

PALOMAR COMMUNITY COLLEGE DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

PALOMAR COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS JUNE 30, 2018

FINANCIAL SECTION

| | |
|--|----|
| Independent Auditor's Report | 2 |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements - Primary Government | |
| Statement of Net Position | 26 |
| Statement of Revenues, Expenses, and Changes in Net Position | 27 |
| Statement of Cash Flows | 28 |
| Fiduciary Funds | |
| Statement of Net Position | 30 |
| Statement of Changes in Net Position | 31 |
| Notes to Financial Statements | 32 |

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|---|----|
| Schedule of Changes in the District's Net OPEB Liability and Related Ratios | 77 |
| Schedule of OPEB Investment Returns | 78 |
| Schedule of the District's Proportionate Share of the Net Pension Liability | 79 |
| Schedule of District Contributions for Pensions | 80 |
| Note to Required Supplementary Information | 81 |

SUPPLEMENTARY INFORMATION

| | |
|---|----|
| District Organization | 83 |
| Schedule of Expenditures of Federal Awards | 84 |
| Schedule of Expenditures of State Awards | 86 |
| Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance | 87 |
| Reconciliation of <i>Education Code</i> Section 84362 (50 Percent Law) Calculation | 88 |
| Reconciliation of Annual Financial and Budget Report (CCFS-311) With Audited Financial Statements | 91 |
| Proposition 30 Education Protection Account (EPA) Expenditure Report | 92 |
| Reconciliation of Governmental Funds to the Statement of Net Position | 93 |
| Note to Supplementary Information | 95 |

INDEPENDENT AUDITOR'S REPORTS

| | |
|---|-----|
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 98 |
| Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 100 |
| Report on State Compliance | 102 |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

| | |
|--|-----|
| Summary of Auditor's Results | 105 |
| Financial Statement Findings and Recommendations | 106 |
| Federal Awards Findings and Questioned Costs | 107 |
| State Awards Findings and Questioned Costs | 108 |
| Summary Schedule of Prior Audit Findings | 109 |

FINANCIAL SECTION



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

VALUE THE *difference*

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, 2018, 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 opinions 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 2017-2018 *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 opinions.

Opinions

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, 2018, and the respective changes in financial position and, where applicable, 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 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 25, and other required supplementary schedules on pages 77 through 80, 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 the other supplementary information are presented for purposes of additional analysis and are 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 7, 2018, 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.

Vavinek Tume Day & Co. LLP

San Diego, California
December 7, 2018

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, 2018 and 2017. 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 115 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 opened two additional education centers in the under-served areas of the District. Officially known as the Fallbrook Education Center and the Rancho Bernardo Education Center, both satellite campuses began offering a variety of programs and services in summer 2018.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Rendering of Rancho Bernardo Education Center



Rendering of Fallbrook Education Center



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 36,000 full-time and part-time students during fall and spring semesters. Approximately 30 percent of 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 2017-2018, a total of 4,466 degrees and certificates were earned by students through Palomar College, an increase of 9.3% from the prior year.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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*.

The District's primary funding sources are the "State apportionment" received from the State of California and fees generated by serving nonresident students. State apportionments are generated based on Full-Time Equivalent Students (FTES) reported to the State by the District and is adjusted upward for cost-of-living allowance (COLA), increases and access funding allocations. State principal apportionment, technically defined as the Total Computational Revenue, is a workload calculation that is funded by property taxes, Education Protection Account (EPA), enrollment fees, and State general apportionment. 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. The California Community Colleges Chancellor's Office calculates the Total Computational Revenue for the District, subtracts the amount of local property taxes, EPA funding, and student enrollment fees, and the balance is paid from the State's General Fund. 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The California Community Colleges System has a diverse student body and has a mission that includes reducing equity gaps, providing educational access and opportunity, and strengthening the State's economy. Effective fiscal year 2018-2019, funding for community colleges is based on the new *Student Centered Funding Formula* that was officially adopted in the Budget Act of 2018. Details of the new formula can be found in Assembly Bill 1809 and as summarized by the Governor in his annual budget. In reforming the funding formula for general purpose apportionments, the State aims to advance the goals outlined in the *Vision for Success* adopted by the Board of Governors, which include the goal of closing achievement gaps for historically underrepresented students by 2022. The new formula supports access through enrollment-based funding and also focuses on rewarding student equity and success by targeting funds to districts serving low-income students and by providing additional resources for students' successful outcomes.

