PALOMAR COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

PALOMAR COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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, 2017, 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 2016-2017 *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.

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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, 2017, 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.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 16 to the financial statements, in 2017, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 26 and the other Required Supplementary Information listed in the table of contents 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* (Uniform Guidance), and other supplementary information are 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 19, 2017, 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 solely 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 effectiveness of the District's 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 19, 2017

PALOMAR COLLEGE®
Learning for Success
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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, 2017 and 2016. The District's administration prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Since this MD&A is designed to focus on current activities, resulting change and currently known facts, it is best read in conjunction with the District's financial statements and the accompanying notes. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's administration.

The California Community Colleges 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 applied the BTA reporting model to fully comply with the recommendation. Financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. The District's financial statements are designed to resemble corporate financial models whereby all District activities are consolidated into one set of totals. The format of these financial statements incorporates Governmental Accounting Standards Board (GASB) principles and consists of three basic financial statements that focus on the District as a whole:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

THE DISTRICT

The California community colleges form the largest system of higher education in the nation composed of 72 districts encompassing 114 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 District is a political subdivision of the State of California and operates Palomar College, which has its main campus in the City of San Marcos, about 30 miles from the City of San Diego. The District also operates an education center in the City of Escondido and other outreach sites serving the northern part of the City of San Diego and communities in unincorporated portions of San Diego County, including Camp Pendleton, Fallbrook, Mt. Carmel, Ramona, and Pauma Valley. To increase educational opportunities and access to higher education, Palomar College has set in motion a plan to open two additional education centers in the under-served areas of the District. Officially known as the North Education Center (Fallbrook, CA) and the South Education Center (Rancho Bernardo, CA), both satellite campuses are expected to begin offering a variety programs and services in summer 2018.

Rendering of *South Education Center in Rancho Bernardo, CA*

Rendering of *North Education Center in Fallbrook, CA*

Palomar Community College District is positioned to serve its communities as a leader in higher education and a responsible financial steward. Founded in 1946, the District 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 26,000 full-time and part-time students during fall and spring semesters. Approximately 30 percent of the students are enrolled full-time in credit courses, while about 63 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. The diversity of our students and employees creates a dynamic, exciting environment in which to work and learn. We are proud to have been designated by the U.S. Department of Education as a Hispanic-serving institution.

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 more than 150 Associate Degrees and certificates through 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. In fiscal year 2016-2017, a total of 4,086 degrees and certificates were earned by students through Palomar College.

A community-elected five-member Governing Board (the "Board") governs Palomar Community College District. Each member is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two or three available positions. The Board also seats an elected student trustee as a non-voting member. The management and policies of the District are administered by a Superintendent/President who is appointed by the Board and is responsible for the day-to-day operations of the District and supervision of the executive administrators. Currently, Dr. Joi Lin Blake serves as the Superintendent/President of the District.

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.

ACCREDITATION

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.

BUDGETARY AND FINANCIAL INFORMATION

The budgetary and financial accounts of the District are recorded and maintained in accordance with Title 5 of the Education Code § 70901, Title 5 § 59011 of the California Code of Regulations, and the Generally Accepted Accounting Principles (GAAP) for State and local governments as determined by the Governmental Accounting Standards Board. The District is mandated to adhere to the California Community Colleges Chancellor's Office *Budget and Accounting Manual.*

Palomar Community College District is primarily funded through the State of California based on a formula established in 2006 by Senate Bill 361. The *Basic Allocation* depends on the size of the district and the number of colleges and centers. The Basic Allocation for Palomar reflects a large district designation with over 20,000 FTES and one center with over 1,000 FTES. The *Base Revenue* is the amount of general purpose tax revenue per Full-time Equivalent Student (FTES) that the District is entitled by law. In fiscal year 2016-2017, the stipulated funding rate for credit FTES and non-credit Career Development and College Preparation (CDCP) FTES was $5,005.74 as specified in the Principal Apportionment Reports. The non-credit FTES rate was $3,010.09. Local revenues, such as property taxes and student enrollment fees, are applied first towards fulfilling the District's financial need before State funds are used. Local property taxes consist primarily of secured and unsecured taxes which are payable to the District in December and April of each year. The County of San Diego collects the taxes on behalf of the District. Student enrollment fees of $46 per credit unit are collected by the District. The California Community Colleges Chancellor's Office calculates the total Base Revenue for the District, subtracts the amount of local property taxes and student enrollment fees, and the balance is paid from the State's General Fund, which is referred to as the State's apportionment. The State apportionment is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect the allocations made by the State Legislature to the District. The Chancellor's Office calculates the Base Revenue multiple times during the year and retroactively for each fiscal year. Each district does not know the final funding level until as late as the First Principal Apportionment (P1) following the end of the fiscal year.

The District's Annual Budget is built each year to support the District's mission and educational master plans, reflecting the shared vision of faculty, staff, students, and members of the community. The Strategic Planning Council is the College's recognized participatory governance body. In 2009, Palomar College established and formulated an Integrated Planning, Evaluation, and Resource Allocation Decision-Making Model (IPM) and a Resource Allocation Model (RAM). The IPM provides an ongoing, systematic, and cyclical process that integrates planning, evaluation, resource allocation, implementation, and re-evaluation. All fiscal and budget decisions are made with the College's core mission in mind. In fiscal year 2016-2017, the Board adopted a total budget of $523,489,980, of which $129,457,494 was the General Unrestricted Fund, the operating fund of the District.

FACILITIES FUNDING MANAGEMENT – GENERAL OBLIGATION BONDS MEASURE M

The District continues to grow and provide a significant return on investment for the community. In August 2003, Palomar Community College District completed the comprehensive Educational and Facilities Master Plan 2022 containing the identified needs of the District and the community: construction of new instructional and support buildings, modernization of existing buildings, infrastructure upgrades, equipping the District sites and facilities, and the development of two educational centers. In the November 2006 General Election, 57.9 percent of registered voters approved Measure M, a $694 million educational facilities bond measure. The total proposition is funded through the sale of several series of bonds. The bonds are general obligations of the District payable solely from the proceeds of *ad valorem* property taxes levied by the San Diego County Board. The amount of the *ad valorem* taxes to repay the bonds is determined by the relationship between the assessed valuation of taxable property within the District's jurisdiction and the amount of debt service due on the bonds in any year. For fiscal year 2016-2017, the taxable property within the District's jurisdiction has an assessed valuation of $114,754,627,719.

As a governmental unit, the District's financing activities and choices are bound by federal and State restrictions. An Independent Citizens' Oversight Committee (ICOC) reviews the expenditure of funds to ensure that Bond proceeds are expended only for projects to be conducted in completion of the Master Plan 2022.

The District has issued 100 percent of the $694 million in General Obligation (GO) bonds that were approved by voters in 2006. In April 2017, the District issued $139 million of General Obligation Bonds with a traditional near 30-year term at an all-in interest rate of 3.95 percent. The ability to achieve this low rate of funding was bolstered by the improved credit ratings assigned by Moody's Investors Service (Moody's) and S&P Global (S&P). Moody's upgraded the District to "Aa1" and S&P upgraded the District to "AA". This was the first time since the passage of Measure M in November 2006 that the District had achieved this high level of credit ratings. The improved credit rating generated several benefits. First, it allowed the District to attract more demand from investors. This was evident during the sale as the aggregate bond issue had over $4 of subscriptions from investors for every $1 of bonds offered by the District for sale. Second, it allowed the District to market its credit strength and, combined with the increased investor demand, achieve lower interest rates that saved taxpayers approximately $720,000.

History of the District's Credit Ratings

Prop M Bonds Issued	Moody's	S&P
April 27,2017	**Aa1**	**AA**
April 8, 2015	Aa2	AA-
November 12, 2010	Aa2	AA-
May 2, 2007	Aa3	AA-

The District's administration also made the decision to parlay its improved credit ratings and take advantage of the low interest rate environment to refinance almost $100 million of its outstanding GO Bonds. The District was able to reduce the interest rates on the previously issued bonds from an average of almost 5.00 percent to an all-in interest rate of approximately 3.75 percent, saving District taxpayers nearly $34.3 million in interest costs over the next 28 years as the savings translates to lower property taxes. The improved credit ratings are estimated to contribute approximately $550,000 of this benefit. The District also structured the refinancing to preserve approximately $7.3 million in future federal interest cost subsidies that were afforded by a program established under the Obama administration's American Recovery and Reinvestment Act of 2009. This refinancing is in addition to the one undertaken in January 2015, which saved taxpayers $17.5 million in future property taxes.

The leadership of Palomar Community College District is proud to inform the community that its confidence has been rewarded with these results. The District intends to continue its practice of combining proactive fiscal and facilities funding management with strong strategic direction to help its students achieve their objectives in new and improved facilities made possible by Measure M.

The Finance and Administrative Services Division is responsible for directing the District's fiscal services, administrative services, information services, and facilities operations. Management of resources with strict attention to dynamic funding, facility, technology, and staffing requirements has been the primary goal of the Division. The District maintains budgetary controls with an objective to ensure compliance with legal provisions embodied in the annual Adopted Budget approved by the Governing Board. The District also maintains an internal control structure designed to provide a reasonable, but not absolute, assurance that the assets of the District are protected from loss, theft, or misuse, and to ensure that the transactions are properly recorded to allow for the preparation of financial statements in conformity with the generally accepted accounting principles. Financial management has been strongly driven by the Board's financial policies, directives, and decisions.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2016-2017

- The 2016-2017 Budget Act focused primarily on three main areas of higher education: access, affordability, and performance. The State continued to provide increased resources for the community colleges system, including an increase of $114 million for 2 percent growth in Full-Time Equivalent Students, an additional $75 million of base funding to support increased operating expenses, and greater funding augmentations for various categorical programs. The District's 2016-2017 Budget was designed to fund faculty, staff, direct program expenditures and support services to serve 18,200 FTES for the State general apportionment purposes. No Cost of Living Allowance (COLA) was provided this year.

- The District reported on its CCFS-320 Apportionment Attendance Report ("recal report") 18,189 resident FTES in the fiscal year 2016-2017 as compared to 16,603 in 2015-16. The District ended the year with a strong unrestricted fund balance of 17.5 percent of expenditures. As of June 30, 2017, committed, assigned, and unassigned fund balances for the General Fund Unrestricted budget, including the Board-designated reserves for economic uncertainties, totaled $21.8 million. The 5 percent general reserve requirement per the State Chancellor's Office has been met and exceeded.

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

- According to GASB statements, equity is reported as "net position" rather than "fund balance." The District's total net position, reported as a whole, decreased by $19.1 million from the previous year.

