | 1,066 | 586 | 33 | - | - | 4,474 |
| Student aid | - | - | - | - | 20,095 | - | 20,095 |
| Physical property and related acquisitions | - | - | 2,636 | 5,108 | - | - | 7,744 |
| Unallocated depreciation | - | - | - | - | - | 6,657 | 6,657 |
| Total | $ 79,689 | $ 31,950 | $ 28,316 | $ 11,053 | $ 20,293 | $ 6,657 | $ 177,958 |

***STATEMENT OF CASH FLOWS***

The Statement of Cash Flows is presented using the direct method and provides analysis related to cash inflows and outflows, summarized by operating, capital and noncapital financing, and investing activities, and illustrates the sources and uses of cash. This statement allows the reader to assess the District's ability to generate positive cash flows, meet obligations as they become due, and evaluate the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. Cash receipts from operating activities are from student tuition and from Federal, State, and local grants. The primary operating expense of the District is the payment of salaries and benefits to faculty, administrators, and classified staff.

The second part of the Cash Flow details cash received for nonoperating, non-investing, and noncapital financing purposes. General apportionments, property taxes, and Federal and State grants and contracts are the primary sources in noncapital financing activities.

The third part shows cash flows from capital and related financing activities. This part deals with the cash used for acquisition and construction of capital and related items.

The fourth part provides information on investing activities and the amount of interest received. Cash from investing activities consists of interest earned on cash in bank and cash invested through the San Diego County Treasury.

The last part reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

The Statement of Cash Flows for the fiscal years ended June 30, 2016 and 2015, is presented below:

(Amounts in thousands)

| | 2016 | 2015 | Change |
|---|---|---|---|
| Cash Provided by (Used in) | | | |
| Operating activities | $ (161,273) | $ (143,852) | $ (17,421) |
| Noncapital financing activities | 147,133 | 142,883 | 4,250 |
| Capital financing activities | (4,989) | 227,828 | (232,817) |
| Investing activities | 1,686 | 779 | 907 |
| Net Increase (Decrease) in Cash | (17,443) | 227,638 | (245,081) |
| Cash, Beginning of Year | 348,784 | 121,146 | 227,638 |
| Cash, End of Year | $ 331,341 | $ 348,784 | $ (17,443) |

## *CAPITAL ASSET AND DEBT ADMINISTRATION*

### Capital Assets

As of June 30, 2016, the District had $360.6 million invested in net capital assets. The District continues to implement its long-range plan to modernize and renew its instructional and support services facilities to fulfill its mission. Construction in progress reflects multi-year projects which, once completed and placed into service, are generally categorized as capital assets. Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. However, capital assets, net of accumulated depreciation, are added to total net position.

Projects completed during the fiscal year 2015-2016 include:

- Baseball Field Complex
- Early Childhood Education (ECE) Lab School (formerly Child Development Center)

Projects in progress during the fiscal year 2015-2016 include:

- Building A Remodel
- Parking Lot 12 - Parking Structure and Police Substation
- Library and Learning Resource Center
- South Education Center
- LL Building Remodel (Student Services One-Stop Shop)
- Maintenance and Operations Building

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

(Amounts in thousands)

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---|---|---|---|
| Land and construction in progress | $ 131,234 | $ 25,689 | $ 32,533 | $ 124,390 |
| Buildings and improvements | 245,637 | 32,533 | - | 278,170 |
| Furniture and equipment | 20,319 | 772 | 604 | 20,487 |
| Subtotal | 397,190 | 58,994 | 33,137 | 423,047 |
| Accumulated depreciation | (56,398) | (6,657) | (599) | (62,456) |
| | $ 340,792 | $ 52,337 | $ 32,538 | $ 360,591 |

**Obligations**

As of June 30, 2016, the District had $710.6 million in debt primarily made up of general obligation and lease revenue bonds. Note 10 to the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below:

(Amounts in thousands)

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---|---|---|---|
| General obligation and lease revenue bonds | $ 599,598 | $ 7,502 | $ 7,320 | $ 599,780 |
| Aggregate net pension obligation | 84,411 | 15,351 | - | 99,762 |
| Other liabilities | 11,097 | 7,205 | 7,292 | 11,010 |
| Total Long-Term Obligations | $ 695,106 | $ 30,058 | $ 14,612 | $ 710,552 |
| | | | | |
| Amount due within one year | | | | $ 12,834 |

## *DISTRICT FIDUCIARY RESPONSIBILITY*

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

### *2016-2017 BUDGET HIGHLIGHTS*

The State economy continues to improve and Community Colleges are receiving revenue increases to Apportionments and categorical programs. The 2016-2017 Budget Act was passed by the Legislature on June 15, 2016 and signed by the Governor on June 27, 2016. The State has focused primarily on three main areas of higher education: access, affordability, and performance. The 2016-2017 Budget Act included the following adjustments:

- An increase of $114 million Proposition 98 General Fund for 2-percent Growth in Full-Time Equivalent Students. Since the District is currently in Stabilization/Restoration period, pre-decline FTES level must be fully restored in order to access Growth.

- An increase of $75 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, and other general expenses. Approximately $5.4 million of base increase is in the District's budget.

- An increase of up to $31 million Proposition 98 General Fund in 2015-2016 provided on a contingency basis, for an anticipated shortfall in redevelopment agency property taxes for community college apportionments. The amount of adjustment will be based on 2017 P2 Property Tax Report.

- No cost-of-living adjustment (COLA) in 2016-2017 compared to 1.02 percent funding in 2015-2016.

- $200 million to improve the delivery of all career and technical education efforts and expand regional workforce training (known as the Strong Workforce Program). This is up to $2 million for Palomar.

- $105.5 million to pay down Mandated Cost reimbursements to be allocated on a per-FTES basis. This is approximately $1.5 million in one-time funds for Palomar.

- There is no change to the current enrollment fee amount of $46 per credit unit (or $1,380 for a full-time student taking 30 units per year). This fee has remained unchanged since 2011-2012. Community Colleges continue to offer noncredit instruction at no charge.

The most important element of the State funding is the Total General Apportionment allocation. Apportionment revenue is directly tied to the generation and reporting of FTES. Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The Governing Board approved the 2016-2017 Adopted Budget on September 13, 2016.

## *ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE*

The economic position of the District is closely tied to the State of California as the general apportionment revenue that is allocated to the District represents the majority of the total unrestricted sources of revenues within the General Fund. The District's base funding is received from a combination of State apportionment, property taxes, and student enrollment fees.

California relies on a variety of taxes, of which Personal Income Tax (PIT), Sales and Use Tax, and Corporation Tax rank as the predominant sources of State revenues. PIT is levied on relatively volatile components of personal income. With PIT now providing over two-thirds of State General Fund revenue, income fluctuations among taxpayers can contribute to State revenues rising or falling by billions of dollars per year. State spending as a percent of PIT has generally increased steadily over the years. The State covers a large share of education cost, consisting of direct apportionments to K-12, community colleges, the California State University and the University of California systems. In the last two fiscal years, the State's reserve balances have been considerably higher than historical averages, reflecting both mandatory reserve deposits under Proposition 2 (2014) and additional, discretionary deposits. Contributing to the strength of the State economy are strong and well developed technology, manufacturing, entertainment, and tourism sectors. Assuming steady economic growth and restraint in augmenting current program funding levels, there is an improved fiscal outlook in the years ahead.

While the State's economic recovery is progressing upward, California community colleges face future risks, and appropriate caution when increasing expenditures must be exercised as we move forward:

- Proposition 30 (2012) established the Education Protection Account (EPA), which receives funding from increased taxes approved by initiative. The sales tax rate increase began in 2013 and is set to expire at the end of 2016. The income tax increase began in 2012 and will last through 2018. Proposition 55 (2016) extends the income tax increase on high-income taxpayers that resulted from Proposition 30, which is expected to provide between $4 billion and $9 billion annually in State revenue from 2019 through 2030. The range of revenue is wide because it depends on the economy and stock market. The exact amount that the State must spend on community colleges in the future depends on several factors that are difficult to predict. If the expected revenues are realized, the community colleges' share is estimated to be between $200 and $450 million annually. Proposition 55 does not extend the increase in the sales tax.

- Alternate revenue sources generated by the EPA and dissolution of Redevelopment Agencies (RDAs) are less reliable that general fund revenues. The California Community College funding system is based on estimated revenues, including student fees and property taxes. The lack of stability in the source of funding makes it difficult to budget, as colleges are not guaranteed that predicted revenues will materialize at the end of the fiscal year. If revenues do not come in at the level expected, the colleges are left with shortfalls in their budgets, which in turn requires colleges to make painful reductions to course offerings or services that affect students.

- Recently passed legislation, AB 1469 (2014), set in place a plan to close the $74 billion gap in unfunded California State Teachers' Retirement System (CalSTRS) liabilities over the next 30 years. The funding plan stipulates that the costs will be shared, with the State paying approximately 20 percent toward the amount unfunded, instructors paying 10 percent, and the remaining 70 percent is the responsibility of community colleges. Under AB 1469, the CalSTRS employer contribution rate for fiscal year 2015-2016 was 10.73 percent, an increase from 8.88 percent in fiscal year 2014-2015. The additional cost to districts from fiscal year 2015-2016 through fiscal year 2019-2020 will grow by an additional 1.85 percent annually. This represents an unfunded expense of the District's General Fund and will significantly impact our budget.

- District classified employees participate in the State of California Public Employees' Retirement System (CalPERS). The CalPERS Board has set to increase the contribution rates to account for longer retiree life spans, salary increases, and the growing pool of State and school district employees. CalPERS is set to increase incrementally from 11.85 percent in fiscal year 2015-2016 to 19.8 percent in fiscal year 2020-2021.