The enacted *Student Centered Funding Formula* has a three-year phased in approach and includes three major components: the *Base Allocation*, which focuses on access, is determined by overall district enrollments and district size; the *Supplemental Allocation*, which focuses on supporting Equity with funding determined by the number of low-income students in a district, and the *Student Success Allocation*, which focuses on supporting achievement of educational goals with funding determined by the number of outcomes for various measures of educational progress, transfer, completion, and wage earning. In 2018-2019, approximately 70% of system-wide funding will be based on enrollment, 20% will be based on enrollment of low-income students, and approximately 10% will be based on successful student outcomes. In 2019-2020 those percentages shift to 65-20-15 and, in 2020-2021, are completely phased in with a 60-20-20 split. The formula has stipulations for funding based on the number of disadvantaged students enrolled and their successful outcomes.

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. Palomar College established and formulated an Integrated Planning, Evaluation, and Resource Allocation Decision-Making Model (IPM) and a Resource Allocation Model (RAM) that 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. For the fiscal year 2017-2018, the Governing Board adopted a total budget of \$624,531,153.

MEASURE M (2006) \$694 MILLION GENERAL OBLIGATION BOND

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 2017-2018, the taxable property within the District's jurisdiction has an assessed valuation of \$114,734,002,915.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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

| History of the District's Credit Ratings | | |
|--|----------------|----------------|
| <u>Prop M Bonds Issued</u> | <u>Moody's</u> | <u>S&P</u> |
| April 27, 2017 | Aa1 | AA |
| April 8, 2015 | Aa2 | AA- |
| November 12, 2010 | Aa2 | AA- |
| May 2, 2007 | Aa3 | AA- |

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.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2017-2018

Key financial highlights for fiscal year ending June 30, 2018 are as follows:

- In 2017-2018, the District reported a total Full-Time Equivalent Students (FTES) of 19,204 in the *Second Principal State Apportionment Report*. This includes restoration of 1,093 FTES from the prior year.
- For 2017-2018, the Board adopted a total budget of \$624,531,153, of which \$144,314,716 was the Unrestricted General Fund, the operating fund of the District. As reported to the State Chancellor's Office on the Annual Financial and Budget Report (CCFS-311), the District ended the 2017-2018 fiscal year with an Unrestricted General Fund balance of \$21,890,470 or 17.3% of total expenditures. This reflects a \$36,690 increase in fund balance from the prior year, based on the modified accrual basis of accounting. The CCFS-311 report focused on fund types rather than on the District as a whole.
- According to the Governmental Accounting Standards Board (GASB) government-wide financial statements, equity is reported as "net position" rather than "fund balance." The District's total net position, reported as a whole, decreased from \$(130,377,096) to \$(155,774,339), a decrease of \$25,397,243 from the prior year.
- During the year ended June 30, 2018, the District implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*." As a result, the beginning net position was restated and decreased by \$90,223,376. GASB Statement No. 75 requires the District to record its total OPEB liability, as well as deferred outflows related to the OPEB plan. This restatement has no impact on the governmental funds financial statements.
- Revenues increased by \$12,576,996 or 7.3% and expenses increased by \$18,862,140 or 9.8%. Revenues increased primarily due to increases in grants and contracts funding. The increases in expenses were primarily due to increases in salaries and benefits, continued construction activities, and increase in student financial aid. The District's operating expenses for the year, as reflected in the district-wide financial statements, totaled \$210,559,100. Operating revenues of \$52,276,944 amount to 28% of total revenues. Nonoperating and other revenues total \$132,884,913 or 72% of total revenues.
- Long Term Debt of the District at June 30, 2018 amounted to \$1,081,662,933 and consisted primarily of General Obligation Bonds, aggregate net pension obligation, and net OPEB liability. Of this amount, a total of \$11,249,126 is due within a year.
- Local property taxes are received through the Auditor-Controller's Office for San Diego County. In 2017-2018, local property taxes received by the District increased from prior year by approximately 5.6% as a result of strengthening economy and increased assessment related to General Obligation Bonds.
- Capital asset equipment and building additions during 2017-2018 amounted to \$89,013,598. Net depreciation expense totaled \$7,881,487.
- The District met or exceeded all federal and State mandate requirements, including the Fifty-Percent Law and Faculty Obligation Numbers (FON).

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Distinguished Budget Presentation Award to the District for its fiscal year 2016-2017 Budget. The award reflects the commitment of the District to meeting the highest principles of governmental budgeting. In order to receive the budget award, the District had to satisfy nationally recognized guidelines for effective budget presentation. The District's Annual Budget reports can be accessed at <https://www2.palomar.edu/pages/fiscalservices/annual-budgets/>.