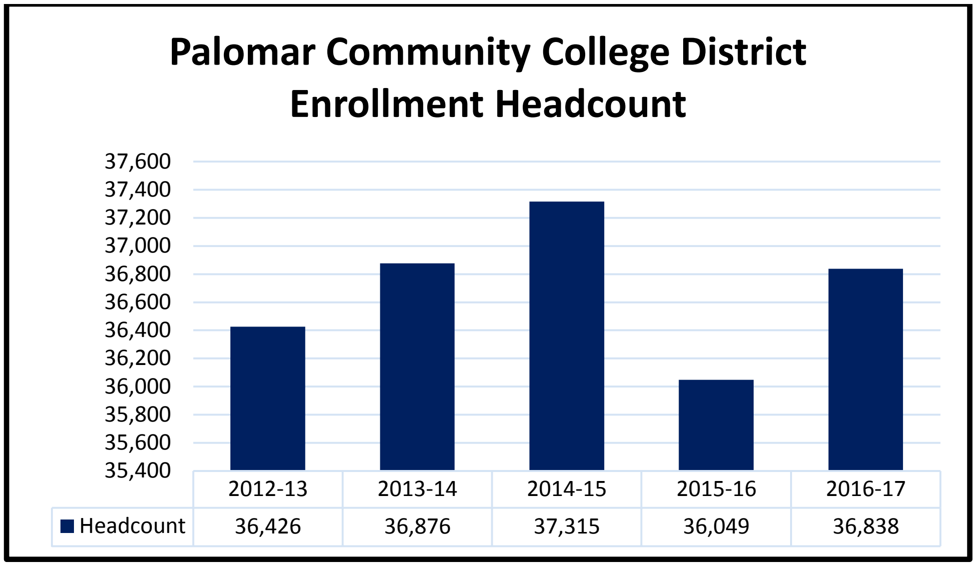
- In April 2017, Palomar Community College District successfully sold $139 million in General Obligation Bonds at low interest rates and commensurately refinanced prior bonds, saving taxpayers $34.3 million in future property taxes. The District met all of its 2016-2017 repayment obligations for Proposition M General Obligation Bonds.

- The District's long-term credit rating was upgraded to "Aa1" by Moody's Investors Service and to "AA" by S&P Global. This important financial industry endorsement reflects and confirms our financial stability and sound stewardship of taxpayer resources.

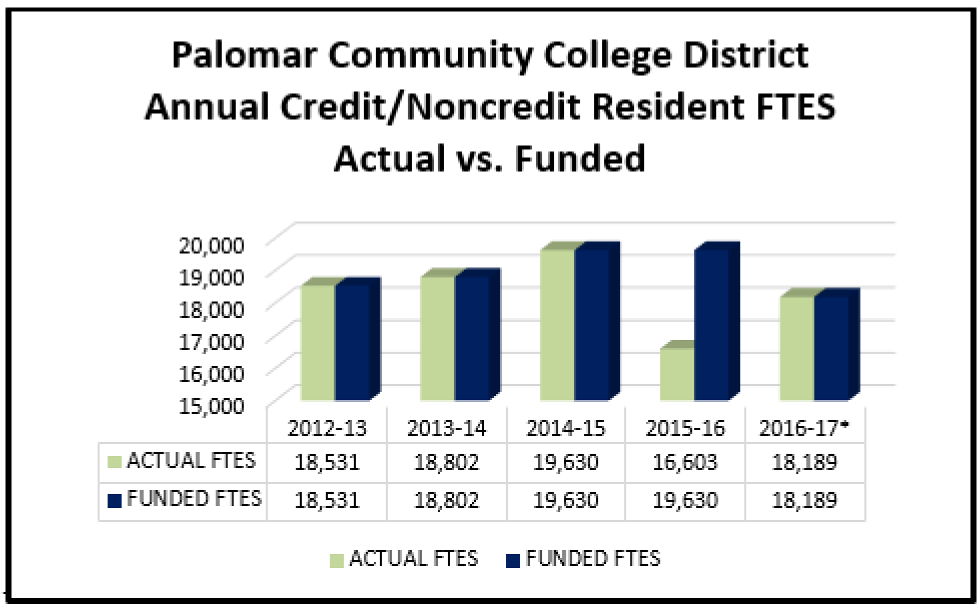
- Noteworthy, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Distinguished Budget Presentation Award to the Palomar Community College District for its fiscal year 2016-2017 Budget. The District's Annual Budget reports can be accessed at https://www2.palomar.edu/pages/fiscalservices/annual-budgets/.

ATTENDANCE

Student Headcount is an unduplicated count of students. It is the actual number of individual students enrolled. Students may enroll in one or more courses in a term, but are counted only once for the term.



Full-Time Equivalent Student (FTES) is the primary funding workload measure for community colleges and represents 525 class (contact) hours of student instruction/activity in credit and noncredit courses, generally 15 semester credit hours.



**Projected (Final numbers will be released by the Chancellor's Office at Recalculation, February 2018)*

Palomar College entered into its first year of stabilization period in 2015-16 due to decline in FTES. SB 361 legislation provides for a "hold harmless" in the initial year of FTES decline, during which the District received no reductions to apportionment levels. Under California Regulations §58776, "Restoration" allows the District to fully restore FTES in the three years following the initial year of FTES decline and receive full funding based on the actual FTES earned.

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. Comparative data from the prior year is shown in a separate column on each of the statements. The financial position is presented as of June 30, 2017 and 2016 and consists of three primary statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows.

STATEMENT OF NET POSITION

The focus of the Statement of Net Position is to illustrate the financial position of the District at a point in time. 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, 2017 and 2016.

GASB Concepts Statement No. 4 – *Elements of Financial Statements* defines deferred outflows of resources, deferred inflows of resources, and net position. 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.

Changes in 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 invested primarily in the San Diego County investment pool. As provided for by California Education Code Section 41001, a significant portion of the District's cash balances, totaling $515.9 million, is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Interest earned on such pooled cash balances is allocated proportionately to all funds in the pool. The District's cash and investments increased from $331.3 million to $520.8 million primarily due to the issuance of the $139 million Proposition M – Series D bonds in April 2017 and the aggregate increases in the restricted categorical funds.

Accounts receivables primarily represent funding owed to the District by students, by federal and State sources for grant and entitlement programs, and by local sources for all other purposes. The District provides for an allowance for uncollectible accounts as an estimation of amounts it may not receive. The total owed to the District by all sources is approximately $13.8 million. Other current assets include prepayments to vendors for goods or services that will not be received until the following fiscal year.

Capital assets represent the District's investment in land, site improvements, buildings, building improvements, construction in progress, and equipment, less the cost of accumulated depreciation. Capital assets are recorded at cost on the date of acquisition or fair value at the date of donation. The District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repair and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of the assets, generally 50 years for buildings, 30 years for building improvements or additions, 10 years for land improvements, 8 years for equipment, 7 years for library books, and 3 years for technology equipment. Land and construction in progress are considered non-depreciable capital assets; therefore no depreciation is calculated. As of June 30, 2017, the District recorded $488.3 million invested in capital assets, $69.4 million in accumulated depreciation, totaling $419.0 million recorded in net capital assets. Capital assets increased by approximately a net value of $58.4 million from the previous year.

Changes in 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 $2.0 million from last year reflects increases in statutory rates for pension contributions and the accounting gain of the general obligation bond refunding.

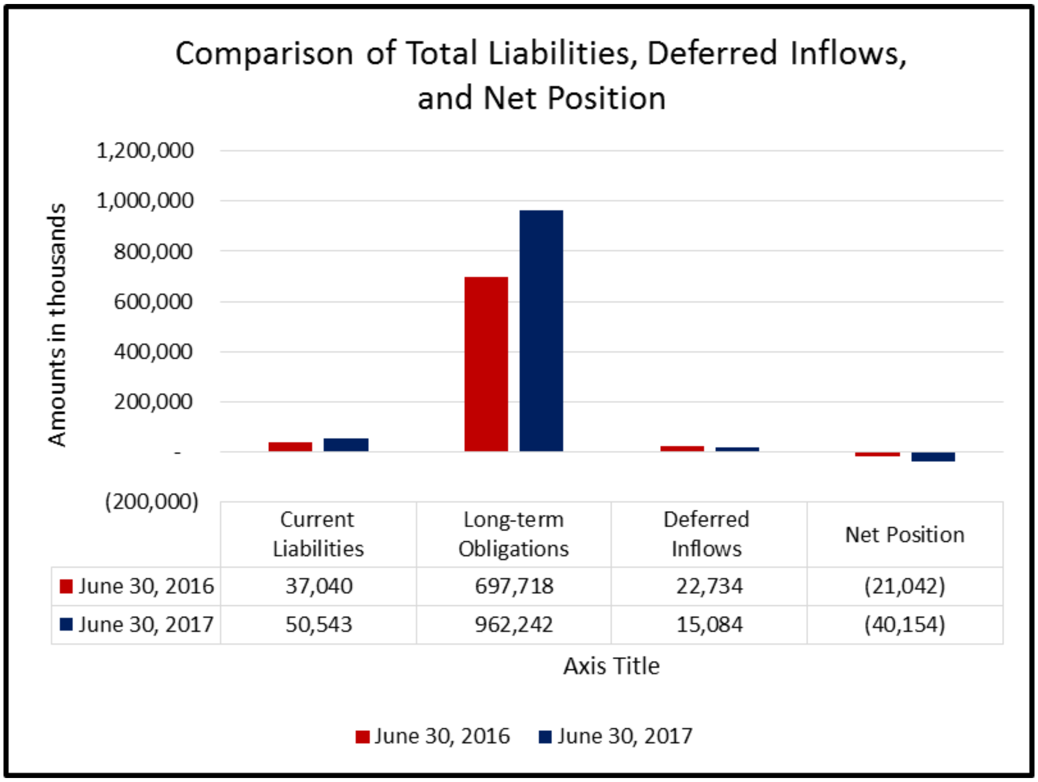
Changes in Liabilities

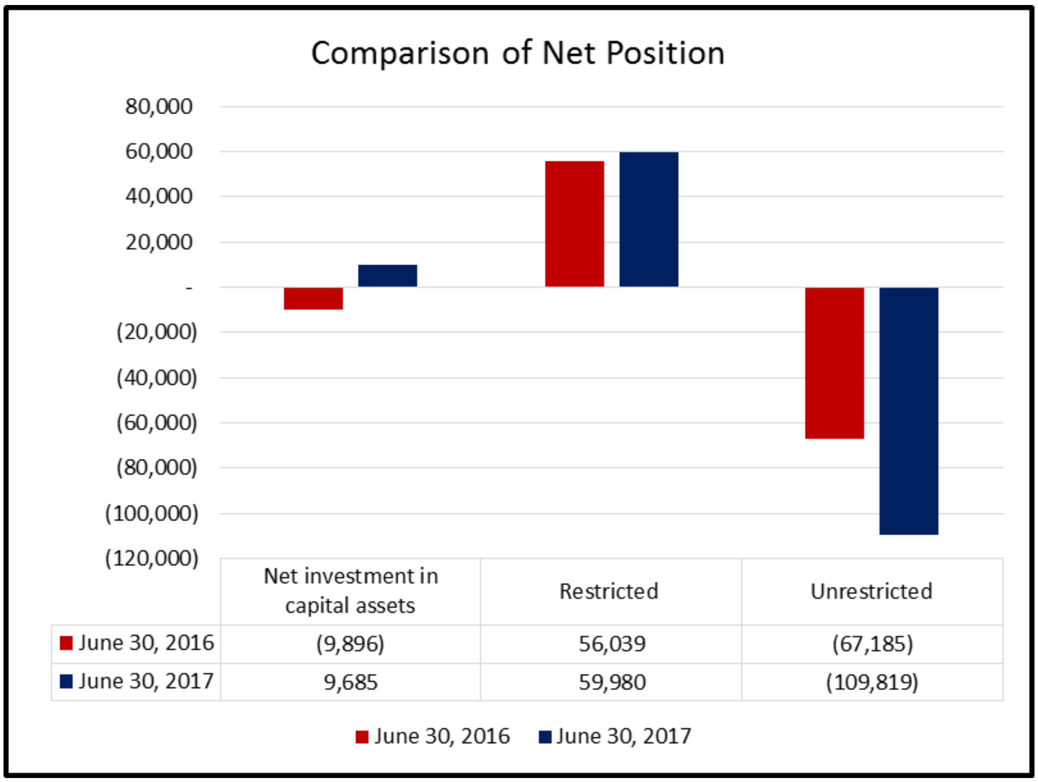
The District's total liabilities consist of current liabilities and long-term obligations. Current liabilities represent amounts owed to vendors for services and goods received during fiscal year 2016-2017 for which payment would not be made until fiscal year 2017-2018. Also included are accrued payroll and outstanding debt and related interest payable. Unearned revenue includes deferred enrollment fees for the 2017-2018 academic year and advances from federal, state, and local program funds received but not yet earned as of June 30, 2017. Most grant funds are earned when expended (up to the grant amount awarded). The District's current liabilities at June 30, 2017, were $13.5 million more than at June 30, 2016.