- The District will be issuing Series D bonds for approximately $139 million within the next two years to continue its capital improvement plans.

- During the stability/restoration period, Palomar will comprehensively focus on generating enrollment growth. Outreach and marketing efforts are well underway. The District has been collaborating with K-12 and business partners to develop education programs in high-demand fields to include expansions of concurrent and dual enrollment opportunities for high school students and summer academies that offer students hands-on experience working in areas of career technical education. Creating strong future enrollment and implementing enrollment management strategies remain the District's top priority.

Other than the items above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Prudent fiscal management practices will remain in place to ensure the District has adequate reserves to sustain operations and ensure student success. A District-wide minimum reserve of 7 percent plus other contingency reserves yield a $17.8 million budgeted ending fund balance for fiscal year 2016-2017. Management will maintain a close watch over resources to maintain the ability to react to internal and external issues if and when they arise to ensure the fiscal stability of the District.

### *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 show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Palomar Community College District, 1140 West Mission Road, San Marcos, California, 92069.

## PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
## JUNE 30, 2016

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 2,234,014 |
| Investments - unrestricted | 38,806,074 |
| Investments - restricted | 290,300,745 |
| Accounts receivable | 9,818,339 |
| Student loans receivable, net | 2,844,801 |
| Due from fiduciary funds | 14,583 |
| Prepaid expenses | 463,051 |
| **Total Current Assets** | 344,481,607 |
| **Noncurrent Assets** | |
| Nondepreciable capital assets | 124,390,351 |
| Depreciable capital assets, net of depreciation | 236,201,052 |
| **Total Noncurrent Assets** | 360,591,403 |
| **TOTAL ASSETS** | 705,073,010 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred charge on refunding | 10,028,487 |
| Deferred outflows of resources related to pensions | 21,348,762 |
| **Total Deferred Outflows of Resources** | 31,377,249 |
| **LIABILITIES** | |
| **Current Liabilities** | |
| Accounts payable | 11,447,161 |
| Accrued interest payable | 7,586,868 |
| Unearned revenue | 5,171,526 |
| General obligation payable - current portion | 11,020,000 |
| Lease revenue bond payable - current portion | 545,000 |
| PARS supplemental early retirement obligation - current portion | 1,269,126 |
| **Total Current Liabilities** | 37,039,681 |
| **Noncurrent Liabilities** | |
| Compensated absences liability | 2,852,534 |
| Load banking | 515,791 |
| General obligation bonds - noncurrent portion | 584,934,741 |
| Lease revenue bond payable - noncurrent portion | 3,280,000 |
| PARS supplemental early retirement obligation - noncurrent portion | 3,807,378 |
| Net other postemployment benefits (OPEB) obligation | 2,565,567 |
| Aggregate net pension obligation | 99,762,027 |
| **Total Noncurrent Liabilities** | 697,718,038 |
| **TOTAL LIABILITIES** | 734,757,719 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows of resources related to pensions | 22,734,161 |
| **NET POSITION** | |
| Net investment in capital assets, net of related debt | 132,582 |
| Restricted for: | |
| Debt service | 25,305,392 |
| Capital projects | 22,784,141 |
| Educational programs | 9,090,977 |
| Unrestricted | (78,354,713) |
| **TOTAL NET POSITION** | $ (21,041,621) |

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

# PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2016

| | |
|---|---|
| **OPERATING REVENUES** | |
| Student Tuition and Fees | $ 25,614,386 |
| Less: Scholarship discount and allowance | (10,655,601) |
| Net tuition and fees | 14,958,785 |
| Other Operating Revenues | 112,551 |
| **TOTAL OPERATING REVENUES** | 15,071,336 |
| **OPERATING EXPENSES** | |
| Salaries | 79,689,522 |
| Employee benefits | 31,949,615 |
| Supplies, materials, and other operating expenses and services | 28,316,009 |
| Student financial aid | 20,293,436 |
| Equipment, maintenance, and repairs | 11,052,490 |
| Depreciation | 6,657,477 |
| **TOTAL OPERATING EXPENSES** | 177,958,549 |
| **OPERATING LOSS** | (162,887,213) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| State apportionments, noncapital | 31,780,630 |
| Local property taxes, levied for general purposes | 66,475,944 |
| Taxes levied for other specific purposes | 21,046,798 |
| Federal grants | 25,196,306 |
| State grants | 20,386,844 |
| State taxes and other revenues | 4,953,267 |
| Investment income | 1,686,423 |
| Interest expense on capital related debt | (22,037,932) |
| Investment income on capital asset-related debt, net | 191,378 |
| Transfer from fiduciary funds | 207,661 |
| Transfer to fiduciary funds | (32,000) |
| Other nonoperating revenue | 1,191,015 |
| **TOTAL NONOPERATING REVENUES (EXPENSES)** | 151,046,334 |
| **LOSS BEFORE OTHER REVENUES** | (11,840,879) |
| State revenues, capital | 11,245,527 |
| Local revenues, capital | 4,311,768 |
| **TOTAL OTHER REVENUES** | 15,557,295 |
| **CHANGE IN NET POSITION** | 3,716,416 |
| **NET POSITION, BEGINNING OF YEAR** | (24,758,037) |
| **NET POSITION, END OF YEAR** | $ (21,041,621) |

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

## PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT
## FOR THE YEAR ENDED JUNE 30, 2016

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Tuition and fees | $ 14,852,524 |
| Payments to or on behalf of employees | (113,421,721) |
| Payments to vendors for supplies and services | (42,410,269) |
| Payments to students for scholarships and grants | (20,293,436) |
| **Net Cash Flows From Operating Activities** | (161,272,902) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| State apportionments | 31,780,630 |
| Property taxes - nondebt related | 66,475,944 |
| Grant and contracts | 45,768,477 |
| State taxes and other revenues | 1,808,485 |
| Other nonoperating | 1,299,008 |
| **Net Cash Flows From Noncapital Financing Activities** | 147,132,544 |
| **CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES** | |
| Purchase of capital assets | (27,741,181) |
| State revenue, capital projects | 11,245,527 |
| Local revenue, capital projects | 4,311,768 |
| Property taxes - related to capital debt | 21,046,798 |
| Principal paid on capital debt | (7,320,556) |
| Interest paid on capital debt | (6,723,175) |
| Interest received on capital asset-related debt | 191,378 |
| **Net Cash Flows From Capital Financing Activities** | (4,989,441) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Interest received from investments | 1,686,423 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | (17,443,376) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 348,784,209 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 331,340,833 |

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

# PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
## FOR THE YEAR ENDED JUNE 30, 2016

| | |
|---|---|
| **RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Operating Loss | $ (162,887,213) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities | |
| Depreciation expense | 6,657,477 |
| Changes in Assets, Liabilities, Deferred Inflows and Deferred Outflows of Resources: | |
| Receivables | (1,913,726) |
| Prepaid expenses | (275,734) |
| Accounts payable and accrued liabilities | (4,556,104) |
| Unearned revenue | 1,694,914 |
| Aggregate net pension obligation | 15,350,964 |
| Net OPEB obligation | 976,878 |
| PARS supplemental early retirement obligation | (1,269,126) |
| Load banking | (6,557) |
| Compensated absences | 212,403 |
| Change in deferred outflows related to pensions | (14,158,514) |
| Change in deferred inflows related to pensions | (1,098,564) |
| **Total Adjustments** | 1,614,311 |
| **Net Cash Flows From Operating Activities** | $ (161,272,902) |

| | |
|---|---|
| **CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:** | |
| Cash in banks | $ 2,234,014 |
| Cash in county treasury | 329,106,819 |
| **Total Cash and Cash Equivalents** | $ 331,340,833 |

| | |
|---|---|
| **NONCASH TRANSACTIONS** | |
| On behalf payments for benefits | $ 2,912,569 |

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

# PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF FIDUCIARY NET POSITION
## JUNE 30, 2016

| | Trust |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 146,235 |
| Investments | 1,725,870 |
| Accounts receivable | 2,396 |
| Student loan receivable, net | 51,396 |
| **Total Assets** | 1,925,897 |
| **LIABILITIES** | |
| Accounts payable | 295 |
| Due to primary government | 14,583 |
| Unearned revenue | 138,379 |
| **Total Liabilities** | 153,257 |
| **NET POSITION** | |
| Unreserved | $ 1,772,640 |

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

## PALOMAR COMMUNITY COLLEGE DISTRICT

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
## FOR THE YEAR ENDED JUNE 30, 2016

| | Trust |
|---|---|
| **ADDITIONS** | |
| Local revenues | $ 995,906 |
| **DEDUCTIONS** | |
| Classified salaries | 585 |
| Services and operating expenditures | 75,400 |
| **Total Deductions** | 75,985 |
| **OTHER FINANCING SOURCES (USES)** | |
| Transfer from primary government | 32,000 |
| Transfer to primary government | (207,661) |
| Other uses | (723,790) |
| **Total Other Financing Sources (Uses)** | (899,451) |
| **Change in Net Position** | 20,470 |
| **Net Position - Beginning** | 1,752,170 |
| **Net Position - Ending** | $ 1,772,640 |

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

## *NOTE 1 - ORGANIZATION*

Palomar Community College District (the District) was established in January 1946 as a political subdivision of the State of California and is a comprehensive, public, two-year institution offering educational services to residents of the surrounding area. The District operates under a locally elected five member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund, special revenue funds, and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and five education sites located within North San Diego County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units. The District is classified as a Public Educational Institution under Internal Revenue Code Section 115 and is, therefore, exempt from Federal taxes.