The District's long-term obligations are debt with maturities of more than one year, consisting of $854.7 million in voter-approved general obligation and lease revenue bonds, $109.3 in aggregate net pension liability resulting from GASB 68 - *Accounting and Financial Reporting for Pensions*; and $12.0 million in other liabilities such as compensated absences, load banking, Public Agency Retirement Services (PARS) Supplemental Early Retirement Program (SERP) obligation, and net Other Post-Employment Benefits Obligation (OPEB) obligation. The net increase of $265.4 million was due mainly to long-term general obligation and lease revenue bonds increasing by $255.4 million and net pension liability increasing by $9.5 million. The general obligation bonds are repaid through tax assessments on property located within the District boundaries and are not a direct obligation of the District's general fund. As of June 30, 2017, the District recorded $976.0 million in long term obligations, of which $13.7 thousand is due within one year.

Changes in 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. Deferred inflows decreased by $7.7 million.


Comparison of Total Liabilities, Deferred Inflows, and Net Position
Amounts in thousands
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
(200,000)
Current Liabilities
Long-term Obligations
Deferred Inflows
Net Position
June 30, 2016 37,040 697,718 22,734 (21,042)
June 30, 2017 50,543 962,242 15,084 (40,154)
Axis Title
June 30, 2016
June 30, 2017


Comparison of Net Position
80,000
60,000
40,000
20,000
-
(20,000)
(40,000)
(60,000)
(80,000)
(100,000)
(120,000)
Net investment in capital assets
Restricted
Unrestricted
June 30, 2016 (9,896) 56,039 (67,185)
June 30, 2017 9,685 59,980 (109,819)
June 30, 2016
June 30, 2017

Changes in Net Position

Net position is an accounting concept defined as total assets and deferred outflows less total liabilities and deferred inflows. Changes in 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. Overall the District's expenditures exceeded revenues resulting in a decrease in net position of $19.1 million, decreasing from $(21.0) million to $(40.2) million. 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 net amount invested in property, plant, and equipment owned by the District (capital assets less net of accumulated depreciation and outstanding capital-related debt) and deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, or related debt. The Net Investment in Capital Assets of $9.7 million reflects increased spending on capital assets and the impact of GASB Statements No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65 – *Items Previously Reported as Assets and Liabilities*. These funds are not liquid resources that can be used to fund ongoing operations.

Restricted Net Position represents funds that are constrained to a particular purpose and limited in terms of time for which the funds can be spent. It is subject to externally imposed restrictions governing their use. The Restricted Net Position of $60.0 million consists of restricted assets less liabilities and deferred inflows of resources related to those assets. When an expense is incurred that can be paid using either restricted or unrestricted resources, the District first applies the expense toward restricted resources, and then towards unrestricted resources.

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. The Unrestricted Net Position of $(109.8) million reflects the impact of GASB Statements No. 68 - *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which require governmental agencies to report their proportional shares of net pension liabilities, resulting in a negative net position for the District. GASB 68 and 71 result in entries and adjustments regarding pension liabilities for reporting purposes only. Without these entries and adjustments, the financial picture would show that the District continues to maintain sufficient reserves and has adequate resources to meet all current obligations.

STATEMENT OF NET POSITION FOR FISCAL YEARS 2017 AND 2016

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2017 and 2016, is presented below:

THE DISTRICT AS A WHOLE

Net Position

(Amounts in thousands)

	2017	2016	Change
ASSETS			
Current Assets			
Cash and investments	$ 520,847	$ 331,341	$ 189,506
Accounts receivable (net)	13,802	12,663	1,139
Other current assets	776	478	298
Total Current Assets	535,425	344,482	190,943
Capital Assets (net)	418,953	360,591	58,362
Total Assets	954,378	705,073	249,305
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	9,402	10,028	(626)
Deferred outflows of resources related to pensions	23,935	21,349	2,586
Total Deferred Outflows	33,337	31,377	1,960
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	25,296	19,034	6,262
Unearned revenue	11,523	5,172	6,351
Current portion of long-term debt	13,724	12,834	890
Total Current Liabilities	50,543	37,040	13,503
Long-Term Obligations	962,242	697,718	264,524
Total Liabilities	1,012,785	734,758	278,027
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	15,084	22,734	(7,650)
NET POSITION			
Net investment in capital assets	9,685	(9,896)	19,581
Restricted	59,980	56,039	3,941
Unrestricted	(109,819)	(67,185)	(42,634)
Total Net Position	$ (40,154)	$ (21,042)	$ (19,112)

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. It reflects revenues and expenses recognized as of June 30, 2017 and 2016, and links the results of operations back to the Statement of Net Position by reconciling the beginning of the year net position to the end of the year net position amount.

The revenues and expenses are categorized as operating and nonoperating, and expenses are reported by natural and functional classification. Revenues decreased by $9.1 million and expenditures increased by 14.5 million from the prior year, resulting in an overall decrease in net position by $19.1 million.

Revenues

The two sources of operating revenues are tuition and fees and various auxiliary sales and charges. Tuition and fee revenue is reported net of discounts for tuition paid by various federal, State, and local grants, including those associated with the Title IV Higher Education Administration Program and State-mandated exemptions against tuition. Tuition and fee revenue increased by $896 thousand in 2017 due mainly to the increase in student enrollment, the benefits of the new Payment Plan program providing students with an economical way to meet payment deadline requirements for registration, and the full year effect of an increase in non-resident tuition fee from $211 to $234 per unit. Auxiliary sales and charges are primarily bookstore and vending commissions.

State general apportionment, property taxes, grants and contracts, sales taxes and other revenues, and investment income, while budgeted for operations, are prescribed by GASB as nonoperating revenues. Thus, operating expenses exceed operating revenues, resulting in an operating loss of $175.8 million.

State apportionments decreased for 2016-2017 by $11.4 million from 2015-2016 as the District has not fully restored its pre-decline FTES base. Local property taxes increased by $7.1 million as the taxable assessed value of properties within the District boundaries increased from $104.7 billion in 2015-2016 to an all-time high of $114.7 billion in 2016-2017; however, the amount received by the District for property taxes is deducted from the total apportionment amount calculated by the State for the District.

Expenses

Expenditures increased a net $14.5 million from the prior year. The vast majority of operating expenses are for the salaries and benefits of academic, classified, and administrative personnel, comprising of $127.4 million or 66.6 percent of the total operating expenses from a District-wide full accrual perspective. The $15.7 million increase in salaries and benefits was primarily due to such factors as negotiated contractual increases, movement on step and column placements, reclassification of classified contract positions, replacement of vacated positions by the Supplemental Early Retirement Program (2015). Benefits increased in 2017 due to the effect of the salary increases on variable benefits, increases in health benefits rates, and increases in the District's pension contribution rates. The decrease in student financial aid of approximately $2 million is attributable to changes to the Title IV eligibility requirements, reducing the number of students receiving grants. The $631 thousand increase in depreciation is due to the continued completion, capitalization, and subsequent depreciation of projects primarily resulting from the District's General Obligation Bond program.

A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016, is presented below:

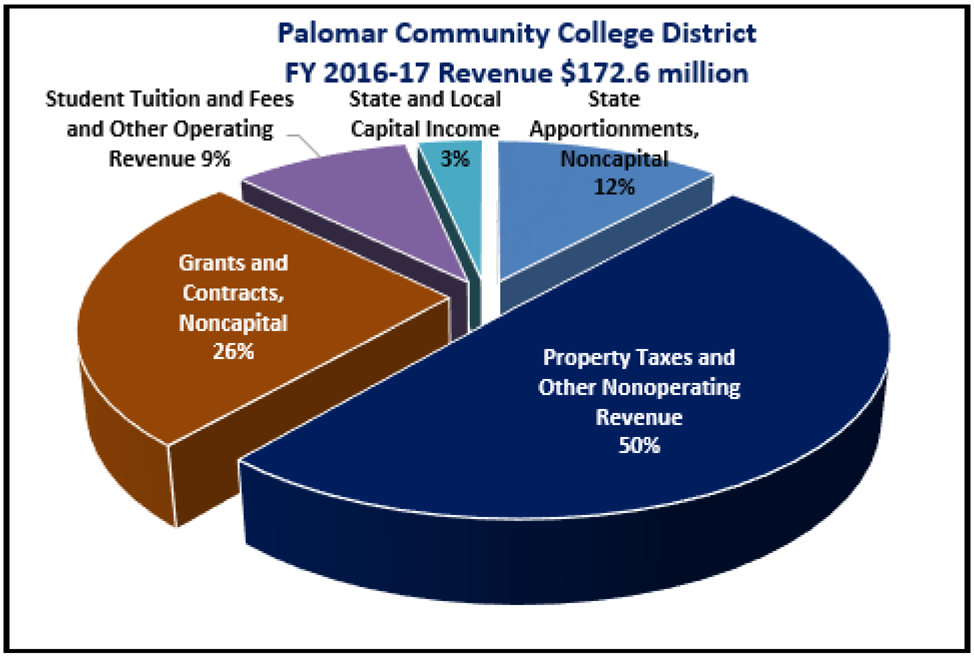
Operating Results for Fiscal Years 2017 and 2016

(Amounts in thousands)

	2017	2016	Change
Operating Revenues			
Tuition and fees, net	$ 15,855	$ 14,959	$ 896
Auxiliary sales and charges	84	112	(28)
Total Operating Revenues	15,939	15,071	868
Operating Expenses			
Salaries and benefits	127,366	111,639	15,727
Supplies, maintenance, and equipment	38,713	39,369	(656)
Student financial aid	18,330	20,293	(1,963)
Depreciation	7,288	6,657	631
Total Operating Expenses	191,697	177,958	13,739
Loss on Operations	(175,758)	(162,887)	(12,871)
Nonoperating Revenues (Expenses)			
State apportionments, noncapital	20,390	31,781	(11,391)
Property taxes	94,583	87,523	7,060
Grants and contracts, noncapital	44,889	45,583	(694)
State taxes and other revenues	3,836	4,953	(1,117)
Investment income	2,979	1,686	1,293
Other nonoperating revenues (expenses), net	(15,881)	(20,480)	4,599
Total Nonoperating Revenue (Expenses)	150,796	151,046	(250)
Other Revenues			
State and local capital income	5,878	15,557	(9,679)
Loss on disposal of assets	(28)	-	(28)
Total Other Revenue	5,850	15,557	(9,707)
Net Change in Net Position	$ (19,112)	$ 3,716	$ (22,828)

Revenue by Source

All revenues, both operating and non-operating, are presented in the chart below:



Expenses by Functional Classification – All Funds

The following represents the fiscal year 2017 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	$ 41,385	$ 16,855	$ 2,416	$ 161	$ -	$ -	$ 60,817
Academic support	14,533	6,621	5,710	205	-	-	27,069
Student services	14,001	4,793	2,384	81	82	-	21,341
Plant operations and maintenance	4,136	2,124	4,577	220	-	-	11,057
Instructional support services	10,620	7,624	6,755	77	8	-	25,084
Community services and economic development	227	79	11	4	-	-	321
Ancillary services and auxiliary operations	3,217	1,151	641	-	-	-	5,009
Student aid	-	-	7,567	7,609	18,240	-	33,416
Physical property and related acquisitions	-	-	295	-	-	-	295
Unallocated depreciation	-	-	-	-	-	7,288	7,288
Total	$ 88,119	$ 39,247	$ 30,356	$ 8,357	$ 18,330	$ 7,288	$ 191,697

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, 2017 and 2016, is presented below:

(Amounts in thousands)

	2017	2016	Change
Cash Provided by (Used in)			
Operating activities	$ (167,851)	$ (161,273)	$ (6,578)
Noncapital financing activities	152,042	147,133	4,909
Capital financing activities	202,336	(4,989)	207,325
Investing activities	2,979	1,686	1,293
Net Increase (Decrease) in Cash	189,506	(17,443)	206,949
Cash, Beginning of Year	331,341	348,784	(17,443)
Cash, End of Year	$ 520,847	$ 331,341	$ 189,506

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the District had in place $419.0 million invested in net capital assets, net of accumulated depreciation of approximately $69.4 million. 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 represents the ongoing expenditures of the long-term capital improvement projects related to the District's Master Plan 2022. As individual projects are completed and placed into service, they are listed as capital assets and depreciated accordingly.

The projects, listed below, were in progress during the fiscal year 2016-2017:

- Library and Learning Resource Center
- Parking Structure and Police Substation
- South Education Center
- Maintenance and Operations Building
- North Education Center
- A-Building Remodel




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 July 1, 2016	Additions	Deletions	Balance June 30, 2017
Land and construction in progress	$ 124,390	$ 63,191	$ 3,024	$ 184,557
Buildings and improvements	278,170	4,229	-	282,399
Furniture and equipment	20,487	1,281	395	21,373
Subtotal	423,047	68,701	3,419	488,329
Accumulated depreciation	(62,456)	(7,288)	(367)	(69,377)
	$ 360,591	$ 61,413	$ 3,052	$ 418,952

Obligations

As of June 30, 2017, the District had $976.0 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 July 1, 2016	Additions	Deletions	Balance June 30, 2017
General obligation and lease revenue bonds	$ 599,780	$ 269,347	$ 14,468	$ 854,659
Aggregate net pension obligation	99,762	9,526	-	109,288
Other obligations	11,010	7,886	6,877	12,019
Total Long-Term Obligations	$ 710,552	$ 286,759	$ 21,345	$ 975,966
Amount due within one year				$ 13,724

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.

2017-2018 BUDGET HIGHLIGHTS

The State economy continues to improve and Community Colleges are receiving revenue increases to Apportionments and categorical programs. Governor Brown signed the California's 2017 Budget Act and related legislation on June 27, 2017. The Governor's commitment to a legacy of fiscal health continues, with the budget reflecting continued investments in public education, anti-poverty programs, and reducing state liabilities as part of the expanded government spending. The California Community Colleges Chancellor's Office reported that the 2017 Budget Act expands the Proposition 98 guarantee for 2017-2018 to $74.5 billion, an increase of $2.6 billion over the 2016 Budget Act level. When combined with adjustments to the fiscal years 2015-16 and 2016-2017, the 2017-2018 State Budget provides a $587.8 million increased investments in community colleges over the three-year period. Major components of the 2017-2018 State Budget with respect to community colleges include:

- An increase of $57.8 million Proposition 98 General Fund for a 1-percent Growth in Full-Time Equivalent Students. The District's 2017-2018 Adopted Budget does not include growth revenue. Palomar is not in a position to capture FTES growth while in Stabilization/Restoration period. In order to access Growth funds, the District's pre-decline FTES level must be fully restored.

- An increase of $183.6 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, and other general expenses. Approximately $2.9 million of base increase is in the District's budget.

- The State budget included a Cost-of-Living Adjustment (COLA) of 1.56 percent for apportionments.

- Additional categories of renewed funding includes Student Success, Student Equity, Proposition 39 Energy Efficiency funding, Scheduled Maintenance funding, Extended Opportunities Programs and Services, Disabled Students Programs and Services, Strong Workforce Initiatives, and CalWORKS.

- 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.

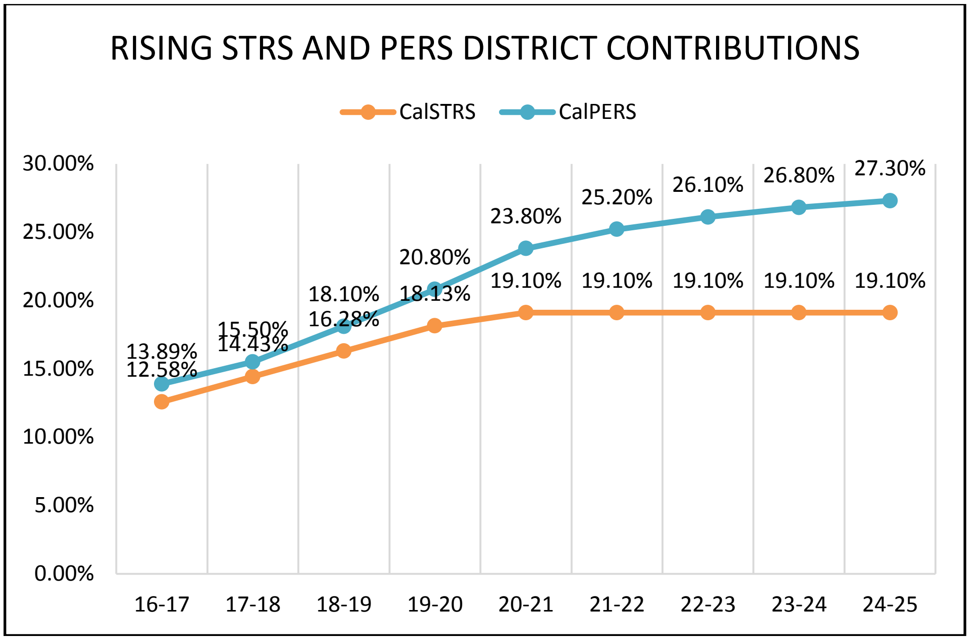
The most important element of the State funding is the General Apportionment allocation. Apportionment revenue is directly tied to the generation and reporting of FTES. Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The 2017-2018 Adopted Budget is a balanced budget, with the District's reserves playing a key role in balancing expenditures with revenues. Revenues are budgeted at the amount certified with the Advance Principal Apportionment from the Chancellor's Office amended to the Target FTES, projected by Enrollment Services. The 2017-2018 Adopted Budget assumes class offerings to achieve 19,200 Full-Time Equivalent Students (FTES). The Governing Board approved the 2017-2018 Adopted Budget on September 12, 2017.

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The financial position of the District is directly affected by the economic strength of California and local economies. The State's economy has strengthened and General Fund revenues have increased, driven primarily by increase in per capita personal income and capital gains taxes. Consequently, the State has made available additional funding for Proposition 98 priorities, to be allocated to districts based on the formula established by Senate Bill 361 for a combination of one-time and ongoing purposes.

Whereas Proposition 98 sets an overall funding level, the District engages in an annual budget development process that involves all levels of the organization. While the District is in the Stabilization and Restoration period, the focus is on ensuring the acquisition of sufficient FTES to meet targeted goals. Steadfast in our mission to provide students with an engaging and supportive learning environment, particular emphasis is placed on maintaining the financial stability of the District and the annual budget is developed with this objective. The District will continue to explore innovative ideas and approaches that promote our students' success in the most cost-effective manner possible. We will continue to work towards the full restoration of FTES to our pre-decline base, achieve growth as well as long-term enrollment sustainability. Budget and financial policies, approved by the Governing Board, provide guidance for sufficient planning of resources, maintaining adequate reserve levels, and determining how efficiently and effectively we will carry out our mission.

One of the most significant budget challenges for the District is the increase in contribution rates for the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), illustrated below. The District is also affected by costs of health benefits, which have been growing more quickly than inflation for many years. Additionally, growth in spending is also driven by increases in salary schedules that have been set through collective bargaining agreements. The District has active agreements with employee bargaining units: Palomar Faculty Federation (PFF) and Council of Classified Employees (CCE). The District recently implemented the classification/compensation study for CCE and plans to implement a classification study for its Confidential and Supervisory Team (CAST) and Administrative Association (AA).



The District will continue Measure M construction activities throughout the 2017-2018 fiscal year. Over the next 12 months, Measure M construction projects will include the North Education Center, the South Education Center, and the Maintenance and Operations Complex, all of which are expected to open in late spring 2018. Given the significant benefits to the environment and opportunities for long-term financial benefits, the District will continue to incorporate innovative features and sustainable design strategies into all construction programs.

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. Management will maintain a close watch over resources to maintain the ability to react to internal and external issues if and when they arise.

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.

ACKNOWLEDGMENTS

We wish to thank the members of the Governing Board for their continued guidance and support in planning and conducting the financial operations of the District in a highly responsible and progressive manner. The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire Fiscal Services staff. Appreciation is expressed to the external auditors, Vavrinek, Trine, & Day, LLP, for the contributions made in preparation and timely completion of the audit.