## *NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

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

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

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

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

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

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

**Cash and Cash Equivalents**

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

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2016, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

**Restricted Investments**

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

**Accounts Receivable**

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff; the majority of each residing in the State of California. The District 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. The allowance was estimated at $1,938,032 for the year ended June 30, 2016.

**Prepaid Expenses**

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

**Capital Assets and Depreciation**

Capital assets are recorded at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of $5,000 (for equipment) and an estimated useful life of greater than one year. Buildings, renovations to buildings, and infrastructure, that cost more than $150,000, and land improvements that cost more than $100,000, and significantly increase the value, or extend the useful life of the structure, are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities, and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Costs for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

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

### Debt Issuance Costs, Premiums, and Discounts

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

### Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt and for pension related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

### Pensions

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

### Unearned Revenue

Unearned 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 unearned revenue is removed from the combined balance sheet and revenue is recognized. Unearned revenue includes (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

### Noncurrent Liabilities

Noncurrent liabilities include general obligation and lease revenue bonds, compensated absences, load banking, PARS supplemental early retirement, OPEB obligation, and the aggregate net pension obligation with maturities greater than one year.

**Compensated Absences**

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

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

**Net Position**

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report $57,180,510 of restricted net position.

**State Apportionments**

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

**Property Taxes**

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

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the San Diego County Teeter Plan and is paid all current year taxes in the year levied. The Teeter Plan allows the County to follow the accrual method of accounting to allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. A receivable has not been recognized in the basic financial statements for property taxes due to the fact that any receivable would be offset by a payable to the State for State apportionment purposes.

The voters of the District passed a General Obligation Bond in November 2006 for the acquisition, construction, and rehabilitation of facilities. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected by the San Diego County and remitted to the District.

**Scholarships, Discounts, and Allowances**

Student tuition and fee revenue is reported net of scholarships, discounts, and allowances. Fee waivers approved by the Board of Governors are included within the scholarships, discounts, and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf.

**Federal Financial Assistance Programs**

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

**Estimates**

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

**Interfund Activity**

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

**Change in Accounting Principles**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB Statement No. 68. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, and GASB Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement, effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of GASB Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of GASB Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants.* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of GASB Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures, for both the qualifying external investment pools and their participants, include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

**New Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, No. 43, and No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The requirements of this Statement are effective for financial statements for periods beginning after June 30, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to State or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of GASB Statement No. 68 applied to the financial statements of all State and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of GASB Statement No. 68 to exclude pensions provided to employees of State or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a State or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of State or local governmental employers and to employees of employers that are not State or local governmental employers; and (3) has no predominant State or local governmental employer (either individually or collectively with other State or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment to GASB Statement No. 14.* The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of GASB Statement No. 14, *The Financial Reporting Entity*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—an amendment to GASB Statement No. 14*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* The objective of this Statement is to address certain issues that have been raised with respect to GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment to GASB Statement No. 25*, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment to GASB Statement No. 27*, and GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

## *NOTE 3 - DEPOSITS AND INVESTMENTS*

### Policies and Practices

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

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

### General Authorizations

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

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

### Authorized Under Debt Agreements

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

### Summary of Deposits and Investments

Deposits and investments of the Primary Government as of June 30, 2016, consist of the following:

| | |
|---|---|
| Primary government | $ 331,340,833 |
| Fiduciary funds | 1,872,105 |
| Total Deposits and Investments | $ 333,212,938 |

Deposits and investments of the Fiduciary Funds as of June 30, 2016, consist of the following:

| | |
|---|---|
| Cash on hand and in banks | $ 2,359,287 |
| Cash in revolving | 20,962 |
| Investments | 330,832,689 |
| Total Deposits and Investments | $ 333,212,938 |

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County of San Diego Investment Pool.

**Specific Identification**

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

| Investment Type | Fair Value | Weighted Average to Maturity |
|---|---|---|
| County of San Diego Investment Pool | $ 330,898,890 | 310 |

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County of San Diego Investment Pool is not required to be rated. However, as of year end, the County of San Diego Investment Pool reflected an AAAf/S1 rating by Standard and Poor's Rating Service.

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of $722,938 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

## *NOTE 4 - FAIR VALUE MEASUREMENTS*

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs, other than Level 1 prices, such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the North San Diego County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2016:

| Investment Type | Fair Value | Uncategorized |
|---|---|---|
| County of San Diego Investment Pool | $ 330,898,890 | $ 330,898,890 |

All assets have been valued using a market approach, with quoted market prices.

***NOTE 5 - ACCOUNTS RECEIVABLE***

Accounts receivable for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Federal Government | | |
| Categorical aid | $ 1,388,807 | $ - |
| State Government | | |
| Apportionment | 69,598 | - |
| Categorical aid | 5,060,059 | - |
| Lottery | 2,056,292 | - |
| Other State sources | 56,260 | - |
| Local Sources | | |
| Property taxes | 280,524 | - |
| Interest | 476,025 | 2,396 |
| Other local sources | 430,774 | - |
| Total | $ 9,818,339 | $ 2,396 |
| | | |
| Student receivables | $ 4,782,833 | $ 51,396 |
| Less: Allowance for doubtful accounts | (1,938,032) | - |
| Total | $ 2,844,801 | $ 51,396 |

### *NOTE 6 - CAPITAL ASSETS*

Capital asset activity for the District for the fiscal year ended June 30, 2016, was as follows:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated | | | | |
| Land | $ 63,014,087 | $ - | $ - | $ 63,014,087 |
| Construction in progress | 68,140,489 | 25,689,780 | 32,533,055 | 61,297,214 |
| Works of art | 79,050 | - | - | 79,050 |
| Total Capital Assets Not Being Depreciated | 131,233,626 | 25,689,780 | 32,533,055 | 124,390,351 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 18,523,454 | 16,131,833 | - | 34,655,287 |
| Buildings and improvements | 227,113,256 | 16,401,222 | - | 243,514,478 |
| Furniture and equipment | 20,318,937 | 772,369 | 603,990 | 20,487,316 |
| Total Capital Assets Being Depreciated | 265,955,647 | 33,305,424 | 603,990 | 298,657,081 |
| Total Capital Assets | 397,189,273 | 58,995,204 | 33,137,045 | 423,047,432 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 12,442,280 | 1,059,565 | - | 13,501,845 |
| Buildings and improvements | 27,402,199 | 4,774,932 | - | 32,177,131 |
| Furniture and equipment | 16,553,282 | 822,980 | 599,209 | 16,777,053 |
| Total Accumulated Depreciation | 56,397,761 | 6,657,477 | 599,209 | 62,456,029 |
| Net Capital Assets | $ 340,791,512 | $ 52,337,727 | $ 32,537,836 | $ 360,591,403 |

Depreciation expense for the year was $6,657,477.

Interest expense on capital related debt for the year ended June 30, 2016, was $22,037,932. Of this amount, $880,332 was capitalized.

### *NOTE 7 - ACCOUNTS PAYABLE*

Accounts payable for the District consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| Accrued payroll | $ 3,164,723 | $ - |
| Apportionment | 155,861 | - |
| Construction | 5,447,602 | - |
| State categoricals | 22,521 | - |
| Federal categoricals | 205 | - |
| Other | 2,656,249 | 298 |
| Total | $ 11,447,161 | $ 298 |

### *NOTE 8 - UNEARNED REVENUE*

Unearned revenue consisted of the following:

| | Primary Government | Fiduciary Funds |
|---|---|---|
| State categorical aid | $ 106,814 | $ - |
| Enrollment fees | 5,036,270 | 138,379 |
| Other local | 28,442 | - |
| Total | $ 5,171,526 | $ 138,379 |

### *NOTE 9 - INTERFUND TRANSACTIONS*

**Interfund Receivables and Payables (Due To/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds has been eliminated respectively in the consolidation process of the basic financial statements. Balances owing between the primary government and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2016, there was $14,583 owed between the primary government and the fiduciary funds.

### Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues 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 restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2016 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to $207,661. The amount transferred to the fiduciary funds from the primary government amounted to $32,000.

## *NOTE 10 - LONG-TERM OBLIGATIONS*

### Summary

The changes in the District's long-term obligations during the 2016 fiscal year consisted of the following:

| | Balance Beginning of Year | Additions | Deductions | Balance End of Year | Due in One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| General obligation bonds | $ 595,248,207 | $ 7,502,090 | $ 6,795,556 | $ 595,954,741 | $ 11,020,000 |
| Lease revenue bonds | 4,350,000 | - | 525,000 | 3,825,000 | 545,000 |
| Total Bonds | 599,598,207 | 7,502,090 | 7,320,556 | 599,779,741 | 11,565,000 |
| Other Obligations | | | | | |
| Compensated absences | 2,640,131 | 212,403 | - | 2,852,534 | - |
| Load banking | 522,348 | 153,684 | 160,241 | 515,791 | - |
| PARS supplemental early retirement obligation | 6,345,630 | - | 1,269,126 | 5,076,504 | 1,269,126 |
| Net OPEB obligation | 1,588,689 | 6,839,184 | 5,862,306 | 2,565,567 | - |
| Aggregate net pension obligation | 84,411,063 | 15,350,964 | - | 99,762,027 | - |
| Total Other Liabilities | 95,507,861 | 22,556,235 | 7,291,673 | 110,772,423 | 1,269,126 |
| Total Long-Term Obligations | $ 695,106,068 | $ 30,058,325 | $ 14,612,229 | $ 710,552,164 | $ 12,834,126 |

**Description of Debt**

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The lease revenue bonds will be paid by the other debt service fund. The compensated absences and load banking liability will be paid by the fund for which the employee worked. The pay-as-you-go portion of the net OPEB obligation will be paid by the Internal Service Fund. The PARS supplemental early retirement obligation will be paid by the unrestricted general fund. Pension expense related to the aggregate net pension obligation will be paid by the fund for which the employee works. See Note 13 for further details of the aggregate net pension obligation.