OFFICIALS ISSUING REPORT:

Ron Ballesteros-Perez

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Ron Ballesteros-Perez
Assistant Superintendent, Vice President, Finance and Administrative Services

Carmen M. Coniglio

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Carmen M. Coniglio
Director, Fiscal Services

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
JUNE 30, 2017

ASSETS	
Current Assets	
Cash and cash equivalents	$ 4,908,150
Investments - unrestricted	150,303,549
Investments - restricted	365,635,181
Accounts receivable	9,644,718
Student loans receivable, net	4,157,471
Due from fiduciary funds	3,055
Prepaid expenses	773,168
Total Current Assets	535,425,292
Noncurrent Assets	
Nondepreciable capital assets	184,557,029
Depreciable capital assets, net of depreciation	234,395,476
Total Noncurrent Assets	418,952,505
TOTAL ASSETS	954,377,797
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on refunding	9,401,707
Deferred outflows of resources related to pensions	23,935,037
Total Deferred Outflows of Resources	33,336,744
LIABILITIES	
Current Liabilities	
Accounts payable	15,426,265
Accrued interest payable	9,869,325
Unearned revenue	11,523,384
General obligation payable - current portion	11,895,000
Lease revenue bond payable - current portion	560,000
PARS supplemental early retirement obligation - current portion	1,269,126
Total Current Liabilities	50,543,100
Noncurrent Liabilities	
Compensated absences liability	3,156,460
Load banking	495,997
General obligation bonds	839,483,678
Lease revenue bond payable	2,720,000
PARS supplemental early retirement obligation	2,538,252
Net other postemployment benefits (OPEB) obligation	4,559,006
Aggregate net pension obligation	109,288,135
Total Noncurrent Liabilities	962,241,528
TOTAL LIABILITIES	1,012,784,628
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	15,083,633
NET POSITION	
Net investment in capital assets, net of related debt	9,685,304
Restricted for:	
Debt service	34,698,515
Capital projects	18,445,273
Educational programs	6,836,497
Unrestricted	(109,819,309)
TOTAL NET POSITION	$ (40,153,720)

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, 2017

OPERATING REVENUES	
Student Tuition and Fees	$ 26,025,506
Less: Scholarship discount and allowance	(10,170,232)
Net tuition and fees	15,855,274
Other Operating Revenues	83,644
TOTAL OPERATING REVENUES	15,938,918
OPERATING EXPENSES	
Salaries	88,119,032
Employee benefits	39,246,999
Supplies, materials, and other operating expenses and services	30,355,677
Student financial aid	18,330,334
Equipment, maintenance, and repairs	8,357,242
Depreciation	7,287,676
TOTAL OPERATING EXPENSES	191,696,960
OPERATING LOSS	(175,758,042)
NONOPERATING REVENUES (EXPENSES)	
State apportionments, noncapital	20,389,779
Local property taxes, levied for general purposes	72,280,439
Taxes levied for other specific purposes	22,302,296
Federal grants	22,353,648
State grants	22,535,502
State taxes and other revenues	3,836,882
Investment income	2,979,087
Interest expense on capital related debt	(20,241,470)
Investment expense on capital asset-related debt, net	(232,006)
Transfer from fiduciary funds	193,447
Transfer to fiduciary funds	(30,000)
Other nonoperating revenue	4,428,755
TOTAL NONOPERATING REVENUES (EXPENSES)	150,796,359
LOSS BEFORE OTHER REVENUES	(24,961,683)
OTHER REVENUES	
State revenues, capital	2,136,405
Local revenues, capital	3,741,153
Loss on disposals of assets	(27,974)
TOTAL OTHER REVENUES	5,849,584
CHANGE IN NET POSITION	(19,112,099)
NET POSITION, BEGINNING OF YEAR	(21,041,621)
NET POSITION, END OF YEAR	$ (40,153,720)

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 15,054,298
Auxiliary sales	83,644
Payments to or on behalf of employees	(126,889,201)
Payments to vendors for supplies and services	(37,769,398)
Payments to students for scholarships and grants	(18,330,334)
Net Cash Flows From Operating Activities	(167,850,991)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State apportionments	20,389,779
Property taxes - nondebt related	72,280,439
Grant and contracts	51,341,978
State taxes and other revenues	4,194,425
Other nonoperating	3,835,118
Net Cash Flows From Noncapital Financing Activities	152,041,739
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(63,130,366)
State revenue, capital projects	2,136,405
Local revenue, capital projects	3,741,153
Property taxes - related to capital debt	22,302,296
Proceeds from capital debt	269,347,010
Loss from sale of capital assets	(27,974)
Principal paid on capital debt	(14,468,073)
Interest paid on capital debt	(17,564,239)
Net Cash Flows From Capital Financing Activities	202,336,212
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	2,979,087
NET CHANGE IN CASH AND CASH EQUIVALENTS	189,506,047
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	331,340,833
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 520,846,880

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

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2017

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (175,758,042)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Depreciation expense	7,287,676
Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows	
Receivables, net	(1,312,670)
Prepaid expenses	(310,117)
Accounts payable and accrued liabilities	1,432,718
Unearned revenue	511,694
Aggregate net pension obligation	9,526,108
Net OPEB obligation	1,993,439
PARS supplemental early retirement obligation	(1,269,126)
Load banking	(19,794)
Compensated absences	303,926
Deferred outflows of resources related to pensions	(2,586,275)
Deferred inflows of resources related to pensions	(7,650,528)
Total Adjustments	7,907,051
Net Cash Flows From Operating Activities	$ (167,850,991)

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 4,908,150
Cash in county treasury	515,938,730
Total Cash and Cash Equivalents	$ 520,846,880

NONCASH TRANSACTIONS	
On behalf payments for benefits	$ 3,903,335

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

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Retiree OPEB Trust	Other Trust Funds
ASSETS		
Cash and cash equivalents	$ -	$ 174,199
Investments	4,476,205	1,723,165
Accounts receivable	-	9,927
Student loans receivable	-	67,810
Total Assets	4,476,205	1,975,101
LIABILITIES		
Accounts payable	-	8,210
Due to primary government	-	3,055
Unearned revenue	-	136,757
Total Liabilities	-	148,022
NET POSITION		
Restricted for postemployment benefits other than pensions	4,476,205	-
Unreserved	-	1,827,079
Total Net Position	$ 4,476,205	$ 1,827,079

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, 2017

	Retiree OPEB Trust	Other Trust Funds
ADDITIONS		
Local revenues	$ 379,017	$ 1,001,126
DEDUCTIONS		
Classified salaries	-	1,275
Services and operating expenditures	500	82,151
Total Deductions	500	83,426
OTHER FINANCING SOURCES (USES)		
Transfer from primary government	-	30,000
Transfer to primary government	-	(193,447)
Other uses	-	(699,814)
Total Other Financing Sources (Uses)	-	(863,261)
CHANGE IN NET POSITION	378,517	54,439
NET POSITION, BEGINNING OF YEAR, as restated (see Note 16)	4,097,688	1,772,640
NET POSITION, END OF YEAR	$ 4,476,205	$ 1,827,079

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

Retiree Health Benefit OPEB Trust

The Palomar Community College District Retiree Health Benefit OPEB Trust (the Trust) is an irrevocable governmental trust pursuant to Section 115 of the IRC for the purpose of funding certain postemployment benefits other than pensions. The Trust is administered by the Community College League of California Retiree Health Benefits Program Joint Powers Agreement (JPA) as directed by the investment alternative choice selected by the District. The District retains the responsibility to oversee the management of the Trust, including the requirement that investments and assets held within the Trust continually adhere to the requirements of the California Government Code Section 53600.5 which specifies that the trustee's primary role is to preserve capital, to maintain investment liquidity, and to protect investment yield. As such, the District acts as the fiduciary of the Trust. The financial activity of the Trust has been discretely presented. Separate financial statements are not prepared for the Trust.

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. Fiduciary activities, with the exception of the Student Financial Aid Fund, are excluded from the basic financial statements. 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 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, 2017, 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 $1,937,114 for the year ended June 30, 2017.

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 Charge on Refunding

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

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 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 financial statements report $59,980,285 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 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 District has implemented the provisions of this Statement as of June 30, 2017.

As the result of implementing GASB Statement No. 74, the District has restated the beginning net position of the Fiduciary funds Statement of Net Position, effectively increasing the District's Fiduciary Net Position as of July 1, 2016, by $4,097,688.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017.

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 District has implemented the provisions of this Statement as of June 30, 2017, 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.

New Accounting Pronouncements

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 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 November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. 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 as of June 30, 2017, consist of the following:

Primary government	$ 520,846,880
Fiduciary funds	6,373,569
Total Deposits and Investments	$ 527,220,449

Cash on hand and in banks	$ 5,061,379
Cash in revolving	20,970
Investments	522,138,100
Total Deposits and Investments	$ 527,220,449

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, US Treasury Bonds, and Master Trust.

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	$ 406,789,000	417
US Treasury Bonds	109,489,535	1,090
Master Trust	4,476,205	N/A
	$ 520,754,740	

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 and US Treasury Bonds reflected an AAAf/S1 and Aaa ratings by Standard and Poor's Rating Service, respectively. The District's investment in the Master Trust is not required to be rated, nor has it been rated.

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, 2017, the District's bank balance of $2,230,403 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 County of San Diego 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, 2017:

		Fair Value Measurements Using		
Investment Type	Fair Value	Level 1 Inputs	Level 3 Inputs	Uncategorized
County of San Diego Investment Pool	$ 406,789,000	$ -	$ -	$ 406,789,000
US Treasury Bonds	109,489,535	109,489,535	-	-
Master Trust	4,476,205	-	4,476,205	-
Total	$ 520,754,740	$ 109,489,535	$ 4,476,205	$ 406,789,000

	Level 3 Inputs
Investments at Fair Value	
Balance at July 1, 2016	$ 4,097,688
Fees	(500)
Unrealized Gains	379,017
Balance at June 30, 2017	$ 4,476,205

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	$ 776,143	$ -
State Government		
Categorical aid	2,384,555	-
Lottery	1,455,546	-
Other State sources	3,044,565	-
Local Sources		
Property taxes	278,248	-
Interest	1,129,079	9,927
Other local sources	576,582	-
Total	$ 9,644,718	$ 9,927
Student receivables	$ 6,094,585	$ 67,810
Less: Allowance for doubtful accounts	(1,937,114)	-
Total	$ 4,157,471	$ 67,810

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Not Being Depreciated				
Land	$ 63,014,087	$ -	$ -	$ 63,014,087
Construction in progress	61,297,214	63,190,630	3,023,952	121,463,892
Works of art	79,050	-	-	79,050
Total Capital Assets Not Being Depreciated	124,390,351	63,190,630	3,023,952	184,557,029
Capital Assets Being Depreciated				
Land improvements	34,655,287	2,791,415	-	37,446,702
Buildings and improvements	243,514,478	1,437,728	-	244,952,206
Furniture and equipment	20,487,316	1,280,931	394,827	21,373,420
Total Capital Assets Being Depreciated	298,657,081	5,510,074	394,827	303,772,328
Total Capital Assets	423,047,432	68,700,704	3,418,779	488,329,357
Less Accumulated Depreciation				
Land improvements	13,501,845	1,152,614	-	14,654,459
Buildings and improvements	32,177,131	4,939,117	-	37,116,248
Furniture and equipment	16,777,053	1,195,945	366,853	17,606,145
Total Accumulated Depreciation	62,456,029	7,287,676	366,853	69,376,852
Net Capital Assets	$ 360,591,403	$ 61,413,028	$ 3,051,926	$ 418,952,505

Depreciation expense for the year was $7,287,676.

Interest expense on capital related debt for the year ended June 30, 2017, was $22,682,459. Of this amount, $2,440,989 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

	Primary Government	Fiduciary Funds
Accrued payroll	$ 3,343,803	$ -
Apportionment	1,311,031	-
Construction	7,993,988	-
State categoricals	22,233	-
Other	2,755,210	8,210
Total	$ 15,426,265	$ 8,210

NOTE 8 - UNEARNED REVENUE

Unearned revenue consisted of the following:

	Primary Government	Fiduciary Funds
State categorical aid	$ 5,531,747	$ -
Enrollment fees	5,547,964	136,757
Other local	443,673	-
Total	$ 11,523,384	$ 136,757

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, 2017, the fiduciary funds owed the primary government $3,055.