**Bonded Debt**

On November 7, 2006 the voters of the District approved the issuance of $694,000,000 general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

**General Obligation Bonds, Election 2006, Series A**

On April 17, 2007 the District issued General Obligation Bonds, Election 2006, Series A in the aggregate principal amount of $160,000,000. Bonds were issued with a final maturity date of May 1, 2032, and interest rates ranging from 4.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $4,160,000.

**General Obligation Bonds, Election 2006, Series B**

On October 28, 2010 the District issued General Obligation Bonds, Election 2006, Series B in the aggregate principal amount of $91,498,901. The Bonds consisted of $1,500,000 in Current Interest Serial Bonds, $27,883,490 in Capital Appreciation Serial Bonds, and $62,115,411 in Convertible Capital Appreciation Term Bonds. Bonds were issued with a final maturity date of August 1, 2045, and interest rates ranging from 2.36 percent to 6.72 percent, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $126,205,143.

**General Obligation Bonds, Election 2006, Series B-1**

On October 28, 2010 the District issued General Obligation Bonds, Election 2006, Series B-1 (federally taxable) in the aggregate principal amount of $83,500,000. Bonds were issued with a final maturity date of August 1, 2045, with a current interest 7.94 percent. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $83,500,000.

### 2015 General Obligation Refunding Bonds

On January 13, 2015 the District issued 2015 General Obligation Refunding Bonds in the aggregate principal amount of $115,675,000. Bonds were issued with a final maturity date of May 1, 2032, and interest rates ranging from 2.00 percent to 5.00 percent, depending on the maturity of the related bonds. The Bonds were issued to advance refund and defease a portion of the District's obligation related to the General obligation Bonds, 2006 Series A. Interest is payable semiannually on May 1 and November 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $114,100,000.

### General Obligation Bonds, Election 2006, Series C

On March 17, 2015 the District issued General Obligation Bonds, Election 2006, Series C in the aggregate principal amount of $220,000,000. Bonds were issued with a final maturity date of August 1, 2044, and interest rates ranging from 4.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on August 1 and February 1 of each year. The outstanding principal balance of these bonds at June 30, 2016, was $220,000,000.

### Debt Maturity

### General Obligation Bonds

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2015 | Accretion | Redeemed | Bonds Outstanding June 30, 2016 |
|---|---|---|---|---|---|---|---|---|
| 2006 A | 4/17/2007 | 5/1/2032 | 4.00%-5.00% | $ 160,000,000 | $ 7,925,000 | $ - | $ 3,765,000 | $ 4,160,000 |
| 2006 B | 10/28/2010 | 8/1/2045 | 2.36%-6.72% | 91,498,901 | 118,983,053 | 7,502,090 | 280,000 | 126,205,143 |
| 2006 B-1 | 10/28/2010 | 8/1/2045 | 7.94% | 83,500,000 | 83,500,000 | - | - | 83,500,000 |
| 2006 C | 3/17/2015 | 8/1/2044 | 4.00%-5.00% | 220,000,000 | 220,000,000 | - | - | 220,000,000 |
| | **Subtotal Election 2006** | | | | $ 430,408,053 | $ 7,502,090 | $ 4,045,000 | $ 433,865,143 |
| 2015 Refunding | 1/13/2015 | 5/1/2032 | 2.00%-5.00% | 115,675,000 | $ 114,100,000 | $ - | $ - | $ 114,100,000 |
| | | | | Premium on Debt | 50,740,154 | - | 2,750,556 | 47,989,598 |
| | **Total General Obligation Bonds** | | | | $ 595,248,207 | $ 7,502,090 | $ 6,795,556 | $ 595,954,741 |

The General Obligation Bonds, Election 2006, Series A bonds mature through 2017 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ 4,160,000 | $ 208,000 | $ 4,368,000 |

The General Obligation Bonds, Election 2006, Series B bonds mature through 2046 as follows:

| Fiscal Year | Principal (Including accreted interest to date) | Accreted Interest | Current Interest to Maturity | Total |
|---|---|---|---|---|
| 2017 | $ 424,122 | $ 5,878 | $ - | $ 430,000 |
| 2018 | 838,702 | 41,298 | - | 880,000 |
| 2019 | 1,071,036 | 103,964 | - | 1,175,000 |
| 2020 | 1,364,092 | 210,908 | - | 1,575,000 |
| 2021 | 1,453,762 | 326,238 | - | 1,780,000 |
| 2022-2026 | 12,897,562 | 8,212,438 | - | 21,110,000 |
| 2027-2031 | 5,983,898 | 7,016,102 | 30,290,100 | 43,290,100 |
| 2032-2036 | 18,228,754 | 35,011,246 | 54,837,038 | 108,077,038 |
| 2037-2041 | 59,158,088 | 48,191,912 | 39,169,018 | 146,519,018 |
| 2042-2046 | 24,785,127 | 34,884,872 | 8,315,550 | 67,985,549 |
| Total | $ 126,205,143 | $ 134,004,856 | $ 132,611,706 | $ 392,821,705 |

The General Obligation Bonds, Election 2006, Series B-1 bonds mature through 2046 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ - | $ 6,006,990 | $ 6,006,990 |
| 2018 | - | 6,006,990 | 6,006,990 |
| 2019 | - | 6,006,990 | 6,006,990 |
| 2020 | - | 6,006,990 | 6,006,990 |
| 2021 | - | 6,006,990 | 6,006,990 |
| 2022-2026 | - | 30,034,950 | 30,034,950 |
| 2027-2031 | - | 30,034,950 | 30,034,950 |
| 2032-2036 | - | 30,034,950 | 30,034,950 |
| 2037-2041 | - | 30,034,950 | 30,034,950 |
| 2042-2046 | 83,500,000 | 21,887,745 | 105,387,745 |
| Total | $ 83,500,000 | $ 172,062,495 | $ 255,562,495 |

The General Obligation Bonds, Election 2006, Series C bonds mature through 2045 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ 6,430,000 | $ 9,819,150 | $ 16,249,150 |
| 2018 | 7,105,000 | 9,648,275 | 16,753,275 |
| 2019 | 1,060,000 | 9,525,800 | 10,585,800 |
| 2020 | 180,000 | 9,506,300 | 9,686,300 |
| 2021 | 735,000 | 9,488,000 | 10,223,000 |
| 2022-2026 | 5,305,000 | 46,905,375 | 52,210,375 |
| 2027-2031 | 11,120,000 | 44,890,750 | 56,010,750 |
| 2032-2036 | 21,640,000 | 40,994,975 | 62,634,975 |
| 2037-2041 | 60,625,000 | 33,959,100 | 94,584,100 |
| 2042-2045 | 105,800,000 | 10,582,750 | 116,382,750 |
| Total | $ 220,000,000 | $ 225,320,475 | $ 445,320,475 |

The 2015 General Obligation Refunding Bonds mature through 2032 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ - | $ 5,665,900 | $ 5,665,900 |
| 2018 | 3,910,000 | 5,665,900 | 9,575,900 |
| 2019 | 4,265,000 | 5,509,500 | 9,774,500 |
| 2020 | 4,715,000 | 5,296,250 | 10,011,250 |
| 2021 | 5,170,000 | 5,060,500 | 10,230,500 |
| 2022-2026 | 33,725,000 | 20,918,500 | 54,643,500 |
| 2027-2031 | 49,945,000 | 10,956,000 | 60,901,000 |
| 2032 | 12,370,000 | 618,500 | 12,988,500 |
| Total | $ 114,100,000 | $ 59,691,050 | $ 173,791,050 |

**Lease Revenue Bonds 2001 Series**

The District issued Lease Revenue Bonds Series 2001 on July 18, 2001, in the amount of $3,095,000 to be used to remodel and expand the Student Center. Interest rates on the bonds range from 5.0 percent to 5.625 percent depending on the maturity of the related bonds. The bonds will mature on April 1, 2031. The source of revenue to pay off the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ 95,000 | $ 109,600 | $ 204,600 |
| 2018 | 100,000 | 104,850 | 204,850 |
| 2019 | 105,000 | 99,850 | 204,850 |
| 2020 | 110,000 | 94,600 | 204,600 |
| 2021 | 115,000 | 89,100 | 204,100 |
| 2022-2026 | 680,000 | 344,469 | 1,024,469 |
| 2027-2031 | 880,000 | 139,912 | 1,019,912 |
| Total | $ 2,085,000 | $ 982,381 | $ 3,067,381 |

**Lease Revenue Bonds 2010B Series**

The District issued Lease Revenue Refunding Bonds, Series 2010B in the amount of $3,780,000 on September 16, 2010. The proceeds were used to refund the District's Certificates of Participation (COPs). The principal amount paid was $4,320,000 with the remaining proceeds deposited in an escrow account for future repayments. The refunding was considered an in-substance defeasance and, therefore, amounts held in escrow are not reported as District assets. Interest rates on the bonds range from 3.0 percent to 4.0 percent for the length of issuance. The bonds will mature on October 1, 2019. The source of revenue to pay off the debt will come from the General Fund. Future principal and interest payments are as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|---|---|---|---|
| 2017 | $ 450,000 | $ 45,450 | $ 495,450 |
| 2018 | 460,000 | 31,800 | 491,800 |
| 2019 | 475,000 | 17,775 | 492,775 |
| 2020 | 355,000 | 5,325 | 360,325 |
| Total | $ 1,740,000 | $ 100,350 | $ 1,840,350 |

**PARS Supplemental Early Retirement Obligation**

In June 2015, the District has entered into a PARS Supplemental Early Retirement Plan for employees retiring as of June 30, 2015, and met certain eligibility requirements. The District will pay the liability over five year periods per the agreement as follows:

| Fiscal Year | Payment |
|---|---|
| 2017 | $ 1,269,126 |
| 2018 | 1,269,126 |
| 2019 | 1,269,126 |
| 2020 | 1,269,126 |
| Total | $ 5,076,504 |

**Compensated Absences**

The compensated absences liability outstanding at June 30, 2016, was $2,852,534.

**Load Banking**

The load banking liability outstanding at June 30, 2016, was $515,791.

**Other Postemployment Benefits Obligation**

The District's annual required contribution for the year ended June 30, 2016, was $6,845,177, and contributions made by the District during the year were $5,862,306. Interest on the net OPEB obligation and adjustments to the annual required contribution were $26,362 and $(32,355), respectively, which resulted in an increase to the net OPEB obligation of $976,878. As of June 30, 2016, the net OPEB obligation was $2,565,567. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

**Aggregate Net Pension Obligation**

The aggregate net pension obligation outstanding at June 30, 2016, was $99,762,027. See Note 13 for additional information regarding the aggregate net pension obligation.

***NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION***

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

### Plan Description

The Plan is a single-employer defined benefit health care plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 681 active participants and 446 retirees at June 30, 2016.

### Contribution Information

The contribution requirements are established and may be amended by the District and the District's bargaining units. The Plan is currently funded on a projected pay-as-you-go basis. For fiscal year 2015-2016, the District contributed $5,862,306, all of which was used for current premiums.

### Annual OPEB Cost and Net OPEB Obligation

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

| | |
|---|---|
| Annual required contribution | $ 6,845,177 |
| Adjustment for amortization of unfunded liability | 26,362 |
| Change in OPEB trusts assets | (32,355) |
| Annual OPEB cost (expense) | 6,839,184 |
| Contributions made | (5,862,306) |
| Increase in net OPEB obligation | 976,878 |
| Net OPEB obligation, beginning of year | 1,588,689 |
| Net OPEB obligation, end of year | $ 2,565,567 |

### Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past three years is as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB (Asset)/Obligation |
|---|---|---|---|---|
| 2014 | $ 5,940,403 | $ 5,304,245 | 89% | $ (14,760) |
| 2015 | 6,743,920 | 5,140,471 | 76% | 1,588,689 |
| 2016 | 6,839,184 | 5,862,306 | 86% | 2,565,567 |

**Funding Status and Funding Progress**

| | |
|---|---|
| Actuarial Accrued Liability (AAL) | $ 90,841,984 |
| Less Actuarial Value of Plan Assets | 3,950,994 |
| Unfunded Actuarial Accrued Liability (UAAL) | $ 86,890,990 |
| | |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 4.35% |
| Covered Payroll | 55,493,128 |
| UAAL as Percentage of Covered Payroll | 156.58% |

The above noted actuarial accrued liability was based on the August 1, 2014, actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

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

In the August 1, 2014, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a four percent investment rate of return, based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. The UAAL is being amortized at a level dollar method. The remaining amortization period is 23 years. The actuarial value of assets was $3,950,994 as of June 30, 2016.

## *NOTE 12 - RISK MANAGEMENT*

### Property and Liability Insurance Coverages

The District is exposed to various risks of loss related to torts and liability; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The District obtains coverage for these risks as a member of various joint powers authorities or through the purchase of coverage from a risk retention group. The District uses Schools Association for Excess Risk (SAFER) for excess property limits of $250,000,000 per occurrence, with no aggregate and a $5,000 member retained limit. Then, their excess liability has the first $1,000,000 worth of coverage through the Statewide Association of Community Colleges (SWACC) and $25,000,000 excess coverage of $1,000,000 is in SAFER with a $50,000 Member Retained Limit.

### Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2016, the District contracted with SWACC Joint Powers Authority (JPA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

### Workers' Compensation

For fiscal year 2015-2016, the District participated in the Protected Insurance Programs for Schools (PIPS) JPA, an insurance purchasing pool. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated, and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

| Insurance Program / Company Name | Type of Coverage | Limits |
|---|---|---|
| Protected Insurance Program for Schools (PIPS) | Workers' Compensation | $ 150,000,000 |
| Schools Association For Excess Risk (SAFER) | Excess Workers' Compensation | $ 25,000,000 |
| Statewide Association of Community Colleges (SWACC) | Property and Liability | $ 250,000,000 |

## *NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS*

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

For the fiscal year ended June 30, 2016, the District reported the net pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources for each of the above plans as follows:

| Pension Plan | | Collective Net Pension Liability | Collective Deferred Outflows of Resources | Collective Deferred Inflows of Resources | Collective Pension Expense |
|---|---|---|---|---|---|
| CalSTRS | | $ 61,617,589 | $ 9,708,639 | $ 10,907,368 | $ 4,457,563 |
| CalPERS | | 38,144,438 | 11,640,123 | 11,826,793 | 3,318,676 |
| | Total | $ 99,762,027 | $ 21,348,762 | $ 22,734,161 | $ 7,776,239 |

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

**Benefits Provided**

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|---|---|
| | On or before | On or after |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits as a percentage of eligible compensation | 2.0% - 2.4% | 2.0% - 2.4% |
| Required employee contribution rate | 9.20% | 8.56% |
| Required employer contribution rate | 10.73% | 8.88% |
| Required State contribution rate | 7.12589% | 7.12589% |

### Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the District's total contributions were $4,464,345.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

| | |
|---|---|
| District's proportionate share of net pension liability | $ 61,617,589 |
| State's proportionate share of net pension liability associated with the District | 32,588,912 |
| Total | $ 94,206,501 |

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.0915 percent and 0.0909 percent, respectively, resulting in a net increase in the proportionate share of 0.0006 percent.

For the year ended June 30, 2016, the District recognized pension expense of $4,457,563. In addition, the District recognized pension expense and revenue of $2,524,377 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 4,464,345 | $ - |
| Net change in proportionate share of net pension liability | 389,406 | - |
| Difference between projected and actual earnings on pension plan investments | 4,854,888 | 9,877,723 |
| Differences between expected and actual experience in the measurement of the total pension liability | - | 1,029,645 |
| Total | $ 9,708,639 | $ 10,907,368 |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earning on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (2,078,852) |
| 2018 | (2,078,852) |
| 2019 | (2,078,852) |
| 2020 | 1,213,721 |
| Total | $ (5,022,835) |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is seven years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (106,706) |
| 2018 | (106,706) |
| 2019 | (106,706) |
| 2020 | (106,706) |
| 2021 | (106,706) |
| Thereafter | (106,709) |
| Total | $ (640,239) |

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2014 |
| Measurement date | June 30, 2015 |
| Experience study | July 1, 2006 through June 30, 2010 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.60% |
| Investment rate of return | 7.60% |
| Consumer price inflation | 3.00% |
| Wage growth | 3.75% |

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

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

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 47% | 4.50% |
| Private equity | 12% | 6.20% |
| Real estate | 15% | 4.35% |
| Inflation sensitive | 5% | 3.20% |
| Fixed income | 20% | 0.20% |
| Cash/liquidity | 1% | 0.00% |

**Discount Rate**

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

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.60%) | $ 93,037,764 |
| Current discount rate (7.60%) | 61,617,589 |
| 1% increase (8.60%) | 35,504,889 |

**California Public Employees' Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|---|---|
| | On or before | On or after |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5% | 1.0% - 2.5% |
| Required employee contribution rate | 7.000% | 6.000% |
| Required employer contribution rate | 11.847% | 11.847% |

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above, and the total District contributions were $3,149,867.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $38,144,438. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. The District's proportionate share for the measurement periods of June 30, 2015 and June 30, 2014, was 0.2588 percent and 0.2756 percent, respectively, resulting in a net decrease in the proportionate share of 0.0168 percent.

For the year ended June 30, 2016, the District recognized pension expense of $3,318,676. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to measurement date | $ 3,149,867 | $ - |
| Net change in proportionate share of net pension liability | 45,427 | 1,912,177 |
| Difference between projected and actual earnings on pension plan investments | 6,264,818 | 7,570,916 |
| Differences between expected and actual experience in the measurement of the total pension liability | 2,180,011 | - |
| Changes of assumptions | - | 2,343,700 |
| Total | $ 11,640,123 | $ 11,826,793 |

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (957,434) |
| 2018 | (957,434) |
| 2019 | (957,434) |
| 2020 | 1,566,204 |
| Total | $ (1,306,098) |

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the EARSL of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

| Year Ended June 30, | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2017 | $ (693,102) |
| 2018 | (963,102) |
| 2019 | (644,235) |
| Total | $ (2,300,439) |

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---|---|
| Valuation date | June 30, 2014 |
| Measurement date | June 30, 2015 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.65% |
| Investment rate of return | 7.65% |
| Consumer price inflation | 2.75% |
| Wage growth | Varies by entry age and services |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global equity | 51% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 10% | 6.83% |
| Real estate | 10% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 2% | 4.50% |
| Liquidity | 2% | -0.55% |

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| Discount Rate | Net Pension Liability |
|---|---|
| 1% decrease (6.65%) | $ 62,083,250 |
| Current discount rate (7.65%) | 38,144,438 |
| 1% increase (8.65%) | 18,237,715 |

**On Behalf Payments**

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal years ended June 30, 2016, 2015, and 2014, which amounted to $2,912,569, $2,396,838, and $2,036,267, respectively, (7.12589 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the years ended June 30, 2016, 2015, and 2014. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

## *NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES*

The District participates in five joint powers agreement (JPA) entities: the San Diego County Schools Fringe Benefits Consortium (SDCSFBC); the Statewide Association of Community Colleges (SWACC); the Schools Association for Excess Risk (SAFER); the Statewide Educational Wrap-Up Program (SEWUP); and the Community College League's Retiree Health Benefit JPA (CCLC). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

The San Diego County Schools Fringe Benefits Consortium (SDCSFBC) provides employee fringe benefits to various school districts and community college districts throughout San Diego County. The San Diego County Schools Fringe Benefits Consortium's governing board is made up of one representative from each member district.
The Statewide Association of Community Colleges (SWACC) provides property and liability coverage to various community college districts throughout California. SWACC is governed by a board consisting of one representative from each member district.