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 2017 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to $193,447, and the amount transferred to the fiduciary funds from the primary government amounted to $30,000.

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2017 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	$ 595,954,741	$ 269,347,010	$ 13,923,073	$ 851,378,678	$ 11,895,000
Lease revenue bonds	3,825,000	-	545,000	3,280,000	560,000
Total Bonds	599,779,741	269,347,010	14,468,073	854,658,678	12,455,000
Other Obligations					
Compensated absences	2,852,534	303,926	-	3,156,460	-
Load banking	515,791	-	19,794	495,997	-
PARS supplemental early retirement obligation	5,076,504	-	1,269,126	3,807,378	1,269,126
Net OPEB obligation	2,565,567	7,582,181	5,588,742	4,559,006	-
Aggregate net pension obligation	99,762,027	9,526,108	-	109,288,135	-
Total Other Obligations	110,772,423	17,412,215	6,877,662	121,306,976	1,269,126
Total Long-Term Obligations	$ 710,552,164	$ 286,759,225	$ 21,345,735	$ 975,965,654	$ 13,724,126

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 14, 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 remaining outstanding principal balance of these bonds were paid during the 2016-2017 fiscal year.

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. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund a portion of the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B. Monies were placed in an escrow account in the District's name to pay a portion of the remaining balance of the bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance remains the District's obligation until the crossover date. The outstanding principal balance of these bonds at June 30, 2017, was $133,745,097.

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. During the 2016-2017 fiscal year, the District issued 2017 General Obligation Refunding (Crossover) Bonds. These bonds were issued to refund the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B-1. Monies were placed in an escrow account in the District's name to pay the remaining balance of the bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance remains the District's obligation until the crossover date. The outstanding principal balance of these bonds at June 30, 2017, 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, 2017, 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, 2017, was $213,570,000.

General Obligation Bonds, Election 2006, Series D

On March 22, 2017, the District issued General Obligation Bonds, Election 2006, Series A in the aggregate principal amount of $139,000,000. Bonds were issued with a final maturity date of August 1, 2046, and interest rates ranging from 3.25 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, 2017, was $139,000,000.

2017 General Obligation Refunding (Crossover) Bonds

On April 22, 2017, the District issued 2017 General Obligation Refunding (Crossover) Bonds in the aggregate principal amount of $101,770,000. Bonds were issued with a final maturity date of August 1, 2045, with an interest rate of 5.00 percent. Interest is paid semiannually on May 1 and November 1 of each year. These bonds were issued to refund a portion of the outstanding District's General Obligation Bonds, Election 2006, Series B and the remaining outstanding obligation of the District's General Obligation Bonds, Election 2006, Series B-1. Monies were placed in an escrow account in the District's name to pay the refunded bonds on the crossover date, August 1, 2020. The debt was not considered defeased, therefore, the outstanding balance related to the refunded bonds remains the District's obligation until the crossover date. As of June 30, 2017, the amount that remains in the escrow account to satisfy the obligations on the crossover date of August 1, 2020 was $109,489,535.

Debt Maturity

General Obligation Bonds

Series	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2016	Issued	Accretion	Redeemed	Bonds Outstanding June 30, 2017
2006 A	4/17/2007	5/1/2017	4.00%-5.00%	$ 160,000,000	$ 4,160,000	$ -	$ -	$ 4,160,000	$ -
2006 B	10/28/2010	8/1/2045	2.36%-6.72%	91,498,901	126,205,143	-	7,969,954	430,000	133,745,097
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	-	-	6,430,000	213,570,000
2006 D	3/22/2017	8/1/2046	3.25%-5.00%	139,000,000	-	139,000,000	-	-	139,000,000
	Subtotal Election 2006				433,865,143	139,000,000	7,969,954	11,020,000	569,815,097
2015 Refunding	1/13/2015	5/1/2032	2.00%-5.00%	115,675,000	114,100,000	-	-	-	114,100,000
2017 Refunding	4/22/2017	8/1/2045	5.00%	101,770,000	-	101,770,000	-	-	101,770,000
				Premium on Debt	47,989,598	20,607,056	-	2,903,073	65,693,581
	Total General Obligation Bonds				$ 595,954,741	$261,377,056	$7,969,954	$13,923,073	$ 851,378,678

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
2018	$ 866,008	$ 13,992	$ -	$ 880,000
2019	1,111,468	63,532	-	1,175,000
2020	1,421,280	153,720	-	1,575,000
2021	1,520,654	259,346	-	1,780,000
2022	2,249,610	750,390	-	3,000,000
2023-2027	12,164,345	7,165,655	6,058,020	25,388,020
2028-2032	5,686,426	6,093,574	35,199,488	46,979,488
2033-2037	31,581,910	41,448,090	54,359,638	127,389,638
2038-2042	59,401,735	47,713,265	32,482,973	139,597,973
2043-2046	17,741,661	22,373,339	4,511,588	44,626,588
Total	$ 133,745,097	$ 126,034,903	$ 132,611,707	$ 392,391,707

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

Fiscal Year	Principal	Interest to Maturity	Total
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	-	6,006,990	6,006,990
2023-2027	-	30,034,950	30,034,950
2028-2032	-	30,034,950	30,034,950
2033-2037	-	30,034,950	30,034,950
2038-2042	-	30,034,950	30,034,950
2043-2046	83,500,000	18,128,880	101,628,880
Total	$ 83,500,000	$ 168,303,630	$ 251,803,630

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

Fiscal Year	Principal	Interest to Maturity	Total
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	410,000	9,463,050	9,873,050
2023-2027	6,080,000	46,620,750	52,700,750
2028-2032	13,855,000	44,266,375	58,121,375
2033-2037	24,365,000	40,023,025	64,388,025
2038-2042	79,685,000	31,024,375	110,709,375
2042-2045	80,095,000	5,935,375	86,030,375
Total	$ 213,570,000	$ 215,501,325	$ 429,071,325

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

Fiscal Year	Principal	Interest to Maturity	Total
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	5,650,000	4,802,000	10,452,000
2023-2027	36,615,000	19,232,250	55,847,250
2028-2032	53,775,000	8,458,750	62,233,750
Total	$ 114,100,000	$ 54,025,150	$ 168,125,150

The General Obligation Bonds, Election 2006, Series D Bonds mature through 2047 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ -	$ 1,627,316	$ 1,627,316
2019	2,900,000	6,232,275	9,132,275
2020	2,065,000	6,116,275	8,181,275
2021	-	6,033,675	6,033,675
2022	-	6,033,675	6,033,675
2023-2027	4,170,000	29,871,875	34,041,875
2028-2032	11,220,000	28,154,875	39,374,875
2033-2037	3,225,000	25,675,875	28,900,875
2038-2042	-	25,514,625	25,514,625
2042-2047	115,420,000	23,035,313	138,455,313
Total	$ 139,000,000	$ 158,295,779	$ 297,295,779

The 2017 General Obligation Refunding (Crossover) Bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	$ -	$ 1,158,707	$ 1,158,707
2019	-	4,437,600	4,437,600
2020	-	4,437,600	4,437,600
2021	-	4,437,600	4,437,600
2022	-	4,437,600	4,437,600
2023-2027	-	22,188,000	22,188,000
2028-2032	-	22,188,000	22,188,000
2033-2037	36,680,000	18,397,750	55,077,750
2038-2042	-	13,018,000	13,018,000
2043-2046	65,090,000	8,157,000	73,247,000
Total	$ 101,770,000	$ 102,857,857	$ 204,627,857

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
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	120,000	83,350	203,350
2023-2027	720,000	306,219	1,026,219
2028-2031	720,000	94,812	814,812
Total	$ 1,990,000	$ 872,781	$ 2,862,781

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
2018	$ 460,000	$ 31,800	$ 491,800
2019	475,000	17,775	492,775
2020	355,000	5,325	360,325
Total	$ 1,290,000	$ 54,900	$ 1,344,900

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
2018	$ 1,269,126
2019	1,269,126
2020	1,269,126
Total	$ 3,807,378

Compensated Absences

The compensated absences liability outstanding at June 30, 2017, was $3,156,460.

Load Banking

The load banking liability outstanding at June 30, 2017, was $495,997.

Other Postemployment Benefits Obligation

The District's annual required contribution for the year ended June 30, 2017, was $7,866,793, and contributions made by the District during the year were $5,588,742. Interest on the net OPEB obligation, adjustments to the annual required contribution, and the change in value of the irrevocable trust was $148,803, $(54,898), and $(378,517), respectively, which resulted in an increase to the net OPEB obligation of $1,993,439. As of June 30, 2017, the net OPEB obligation was $4,559,006. 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, 2017, was $109,288,135. 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

Plan administration. The Palomar Community College District Board of Trustees administers the Postemployment Benefits Plan (the Plan) — a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for the District.

Management of the Plan is vested in the Community College League of California Retiree Health Benefits Program Joint Powers Agreement (JPA), which consists of representatives from twelve community college districts within California.

Plan membership. At June 30, 2017, Plan membership consisted of the following:

Inactive Plan members or beneficiaries currently receiving benefit payments	512
Active Plan members	672
	1,184

Benefits provided. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan to age 65. The District's Governing Board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions. The contribution requirements of Plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits. For fiscal year 2016-2017, the District contributed $5,588,742 to the Plan, all of which was used for current premiums. Plan members are not required to contribute to the Plan.

Investments

Investment policy. The Plan's policy in regard to the allocation of invested assets is established and may be amended by the District's Governing Board by a majority vote of its members. It is the policy of the JPA to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Domestic equity	50%
Fixed income	50%
Total	100%

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 9.20 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB of the District

The component of the net OPEB liability of the District as June 30, 2017, was as follows:

Total Actuarial Accrued OPEB liability	$ 98,880,070
Plan fiduciary net position	4,476,205
District's net OPEB liability	$ 94,403,865
Plan fiduciary net position as a percentage of the total OPEB liability	5%

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Investment rate of return	5.80 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	4.00 percent

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2014 – April 30, 2016.

The long-term expected rate of return on OPEB 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 investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	2.0%
Fixed income	4.3%

Discount rate. The discount rate used to measure the total OPEB liability was 5.80 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount and health care trend rates. The net OPEB liability of the District is based on the actuarial report that relies on estimates and assumptions that affect the amounts reported. Particularly, changes in the discount and health care cost trend rates used can have a significant impact on the resulting actuarially determined OPEB liability. Actual results may differ from these estimates and assumptions.

The above noted actuarial accrued liability was based on the July 1, 2016 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.

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, 2017, 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 2016-2017, 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, 2017, 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	$ 65,416,466	$ 11,216,670	$ 8,341,391	$ 5,416,457
CalPERS	43,871,669	12,718,367	6,742,242	3,566,910
Total	$ 109,288,135	$ 23,935,037	$ 15,083,633	$ 8,983,367

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, 2015, 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, 2017, 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	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required State contribution rate	8.828%	8.828%

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, 2017, are presented above, and the District's total contributions were $5,691,588.

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

At June 30, 2017, 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	$ 65,416,466
State's proportionate share of net pension liability associated with the District	37,240,427
Total	$ 102,656,893

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, was 0.0809 percent and 0.0915 percent, respectively, resulting in a net decrease in the proportionate share of 0.0106 percent.