The Schools Association for Excess Risk (SAFER) arranges for and provides a self-funded or additional insurance for excess liability coverage to various school districts and community college districts throughout California.

The Statewide Educational Wrap-Up Program (SEWUP) is a consolidated construction insurance program covering the job-site risks of: District as Owner, Construction Manager, General Contractor, contractors and sub-contractors of all tiers. Membership is comprised of 400 California school and community college districts. Premiums are determined for each construction project or projects.

The District joined the Community College League of California's (CCLC) Retiree Health Benefit JPA Program in September 2006. The CCLC Retiree Health Benefit JPA was created to assist districts is responding to the GASB Statement No. 45 accounting standards, which require districts to place funds in an irrevocable trust or acknowledge, in their annual financial statements, their unfunded liability.

Financial information for CCLC is not readily available.

Separate financial statements for each JPA may be obtained from the respective entity.

### *NOTE 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

**Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

**Financial Condition**

The District entered the stabilization phase in fiscal year 2016. At June 30, 2016, the funding formula included funding of 3,022.08 FTES ($14,294,428) which has not yet been restored. The State provides for three years of restoration, which will end on June 30, 2019.

**Operating Leases**

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. Expenditures under leases for the year ended June 30, 2016, amount to $348,961. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payment |
|---|---|
| 2017 | $ 371,135 |
| 2018 | 372,255 |
| 2019 | 353,675 |
| 2020 | 347,265 |
| 2021 | 353,329 |
| Total | $ 1,797,659 |

### Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

| CAPITAL PROJECT | Remaining Construction Commitment | Expected Date of Completion |
|---|---|---|
| Landscape Improvements/Arboretum | $ 150,758 | 3/15/2017 |
| Parking Improvements | 17,404 | 1/15/2018 |
| LL Building - Student Services Center | 111,335 | 3/15/2020 |
| | $ 279,497 | |

## *REQUIRED SUPPLEMENTARY INFORMATION*

**PALOMAR COMMUNITY COLLEGE DISTRICT**

# SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
## FOR THE YEAR ENDED JUNE 30, 2016

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Method *Used (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|---|---|---|---|---|---|---|
| August 1, 2010 | $ - | $ 78,499,867 | $ 78,499,867 | 0.00% | $ 53,321,972 | 147% |
| August 1, 2012 | 1,950,000 | 84,229,998 | 82,279,998 | 2.32% | 56,569,280 | 145% |
| August 1, 2014 | 3,950,994 | 90,841,984 | 86,890,990 | 4.35% | 55,493,128 | 157% |

* Entry age normal

See accompanying note to required supplementary information.

# PALOMAR COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

| | 2016 | 2015 |
|---|---|---|
| **CalSTRS** | | |
| District's proportion of the net pension liability | 0.0915% | 0.0909% |
| District's proportionate share of the net pension liability | $ 61,617,589 | $ 53,119,316 |
| State's proportionate share of the net pension liability associated with the District | 32,588,912 | 32,075,736 |
| Total | $ 94,206,501 | $ 85,195,052 |
| District's covered - employee payroll | $ 38,026,419 | $ 40,938,175 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 162.04% | 129.75% |
| Plan fiduciary net position as a percentage of the total pension liability | 74% | 77% |
| **CalPERS** | | |
| District's proportion of the net pension liability | 0.2588% | 0.2756% |
| District's proportionate share of the net pension liability | $ 38,144,438 | $ 31,291,747 |
| District's covered - employee payroll | $ 31,818,546 | $ 28,936,290 |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 119.88% | 108.14% |
| Plan fiduciary net position as a percentage of the total pension liability | 79% | 83% |

*Note* : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

## SCHEDULE OF DISTRICT CONTRIBUTIONS
## FOR THE YEAR ENDED JUNE 30, 2016

| | 2016 | 2015 |
|---|---|---|
| **CalSTRS** | | |
| Contractually required contribution | $ 4,464,345 | $ 3,376,746 |
| Contributions in relation to the contractually required contribution | (4,464,345) | (3,376,746) |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered - employee payroll | $ 41,606,198 | $ 38,026,419 |
| Contributions as a percentage of covered - employee payroll | 10.73% | 8.88% |
| **CalPERS** | | |
| Contractually required contribution | $ 3,149,867 | $ 3,745,361 |
| Contributions in relation to the contractually required contribution | (3,149,867) | (3,745,361) |
| Contribution deficiency (excess) | $ - | $ - |
| District's covered - employee payroll | $ 26,587,887 | $ 31,818,546 |
| Contributions as a percentage of covered - employee payroll | 11.847% | 11.771% |

*Note* : In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

# NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
# JUNE 30, 2016

## *NOTE 1 - PURPOSE OF SCHEDULES*

### Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

### Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net positions and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

### Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

### Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

### Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

# *SUPPLEMENTARY INFORMATION*

## DISTRICT ORGANIZATION
## JUNE 30, 2016

Palomar Community College District was established in January 1946 and is comprised of an area of approximately 2,555 square miles located in North San Diego County. There were no changes in the boundaries of the District during the current year. The District is accredited by the Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States.

### BOARD OF TRUSTEES

| MEMBER | OFFICE | TERM EXPIRES |
|---|---|---|
| Mark R. Evilsizer, M.A. | President | 2018 |
| Nancy Ann Hensch, B.A. | Vice President | 2016 |
| Nancy C. Chadwick, M.S.W., M.P.A. | Secretary | 2016 |
| Paul P. McNamara, B.A. | Trustee | 2018 |
| John J. Halcón, Ph.D. | Trustee | 2016 |
| Malik Spence | Student Trustee | 2016 |

### ADMINISTRATION

| | |
|---|---|
| Adrian Gonzales | Interim Superintendent/President |
| Daniel Sourbeer | Interim Assistant Superintendent/ Vice President, Instruction |
| Brian Stockert | Acting Assistant Superintendent/ Vice President, Student Services |
| Ronald E. Ballesteros-Perez | Assistant Superintendent/ Vice President, Administrative Services |
| Mike Popielski | Assistant Superintendent/ Vice President, Human Resource Services |

See accompanying note to supplementary information.

# PALOMAR COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2016

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| Student Financial Assistance Cluster | | | |
| Federal Pell Grant | 84.063 | | $ 16,353,483 |
| Federal Pell Administrative Allowance | 84.063 | | 10,575 |
| Federal Work Study | 84.033 | | 272,104 |
| Federal Work Study Administrative Allowance | 84.033 | | 33,729 |
| Federal Supplemental Educational Opportunity Grant | 84.007 | | 405,477 |
| Direct Student Loan | 84.268 | | 1,060,999 |
| Total Student Financial Assistance Cluster | | | 18,136,367 |
| TRIO Cluster | | | |
| Palomar College North County Educational Opportunity Centers | 84.066A | | 282,364 |
| Student Support Services | 84.042A | | 453,722 |
| Upward Bound | 84.047A | | 567,075 |
| Talent Search | 84.044A | | 286,522 |
| Total TRIO Cluster | | | 1,589,683 |
| Strengthening the Palomar to CSUSM STEM Transfer Pathway | 84.031S | | 317,026 |
| Determined to Achieve: Successful Pathways to a STEM Degree | 84.031C | | 1,154,727 |
| Gear-Up | 84.334A | | 3,112,240 |
| Passed through from the California Community Colleges Chancellor's Office | | | |
| Career and Technical Education Act (CTEA) | 84.048 | 14-C01-039 | 604,221 |
| CTE-Transitions | 84.048A | [1] | 45,119 |
| **Total U.S. Department of Education** | | | 24,959,383 |
| | | | |
| **U.S. DEPARTMENT OF VETERANS AFFAIRS** | | | |
| Veterans Educational Assistance | 64.028 | | 18,724 |
| **Total U.S. Department of Veterans Affairs** | | | 18,724 |
| | | | |
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| Passed through the California Department of Education | | | |
| Child and Adult Care Food Program | 10.558 | [1] | 49,469 |
| **Total U.S. Department of Agriculture** | | | 49,469 |

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

## PALOMAR COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2016, CONTINUED

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|---|---|---|
| **NATIONAL SCIENCE FOUNDATION** | | | |
| Research and Development Cluster | | | |
| Passed through the Kentucky Community and Technical College System | | | |
| National GeoTech Center of Excellence | 47.076 | KCT-PS-618 | $ 28,283 |
| Passed through the University Auxiliary and Research Services Corporation Increasing Stem Talent (STEP) | 47.076 | UARSC-85774-CD | 59,817 |
| **Total National Science Foundation** | | | 88,100 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | |
| Passed through from the California Community Colleges Chancellor's Office | | | |
| Temporary Assistance for Needy Families | 93.558 | [1] | 42,132 |
| Passed through Yosemite Community College District | | | |
| Child Development Training Consortium | 95.575 | 14-15-4489 | 27,115 |
| **Total U.S. Department of Health and Human Services** | | | 69,247 |
| **Total Federal Expenditures** | | | $ 25,184,923 [2] |