For the year ended June 30, 2017, the District recognized pension expense of $5,416,457. In addition, the District recognized pension expense and revenue of $3,599,679 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 5,691,588	$ -
Net change in proportionate share of net pension liability	324,505	6,745,631
Differences between projected and actual earnings on the pension plan investments	5,200,577	-
Differences between expected and actual experience in the measurement of the total pension liability	-	1,595,760
Total	$ 11,216,670	$ 8,341,391

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
2018	$ 113,459
2019	113,459
2020	3,023,114
2021	1,950,545
Total	$ 5,200,577

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 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ (1,350,606)
2019	(1,350,606)
2020	(1,350,606)
2021	(1,350,606)
2022	(1,350,605)
Thereafter	(1,263,857)
Total	$ (8,016,886)

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

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%)	$ 94,149,048
Current discount rate (7.60%)	65,416,466
1% increase (8.60%)	41,552,854

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, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation. 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, 2017, 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	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

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, 2017, are presented above, and the total District contributions were $4,002,474.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $43,871,669. The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, was 0.2221 percent and 0.2588 percent, respectively, resulting in a net decrease in the proportionate share of 0.0367 percent.

For the year ended June 30, 2017, the District recognized pension expense of $3,566,910. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,002,474	$ -
Net change in proportionate share of net pension liability	21,518	5,424,160
Differences between projected and actual earnings on the pension plan investments	6,807,473	-
Differences between expected and actual experience in the measurement of the total pension liability	1,886,902	-
Changes of assumptions	-	1,318,082
Total	$ 12,718,367	$ 6,742,242

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
2018	$ 954,839
2019	954,839
2020	3,121,106
2021	1,776,689
Total	$ 6,807,473

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 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	$ (1,896,813)
2019	(1,847,551)
2020	(1,089,458)
Total	$ (4,833,822)

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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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%	5.71%
Global debt securities	20%	2.43%
Inflation assets	6%	3.36%
Private equity	10%	6.95%
Real estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

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%)	$ 65,456,775
Current discount rate (7.65%)	43,871,669
1% increase (8.65%)	25,897,821

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 year ended June 30, 2017, which amounted to $3,903,335 (8.828 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 year ended June 30, 2017. 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, 2017.

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, 2017.

Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Humanities Building	$ 73,492	7/1/2017
Parking Improvements	8,149,384	1/1/2018
Maintenance and Operations Building	10,870,264	4/1/2018
Library/LRC	203,599	6/1/2018
North Education Center	137,962	6/1/2018
South Education Center	31,929,782	6/1/2018
Arboretum	87,770	8/1/2018
Landscape Improvements - San Marcos	219,108	8/1/2018
LL Building - Student Services One-Stop	10,173	12/1/2019
Kinesiology/Athletics	37,502	12/1/2020
	$ 51,719,036	

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in the current year. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the fiduciary funds by:

Fiduciary Funds	
Net Position - Beginning of Year	$ 1,772,640
Restatement of the District's OPEB Plan Fiduciary Net Position for the implementation of GASB Statement No. 74	4,097,688
Net Position - Beginning of Year, as Restated	$ 5,870,328

REQUIRED SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2017

	2017
Total Net OPEB Liability*	
Annual required contribution	$ 7,866,793
Adjustment of amortization of unfunded liability	(54,898)
Interest on net OPEB liability	148,803
Change in value of irrevocable trusts	(378,517)
Pay as you go contribution	(5,588,742)
Net Changes in Total OPEB Liability	1,993,439
Total Net OPEB Liability - beginning	2,565,567
Total Net OPEB Liability - ending	$ 4,559,006
Plan Fiduciary Net Position**	
Net investment income	$ 379,017
Administrative expense	(500)
Net Change in Plan Fiduciary Net Position	378,517
Plan Fiduciary Net Position - beginning	4,097,688
Plan Fiduciary Net Position - ending	$ 4,476,205

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

* The Total Net OPEB Liability was measured in accordance with GASB Statement No. 45.

** The Plan Fiduciary Net Position was measured in accordance with GASB Statement No. 74.

See accompanying note to required supplementary information.

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OPEB
FOR THE YEAR ENDED JUNE 30, 2017

	2017
Actuarially determined contribution	$ 7,866,793
Contributions in relations to the actuarially determined contribution	(5,588,742)
Contribution deficiency (excess)	$ 2,278,051
Covered-employee payroll	$ 58,826,928
Contribution as a percentage of covered-employee payroll	9.50%

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

See accompanying note to required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OPEB INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2017

	2017
Annual money-weighted rate of return, net of investment expense	9.20%

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

See accompanying note to required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017

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, 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%
July 1, 2016	4,097,688	98,880,070	94,782,382	4.14%	58,826,928	161%

* Entry age normal

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
District's proportion of the net pension liability	0.0809%	0.0915%	0.0909%
District's proportionate share of the net pension liability	$ 65,416,466	$ 61,617,589	$ 53,119,316
State's proportionate share of the net pension liability associated with the District	37,240,427	32,588,912	32,075,736
Total	$ 102,656,893	$ 94,206,501	$ 85,195,052
District's covered-employee payroll	$ 41,606,198	$ 38,026,419	$ 40,938,175
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	157.23%	162.04%	129.75%
Plan fiduciary net position as a percentage of the total pension liability	70%	74%	77%
CalPERS			
District's proportion of the net pension liability	0.2221%	0.2588%	0.2756%
District's proportionate share of the net pension liability	$ 43,871,669	$ 38,144,438	$ 31,291,747
District's covered-employee payroll	$ 26,587,887	$ 31,818,546	$ 28,936,290
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	165.01%	119.88%	108.14%
Plan fiduciary net position as a percentage of the total pension liability	74%	79%	83%

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

See accompanying note to required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS
FOR THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
CalSTRS			
Contractually required contribution	$ 5,691,588	$ 4,464,345	$ 3,376,746
Contributions in relation to the contractually required contribution	(5,691,588)	(4,464,345)	(3,376,746)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 45,243,148	$ 41,606,198	$ 38,026,419
Contributions as a percentage of covered-employee payroll	12.58%	10.73%	8.88%
CalPERS			
Contractually required contribution	$ 4,002,474	$ 3,149,867	$ 3,745,361
Contributions in relation to the contractually required contribution	(4,002,474)	(3,149,867)	(3,745,361)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 28,819,657	$ 26,587,887	$ 31,818,546
Contributions as a percentage of covered-employee payroll	13.888%	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, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the net OPEB liability, including beginning and ending balances, the plan's fiduciary net position, and the net OPEB liability. In the future, as data becomes available, ten years of information will be presented. There were no changes in benefit terms or assumptions in the current year.

Schedule of District Contributions for OPEB

This schedule presents information on the District's actuarially determined contribution, contributions in relation to the actuarially determined contribution, and any excess or deficiency related to the actuarially determined contribution. In the future, as data becomes available, ten years of information will be presented.

Valuation Date: Actuarially determined contribution rates are calculated as of July 1, 2016, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Amortization period	24 years
Asset Valuation method	5-year smoothed market
Inflation	2.75 percent
Health care cost trend rates	4.0 percent
Salary increases	2.75 percent, average
Investment rate of return	5.8 percent
Retirement age	Expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Certificated : 2009 CalSTRS Mortality Classified: 2014 CalPERS Active Mortality for Miscellaneous Employees

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

Schedule of OPEB Investment Returns

This schedule presents information on the annual money weighted rate of return on OPEB plan investments. In future years, as data becomes available, ten years of information will be presented.

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.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes in Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions for Pensions

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.

SUPPLEMENTARY INFORMATION

DISTRICT ORGANIZATION
JUNE 30, 2017

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
Nancy Ann Hensch, B.A.	President	2020
Paul P. McNamara, B.A.	Vice President	2018
Mark R. Evilsizer, M.A.	Secretary	2018
John J. Halcón, Ph.D.	Trustee	2020
Nina Deerfield	Trustee	2020
Malik Spence	Student Trustee	2017

ADMINISTRATION

Joi Lin Blake, Ed.D.	Superintendent/President
Jack Khan, Ph.D.	Assistant Superintendent/ Vice President, Instruction
Adrian Gonzales	Assistant Superintendent/ Vice President, Student Services
Ronald E. Ballesteros-Perez	Assistant Superintendent/ Vice President, Finance and Administration Services and Human Resources

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Student Financial Assistance Cluster				
Federal Pell Grant Program	84.063		$ 14,651,448	$ -
Federal Pell Administrative Allowance	84.063		55,569	-
Federal Work Study Program	84.033		275,962	-
Federal Work Study Administrative Allowance	84.033		42,389	-
Federal Supplemental Educational Opportunity Grants	84.007		394,200	-
Federal Direct Student Loans	84.268		970,058	-
Total Student Financial Assistance Cluster			16,389,626	-
TRIO Cluster				
Palomar College North County Educational Opportunity Centers	84.066A		179,948	-
Student Support Services - San Marcos	84.042A		249,654	-
Student Support Services - Escondido	84.042A		295,140	-
Upward Bound	84.047A		238,272	-
Upward Bound Rural	84.047A		208,718	-
Talent Search - Escondido	84.044A		133,111	-
Talent Search - Vista	84.044A		75,931	-
Total TRIO Cluster			1,380,774	-
Increasing HLI Student Participation, Persistence, and Completion in STEM Education	84.031S		398,547	42,729
Determined to Achieve: Successful Pathways to a STEM Degree	84.031C		656,839	-
Gear-Up Partnership in Escondido and San Marcos	84.334A		2,331,997	-
Gear-Up Rural Reservation Collaborative in Pauma, Vista, and Fallbrook	84.334A		409,707	-
Passed through from the California Community Colleges Chancellor's Office (CCCCO)				
Career and Technical Education Act, Perkins, IV	84.048	16-C01-039	615,857	-
Career and Technical Education, Transitions	84.048A	16-C01-039	43,748	-
Total U.S. Department of Education			22,227,095	42,729
U.S. DEPARTMENT OF VETERANS AFFAIRS				
Veterans Educational Assistance	64.028		8,689	-
Total U.S. Department of Veterans Affairs			8,689	-

[1] Pass-Through Entity Identifying Number not available.
** Research and Development Grant

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017, CONTINUED

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the California Department of Education				
Child and Adult Care Food Program	10.558	13666	$ 54,569	$ -
Total U.S. Department of Agriculture			54,569	-
NATIONAL SCIENCE FOUNDATION				
Passed through the University Auxiliary and Research Services Corporation				
Increasing STEM Talent - STEP**	47.076	UARSC-85774-CD	14,441	-
Total National Science Foundation			14,441	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through from the California Community Colleges Chancellor's Office				
Temporary Assistance for Needy Families (TANF)	93.558	[1]	56,338	-
Passed through Yosemite Community College District				
Child Development Training Consortium	93.575	[1]	26,116	-
Total U.S. Department of Health and Human Services			82,454	-
Total Federal Expenditures			$ 22,387,248	$ 42,729

[1] Pass-Through Entity Identifying Number not available.
** Research and Development Grant

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

	Program Entitlements		
Program	Current Year	Prior Year	Total Entitlement
Board Financial Assistance Program	$ 472,246	$ -	$ 472,246
CalWorks	277,126	-	277,126
Full-Time Student Success Grant	404,024	49,756	453,780
Disabled Students Programs and Services (DSPS)	947,186	3,582	950,768
Deaf and Hard of Hearing (DHH)	53,453	-	53,453
Access to Print	11,652	-	11,652
Cooperative Agencies Resources for Education	125,215	-	125,215
Extended Opportunities, Programs, and Services (EOPS)	1,257,601	-	1,257,601
Student Success and Support Program	3,305,678	951,167	4,256,845
Student Success Equity	1,815,640	1,694,655	3,510,295
Strong Workforce	2,072,427	-	2,072,427
Nursing Education	165,400	-	165,400
Assessment, Remediation, Retention Nursing Grant	57,000	-	57,000
Telecommunications and Technology Infrastructure	3,929,029	-	3,929,029
Telecommunications and Technology Infrastructure FY1516	-	626,132	626,132
Basic Skills	194,250	-	194,250
Basic Skills FY1516	-	105,453	105,453
Innovation in Higher Education	2,000,000	-	2,000,000
Total			

See accompanying note to supplementary information.