[1] Pass-Through Entity Identifying Number not available.
[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position is due to differences of $11,383 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**SCHEDULE OF EXPENDITURES OF STATE AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2016**

| | Program Entitlements | | |
|---|---|---|---|
| Program | Current Year | Prior Year | Total Entitlement |
| Nursing Education 15/16 | $ 75,437 | $ - | $ 75,437 |
| Nursing Education 14/15 | - | 71,683 | 71,683 |
| Basic Skills 15/16 | 177,532 | - | 177,532 |
| Basic Skills 14/15 | - | 131,644 | 131,644 |
| Board Financials Assitance Program | 460,496 | - | 460,496 |
| Board Financials Assitance Program Augmentation | 182,583 | - | 182,583 |
| CalWorks | 211,813 | - | 211,813 |
| Cooperative Agencies Resources for Education (CARE) | 131,593 | - | 131,593 |
| Disabled Students Programs and Services (DSPS) | 902,330 | - | 902,330 |
| Deaf and Hard of Hearing (DHH) | 105,738 | - | 105,738 |
| Extended Opportunities, Programs and Services (EOPS) | 1,321,518 | - | 1,321,518 |
| Assessment, Remediation, Retention Nursing Grant | 79,800 | - | 79,800 |
| Student Success (Credit) | 3,480,182 | - | 3,480,182 |
| Student Success (Noncredit) | 274,305 | - | 274,305 |
| Student Success (Equity) | 1,919,900 | - | 1,919,900 |
| Full Time Student Success Grant | 388,547 | - | 388,547 |
| Access to Print and Electronic Info | 15,048 | - | 15,048 |
| TTIP - South | 3,929,089 | - | 3,929,089 |
| TTIP South - Foothill De Anza | 170,541 | - | 170,541 |
| TTIP South - Foothill De Anza II | 1,976,278 | - | 1,976,278 |
| Child and Adult Care Food Program | 2,684 | - | 2,684 |
| General Center Based CCTR | 21,354 | - | 21,354 |
| CSPP | 436,762 | - | 436,762 |
| Proposition 39 | 552,755 | - | 552,755 |
| Total | | | |

See accompanying note to supplementary information.

| Program Revenues | | | | | |
|---|---|---|---|---|---|
| Cash Received | Accounts Receivable (Payables) | Unearned Revenue | Total Revenue | | Program Expenditures |
| $ 63,018 | $ 6,167 | $ - | $ 69,185 | | $ 69,185 |
| 71,683 | - | - | 71,683 | | 71,683 |
| 177,532 | - | 106,814 | 70,718 | | 70,718 |
| 131,644 | - | - | 131,644 | | 131,644 |
| 460,496 | - | - | 460,496 | | 460,496 |
| 182,583 | - | - | 182,583 | | 182,583 |
| 211,813 | (6,121) | - | 205,692 | | 205,692 |
| 131,593 | 205 | - | 131,798 | | 131,798 |
| 902,330 | (20) | - | 902,310 | | 902,310 |
| 105,738 | - | - | 105,738 | | 105,738 |
| 1,321,518 | (594) | - | 1,320,924 | | 1,321,087 |
| 79,800 | (2,070) | - | 77,730 | | 77,730 |
| 3,480,182 | - | - | 3,480,182 | | 2,529,015 |
| 274,305 | - | - | 274,305 | | 291,231 |
| 1,919,900 | - | - | 1,919,900 | | 225,245 |
| 388,547 | - | - | 388,547 | | 338,791 |
| 13,660 | - | - | 13,660 | | 13,660 |
| - | 3,302,897 | - | 3,302,897 | | 3,302,897 |
| 181,750 | (11,209) | - | 170,541 | | 170,541 |
| - | 1,197,627 | - | 1,197,627 | | 1,197,627 |
| 2,276 | 408 | - | 2,684 | | 2,684 |
| 21,354 | - | - | 21,354 | | 21,354 |
| 436,762 | - | - | 436,762 | | 436,762 |
| - | 552,755 | - | 552,755 | | 552,755 |
| $ 10,558,484 | $ 5,040,045 | $ 106,814 | $ 15,491,715 | | $ 12,813,226 |

## PALOMAR COMMUNITY COLLEGE DISTRICT

## SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT
## FOR THE YEAR ENDED JUNE 30, 2016

| CATEGORIES | *(Revised) Reported Data | Audit Adjustments | Audited Data |
|---|---|---|---|
| **A. Summer Intersession (Summer 2015 only)** | | | |
| 1. Noncredit** | 108 | - | 108 |
| 2. Credit | 105 | - | 105 |
| **B. Summer Intersession (Summer 2016 - Prior to July 1, 2016)** | | | |
| 1. Noncredit** | 8 | - | 8 |
| 2. Credit | 175 | - | 175 |
| **C. Primary Terms (Exclusive of Summer Intersession)** | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 10,744 | - | 10,744 |
| (b) Daily Census Contact Hours | 764 | - | 764 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit** | 684 | - | 684 |
| (b) Credit | 707 | - | 707 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 2,657 | - | 2,657 |
| (b) Daily Census Contact Hours | 651 | - | 651 |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| **D. Total FTES** | 16,603 | - | 16,603 |
| **SUPPLEMENTAL INFORMATION (Subset of Above Information)** | | | |
| **E. In-Service Training Courses (FTES)** | 103 | - | 103 |
| **H. Basic Skills Courses and Immigrant Education** | | | |
| 1. Noncredit** | 762 | - | 762 |
| 2. Credit | 549 | - | 549 |
| **CCFS-320 Addendum** | | | |
| CDCP Noncredit FTES | 521 | - | 521 |
| Centers FTES | | | |
| 1. Noncredit** | 255 | - | 255 |
| 2. Credit | 1,142 | - | 1,142 |

* Annual report revised as of November 4, 2016.
** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

## PALOMAR COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION
## FOR THE YEAR ENDED JUNE 30, 2016

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Academic Salaries** | | | | | | | |
| **Instructional Salaries** | | | | | | | |
| Contract or Regular | 1100 | $ 19,625,144 | $ - | $ 19,625,144 | $ 19,625,144 | $ - | $ 19,625,144 |
| Other | 1300 | 16,256,316 | - | 16,256,316 | 16,256,316 | - | 16,256,316 |
| **Total Instructional Salaries** | | 35,881,460 | - | 35,881,460 | 35,881,460 | - | 35,881,460 |
| **Noninstructional Salaries** | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 7,953,205 | - | 7,953,205 |
| Other | 1400 | - | - | - | 794,553 | - | 794,553 |
| **Total Noninstructional Salaries** | | - | - | - | 8,747,758 | - | 8,747,758 |
| **Total Academic Salaries** | | 35,881,460 | - | 35,881,460 | 44,629,218 | - | 44,629,218 |
| **Classified Salaries** | | | | | | | |
| **Noninstructional Salaries** | | | | | | | |
| Regular Status | 2100 | - | - | - | 18,270,283 | - | 18,270,283 |
| Other | 2300 | - | - | - | 1,383,680 | - | 1,383,680 |
| **Total Noninstructional Salaries** | | - | - | - | 19,653,963 | - | 19,653,963 |
| **Instructional Aides** | | | | | | | |
| Regular Status | 2200 | 1,281,444 | - | 1,281,444 | 1,281,444 | - | 1,281,444 |
| Other | 2400 | 527,371 | - | 527,371 | 527,371 | - | 527,371 |
| **Total Instructional Aides** | | 1,808,815 | - | 1,808,815 | 1,808,815 | - | 1,808,815 |
| **Total Classified Salaries** | | 1,808,815 | - | 1,808,815 | 21,462,778 | - | 21,462,778 |
| Employee Benefits | 3000 | 13,994,295 | - | 13,994,295 | 27,878,324 | - | 27,878,324 |
| Supplies and Material | 4000 | - | - | - | 936,419 | - | 936,419 |
| Other Operating Expenses | 5000 | - | - | - | 8,560,565 | - | 8,560,565 |
| Equipment Replacement | 6420 | - | - | - | 19,475 | - | 19,475 |
| **Total Expenditures Prior to Exclusions** | | 51,684,570 | - | 51,684,570 | 103,486,779 | - | 103,486,779 |

See accompanying note to supplementary information.

## PALOMAR COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
## FOR THE YEAR ENDED JUNE 30, 2016

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| **Exclusions** | | | | | | | |
| **Activities to Exclude** | | | | | | | |
| Instructional Staff - Retirees' Benefits and Retirement Incentives | 5900 | $ 461,582 | $ - | $ 461,582 | $ 461,582 | $ - | $ 461,582 |
| Student Health Services Above Amount Collected | 6441 | - | - | - | - | - | - |
| Student Transportation | 6491 | - | - | - | 338,532 | - | 338,532 |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | 6740 | - | - | - | - | - | - |
| **Objects to Exclude** | | | | | | | |
| Rents and Leases | 5060 | - | - | - | 418,089 | - | 418,089 |
| Lottery Expenditures | | | | | | | - |
| Academic Salaries | 1000 | - | - | - | - | - | - |
| Classified Salaries | 2000 | - | - | - | - | - | - |
| Employee Benefits | 3000 | - | - | - | - | - | - |
| Supplies and Materials | 4000 | - | - | - | - | - | - |
| Software | 4100 | - | - | - | - | - | - |
| Books, Magazines, and Periodicals | 4200 | - | - | - | - | - | - |
| Instructional Supplies and Materials | 4300 | - | - | - | - | - | - |
| Noninstructional Supplies and Materials | 4400 | - | - | - | - | - | - |
| **Total Supplies and Materials** | | - | - | - | - | - | - |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

## RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
## FOR THE YEAR ENDED JUNE 30, 2016

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---|---|---|---|---|---|---|
| | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | $ - | $ - | $ - | $ 2,844,015 | $ - | $ 2,844,015 |
| Capital Outlay | | | | | | | |
| Library Books | 6300 | - | - | - | - | - | - |
| Equipment | 6400 | - | - | - | - | - | - |
| Equipment - Additional | 6410 | - | - | - | - | - | - |
| Equipment - Replacement | 6420 | - | - | - | - | - | - |
| **Total Equipment** | | - | - | - | - | - | - |
| **Total Capital Outlay** | | | | | | | |
| Other Outgo | 7000 | - | - | - | - | - | - |
| **Total Exclusions** | | 461,582 | - | 461,582 | 4,062,218 | - | 4,062,218 |
| **Total for ECS 84362, 50 Percent Law** | | $ 51,222,988 | $ - | $ 51,222,988 | $ 99,424,561 | $ - | $ 99,424,561 |
| **Percent of CEE (Instructional Salary Cost/Total CEE)** | | 51.52% | | 51.52% | 100.00% | | 100.00% |
| **50% of Current Expense of Education** | | | | | $ 49,712,281 | | $ 49,712,281 |

See accompanying note to supplementary information.

# RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2016.

See accompanying note to supplementary information.

**PALOMAR COMMUNITY COLLEGE DISTRICT**

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT**
**FOR THE YEAR ENDED JUNE 30, 2016**

| Activity Classification | Object Code | | | Unrestricted | |
|---|---|---|---|---|---|
| EPA Proceeds: | 8630 | | | | $ 15,729,740 |
| **Activity Classification** | **Activity Code** | **Salaries and Benefits (Obj 1000-3000)** | **Operating Expenses (Obj 4000-5000)** | **Capital Outlay (Obj 6000)** | **Total** |
| Instructional Activities | 1000-5900 | $ 15,729,740 | - | - | $ 15,729,740 |
| **Total Expenditures for EPA** | | $ 15,729,740 | - | - | $ 15,729,740 |
| **Revenues Less Expenditures** | | | | | $ - |

See accompanying note to supplementary information.

# PALOMAR COMMUNITY COLLEGE DISTRICT

# RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
# JUNE 30, 2016

| | | |
|---|---|---|
| **Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:** | | |
| **Total Fund Balance:** | | |
| General Funds | $ 30,580,511 | |
| Special Revenue Funds | 363,010 | |
| Capital Project Funds | 252,076,574 | |
| Debt Service Funds | 32,892,260 | |
| Internal Service Funds | 11,946,778 | |
| Fiduciary Funds | 3,787 | |
| **Total Fund Balance** | | **$ 327,862,920** |
| 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 | 423,047,432 | |
| Accumulated depreciation is | (62,456,029) | 360,591,403 |
| The District has refunded debt obligations. The difference between the amount that was sent to escrow agent for the payment of the old debt and the actual remaining debt obligations will be amortized as an adjustment to interest expense. | | 10,028,487 |
| Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis | | 7,614,212 |
| 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. | | (7,586,868) |
| The net change in proportionate share of net pension obligation as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits. | | (1,477,344) |
| The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense | | (6,328,933) |
| The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. | | 1,150,366 |
| The changes of assumptions are not recognized as an expenditure under the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits. | | (2,343,700) |

See accompanying note to supplementary information.

# RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, CONTINUED
## JUNE 30, 2016

| | | |
|---|---|---|
| Long-term obligations at year end consist of: | | |
| Bonds payable | $ 595,954,741 | |
| Lease revenue bonds | 3,825,000 | |
| OPEB obligation | 2,565,567 | |
| PARS supplemental early retirement obligation | 5,076,504 | |
| Compensated absences | 2,852,534 | |
| Load banking | 515,791 | |
| Aggregate net pension obligation | 99,762,027 | $ (710,552,164) |
| **Total Net Position** | | **$ (21,041,621)** |

See accompanying note to supplementary information.

# PALOMAR COMMUNITY COLLEGE DISTRICT

# NOTE TO SUPPLEMENTARY INFORMATION
# JUNE 30, 2016

***NOTE 1 - PURPOSE OF SCHEDULES***

**District Organization**

This schedule provides information about the District's governing board members and administration members.

**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 Title 2 U.S. Code of Federal Regulations (Part 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

**Schedule of Expenditures of State Awards**

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

**Schedule of Workload Measures for State General Apportionment**

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, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

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

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

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

**Proposition 30 Education Protection Act (EPA) Expenditure Report**

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

# PALOMAR COMMUNITY COLLEGE DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION
## JUNE 30, 2016

**Reconciliation of Governmental Funds to the Statement of Net Position**

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

# *INDEPENDENT AUDITOR'S REPORTS*

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

Board of Trustees
Palomar Community College District
San Marcos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Palomar Community College District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2016.

**Internal Control Over Financial Reporting**

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

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

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



9810 Scripps Lake Drive, Suite H San Diego, CA 92131-1001 Tel: 858-444-1726 www.vtdcpa.com

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated December 20, 2016.

**Purpose of This Report**

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

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 20, 2016

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

VALUE THE DIFFERENCE

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Palomar Community College District
San Marcos, California

**Report on Compliance for Each Major Federal Program**

We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2016. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.



9810 Scripps Lake Drive, Suite H San Diego, CA 92131-1001 Tel: 858-444-1726 www.vtdcpa.com

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

**Report on Internal Control Over Compliance**

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

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

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

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

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 20, 2016

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

VALUE THE DIFFERENCE

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Trustees
Palomar Community College District
San Marcos, California

**Report on State Compliance**

We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *Contracted District Audit Manual* issued in November 2015 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2016.

**Management's Responsibility**

Management is responsible for compliance with the requirements of State laws and regulations, and the terms and conditions identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in November 2015. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

**Unmodified Opinion for Each of the Programs**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2016.



9810 Scripps Lake Drive, Suite H San Diego, CA 92131-1001 Tel: 858-444-1726 www.vtdcpa.com

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

| | |
|---|---|
| Section 421 | Salaries of Classroom Instructors (50 Percent Law) |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Concurrent Enrollment of K-12 Students in Community College Credit Courses |
| Section 429 | Student Success and Support Program (SSSP) |
| Section 430 | Schedule Maintenance Program |
| Section 431 | Gann Limit Calculation |
| Section 435 | Open Enrollment |
| Section 438 | Student Fees – Health Fees and Use of Health Fee Funds |
| Section 439 | Proposition 39 Clean Energy |
| Section 440 | Intersession Extension Programs |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged (TBA) Hours |
| Section 490 | Proposition 1D State Bond Funded Projects |
| Section 491 | Proposition 30 Education Protection Account Funds |

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

The District does not offer any Intersession Extension Programs; therefore, the compliance tests within this section are not applicable.

The District did expend any Proposition 1D State Bond Funded Projects; therefore, the compliance tests within this section were not applicable.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

Vavrinek, Trine, Day & Co. LLP

San Diego, California
December 20, 2016

# *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

# SUMMARY OF AUDITOR'S RESULTS
# FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL STATEMENTS**

| | |
|---|---|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Noncompliance material to financial statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| Internal control over major Federal programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified? | None reported |
| Type of auditor's report issued on compliance for major Federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance? | No |

Identification of major Federal programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|---|---|
| 84.063, 84.033, 84.007, 84.268 | Student Financial Assistance Cluster |
| 84.066A, 84.042A, 84.047A, 84.044A | Trio Cluster |
| 84.334A | Gear-Up |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 755,548 |
| Auditee qualified as low-risk auditee? | No |

**STATE AWARDS**

| | |
|---|---|
| Type of auditor's report issued on compliance for State programs: | Unmodified |

## FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
## FOR THE YEAR ENDED JUNE 30, 2016

None reported.

## FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2016

None reported.

## STATE AWARDS FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2016

None reported.

# SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
# FOR THE YEAR ENDED JUNE 30, 2016

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

***Financial Statement Finding***

**2015-001 Financial Reconciliation Process**

**Criteria or Specific Requirement**

The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges *Budget and Accounting Manual* (BAM). Colleges are also required to present their financial statements in accordance with generally accepted accounting principles (GAAP).

**Condition**

*Significant Deficiency* - Errors were made within the closing process of the District's financial records during the current fiscal year. Material adjustments and reclassifications were required to conform to the BAM. Errors and/or insufficient reconciliations were found in various accounts including, but not limited to:

- Federal and State Categorical Programs

  End of the year accrual entries to close Federal and State programs were not properly made. Adjustments were made to reflect deferred revenues and receivables related to the programs.

- Accounts Payable

  The District is not reconciling their accounts payable accounts including their payroll related liability accounts in a timely manner. Reconciliations were not prepared during the current fiscal year.

- Long-Term Obligations

  The District incorrectly recorded long-term obligations within their individual governmental funds. Only based on District analysis and estimation of the vacation used in the next fiscal year can the current portion of these liabilities be included in the governmental funds.

- Inter-Fund Activity

  Amounts owing between funds of the District were not appropriately monitored during the year and reconciled at year end.

**Effect**

Material adjustments to the general ledger were proposed as a result of the audit procedures. These adjustments were accepted by management to ensure the financial statements were presented fairly.

**Cause**

The oversight controls over the closing process were not operating effectively, resulting in adjustments and a material weakness.

**Recommendation**

The District needs to develop a closing procedure calendar at year end to ensure that all information is prepared, reviewed, and reconciled prior to the closing of the general ledger. All inter-fund activity accounts should be examined and investigated to determine the purpose of the inter-fund borrowings and the true amount owed to various funds.

**Current Status**

Implemented.