Program Revenues				
Cash Received	Accounts Receivable (Payables)	Unearned Revenue	Total Revenue	Program Expenditures
$ 472,246	$ -	$ -	$ 472,246	$ 472,246
277,127	(18,224)	-	258,903	258,903
404,024	-	117,630	286,394	286,394
950,768	-	-	950,768	950,768
53,453	-	-	53,453	53,453
13,040	(1,388)	-	11,652	11,652
125,218	(3)	-	125,215	125,215
1,257,969	(368)	-	1,257,601	1,257,601
3,305,678	(68)	848,584	2,457,026	2,457,026
1,815,640	(22)	1,088,066	727,552	727,552
2,072,427	-	1,385,700	686,727	686,727
147,608	17,792	-	165,400	165,400
57,000	-	-	57,000	57,000
1,496,058	1,740,631	-	3,236,689	3,236,689
-	626,132	-	626,132	626,132
194,250	-	104,509	89,741	89,741
107,613	(2,160)	-	105,453	105,453
2,000,000	-	1,987,258	12,742	12,742
$ 14,750,119	$ 2,362,322	$ 5,531,747	$ 11,580,694	$ 11,580,694

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT FOR THE YEAR ENDED JUNE 30, 2017

CATEGORIES	*(Revised) Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2016 only)			
1. Noncredit**	110.21	-	110.21
2. Credit	1,495.44	-	1,495.44
B. Summer Intersession (Summer 2017 - Prior to July 1, 2017)			
1. Noncredit**	8.02	-	8.02
2. Credit	233.72	-	233.72
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	10,636.11	-	10,636.11
(b) Daily Census Contact Hours	910.21	-	910.21
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit**	648.48	-	648.48
(b) Credit	641.03	-	641.03
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,642.13	-	2,642.13
(b) Daily Census Contact Hours	863.33	-	863.33
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	18,188.68	-	18,188.68
SUPPLEMENTAL INFORMATION (Subset of Above Information)			
E. In-Service Training Courses (FTES)	126.62	-	126.62
H. Basic Skills Courses and Immigrant Education			
1. Noncredit**	732.21	-	732.21
2. Credit	588.66	-	588.66
CCFS-320 Addendum			
CDCP Noncredit FTES	504.25	-	504.25
Centers FTES			
1. Noncredit**	292.53	-	292.53
2. Credit	1,321.30	-	1,321.30

* Annual report revised as of October 27, 2017.
** 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, 2017

		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	$ 22,036,597	$ -	$ 22,036,597	$ 22,036,597	$ -	$ 22,036,597
Other	1300	16,963,846	-	16,963,846	16,963,846	-	16,963,846
Total Instructional Salaries		39,000,443	-	39,000,443	39,000,443	-	39,000,443
Noninstructional Salaries							
Contract or Regular	1200	-	-	-	8,015,796	-	8,015,796
Other	1400	-	-	-	743,920	-	743,920
Total Noninstructional Salaries		-	-	-	8,759,716	-	8,759,716
Total Academic Salaries		39,000,443	-	39,000,443	47,760,159	-	47,760,159
Classified Salaries							
Noninstructional Salaries							
Regular Status	2100	-	-	-	21,172,633	-	21,172,633
Other	2300	-	-	-	1,519,526	-	1,519,526
Total Noninstructional Salaries		-	-	-	22,692,159	-	22,692,159
Instructional Aides							
Regular Status	2200	1,512,198	-	1,512,198	1,512,198	-	1,512,198
Other	2400	515,262	-	515,262	515,262	-	515,262
Total Instructional Aides		2,027,460	-	2,027,460	2,027,460	-	2,027,460
Total Classified Salaries		2,027,460	-	2,027,460	24,719,619	-	24,719,619
Employee Benefits	3000	16,039,899	-	16,039,899	31,652,649	-	31,652,649
Supplies and Material	4000	-	-	-	877,860	-	877,860
Other Operating Expenses	5000	-	-	-	10,915,916	-	10,915,916
Equipment Replacement	6420	-	-	-	3,483	-	3,483
Total Expenditures Prior to Exclusions		57,067,802	-	57,067,802	115,929,686	-	115,929,686

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, 2017

		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	-	-	-	327,367	-	327,367
Noninstructional Staff - Retirees' Benefits and Retirement Incentives	6740	-	-	-	-	-	-
Objects to Exclude							
Rents and Leases	5060	-	-	-	304,272	-	304,272
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, 2017

		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	$ -	$ -	$ -	$ 2,019,971	$ -	$ 2,019,971
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	3,113,192	-	3,113,192
Total for ECS 84362, 50 Percent Law		$ 56,606,220	$ -	$ 56,606,220	$ 112,816,494	$ -	$ 112,816,494
Percent of CEE (Instructional Salary Cost/Total CEE)		50.18%		50.18%	100.00%		100.00%
50% of Current Expense of Education					$ 56,408,247		$ 56,408,247

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, 2017

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2017

Activity Classification	Object Code				Unrestricted
EPA Proceeds:	8630				$ 13,745,715
Activity Classification	**Activity Code**	**Salaries and Benefits (Obj 1000-3000)**	**Operating Expenses (Obj 4000-5000)**	**Capital Outlay (Obj 6000)**	**Total**
Instructional Activities	1000-5900	$ 13,745,715	-	-	$ 13,745,715
Total Expenditures for EPA		$ 13,745,715	-	-	$ 13,745,715
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, 2017

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Total Fund Balance:		
General Funds	$ 28,207,990	
Special Revenue Funds	482,287	
Capital Project Funds	320,077,516	
Debt Service Funds	145,460,852	
Internal Service Funds	14,243,211	
Fiduciary Funds	3,787	
Total Fund Balance		**$ 508,475,643**
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	488,329,357	
Accumulated depreciation is	(69,376,852)	418,952,505
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.		9,401,707
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.		(9,869,325)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year end consist of:		
Pension contributions subsequent to measurement date	9,694,062	
Net change in proportionate share of net pension liability	346,023	
Difference between projected and actual earnings on pension plan investments	12,008,050	
Differences between expected and actual experience in the measurement of the total net pension liability	1,886,902	
Total Deferred Outflows of Resources Related to Pensions		23,935,037

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, CONTINUED
JUNE 30, 2017

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:		
Net change in proportionate share of net pension liability	$ (12,169,791)	
Differences between expected and actual experience in the measurement of the total pension liability	(1,595,760)	
Changes in assumptions	(1,318,082)	
Total Deferred Inflows of Resources Related to Pensions		$ (15,083,633)
Long-term obligations at year end consist of:		
Bonds payable	851,378,678	
Lease revenue bonds	3,280,000	
OPEB obligation	4,559,006	
PARS supplemental early retirement obligation	3,807,378	
Compensated absences	3,156,460	
Load banking	495,997	
Aggregate net pension obligation	109,288,135	(975,965,654)
Total Net Position		**$ (40,153,720)**

See accompanying note to supplementary information.

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.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenses, and Changes in Net Position - Primary Government and the related expenditures reported on the Schedule of Expenditures of Federal Awards:

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position:		$ 22,353,648
Federal Pell Administrative Allowance	84.063	32,044
Federal Work Study Administrative Allowance	84.033	2,211
Veterans Educational Assistance	64.028	(359)
Child Development Training Consortium	95.575	(296)
Total Expenditures of Federal Awards		$ 22,387,248

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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.

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, 2017, 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 19, 2017.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 16 to the financial statements, in 2017, the District adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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 19, 2017.

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 19, 2017

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, 2017. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of 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.

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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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on each major Federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying Management's Response and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Management's Response and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 19, 2017

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 *District Audit Manual* issued in March 2017 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2017.

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 March 2017.

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 March 2017. 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

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, 2017.

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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	Dual Enrollment of K-12 Students in Community College Credit Courses
Section 428	Student Equity
Section 429	Student Success and Support Program (SSSP)
Section 430	Schedule Maintenance Program
Section 431	Gann Limit Calculation
Section 435	Open Enrollment
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 and 51 State Bond Funded Projects
Section 491	Proposition 55 Education Protection Account Funds

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

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

The District did not offer any To Be Arranged (TBA) Hours courses; therefore, the compliance tests within this section are not applicable.

The District did not expend any Proposition 1D and 51 State Bond Funded Projects; therefore, the compliance tests within this section are not applicable.

Vavrinek Trine Day & Co. LLP

San Diego, California
December 19, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017

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?	Yes
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?	Yes

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.334A	Gear-Up Partnership in Escondido and San Marcos
84.334A	Gear-Up Rural Reservation Collaborative in Pauma, Vista, and Fallbrook
84.031S	Increasing HLI Student Participation, Persistence, and Completion in STEM Education
84.031C	Determined to Achieve: Successful Pathways to a STEM Degree

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

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

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

The following finding represents significant deficiencies and instances of noncompliance that are required to be reported by the Uniform Guidance.

2017-001 Special Tests and Provisions - Return to Title IV

Federal Program Affected

Program Name: Student Financial Assistance Cluster

CFDA Numbers: 84.007, 84.033, 84.063, and 84.268

Direct funded by U.S. Department of Education

Federal Agency: U.S. Department of Education

Criteria or Specific Requirement

34 CFR § 668.22(j)(2)

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the (i) payment period or period of enrollment, as appropriate, in accordance with paragraph (e)(5) of this section; (ii) academic year in which the student withdrew; or (iii) educational program from which the student withdrew.

Condition

The District did not perform the Return to Title IV calculation within 30 days after the end of the academic term.

Questioned Costs

No questioned costs.

Context

There were 9 students out of 40 tested where the Return to Title IV calculation was not performed within the 30 day time frame.

Effect

Without proper monitoring of the Return to Title IV funds, the District risks noncompliance with the above referenced criteria.

Cause

The District has not implemented policies and procedures to monitor the calculation of Return to Title IV funds.

Recommendation

It is recommended that the District implement procedures to ensure that the Return to Title IV calculations are performed in a timely manner.

Management's Response and Corrective Action Plan

The District will review and revise, as necessary, existing procedures to identify areas of improvement and ensure the Title IV funds are properly and timely returned. The Office of Student Financial Aid, in coordination with Enrollment Services and the Office of Instruction, will develop monitoring procedures to identify and track official and unofficial withdrawals, as well as the number of days remaining to return funds.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

None reported.