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 government-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. This annual report consists of three parts: MD&A (this section), the basic financial statements, and supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The financial position is presented as of June 30, 2018 and 2017 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, 2018 and 2017.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 \$302,026,699, 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 decreased from \$520,846,880 to \$407,156,850 primarily due to significant new and ongoing capital construction, purchases, and acquisitions.

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 \$12,172,784. 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, 2018, the District recorded \$576,592,267 invested in capital assets, \$76,507,651 in accumulated depreciation, netting \$500,084,616 recorded in net capital assets. Capital assets increased by approximately a net value of \$81,132,111 from the previous year.

Changes in Deferred Outflows of Resources

Deferred outflows of resources include amounts associated with the refunding of debt, other postemployment benefits (OPEB), and pension contributions made during the fiscal year that are removed from expenses. The net increase of \$21,872,827 from last year reflects increases in statutory rates for pension contributions, the contributions subsequent to the measurement date associated with the OPEB plan of the District and the amortization of the general obligation bond refunding.

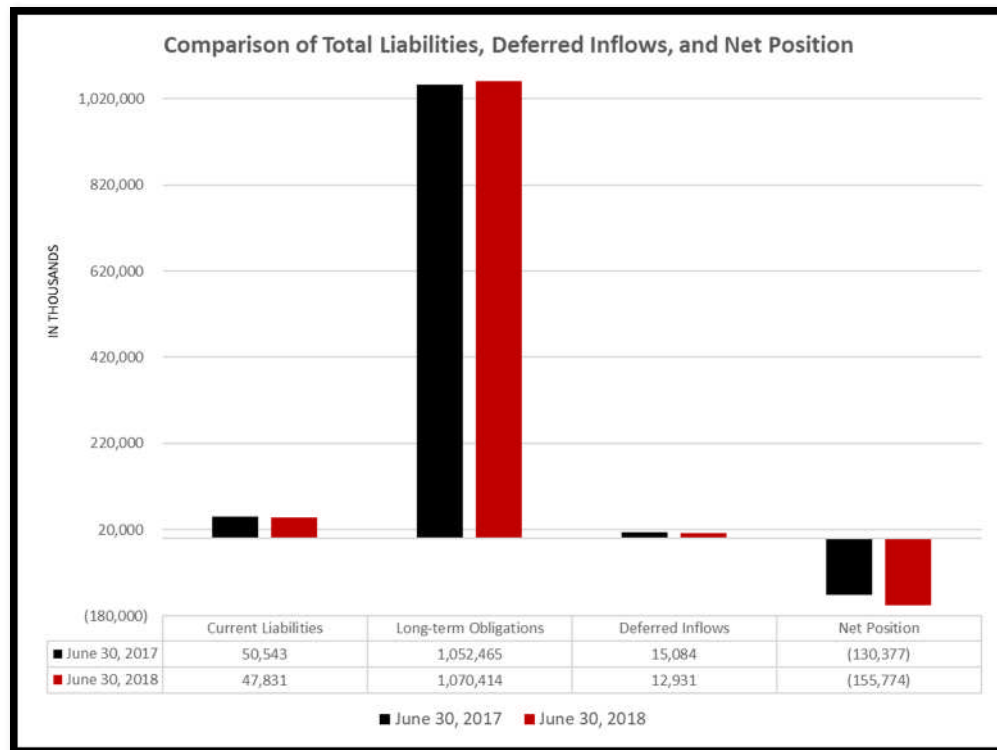
PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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 2017-2018 for which payment would not be made until fiscal year 2018-2019. Also included are accrued payroll and outstanding debt and related interest payable. Unearned revenue includes deferred enrollment fees for the 2018-2019 academic year and advances from federal, state, and local program funds received but not yet earned as of June 30, 2018. Most grant funds are earned when expended (up to the grant amount awarded). The District's current liabilities at June 30, 2018, were \$2,711,661 less than at June 30, 2017.

The District's long-term obligations are debt with maturities of more than one year, consisting of \$847,197,316 in voter-approved general obligation and lease revenue bonds, \$131,764,723 in aggregate net pension obligation resulting from GASB 68 - *Accounting and Financial Reporting for Pensions*; \$96,378,790 in net OPEB liability resulting from GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and \$6,322,104 in other liabilities such as compensated absences, load banking, and Public Agency Retirement Services (PARS) Supplemental Early Retirement Program (SERP) obligation. The net increase of \$15,473,903 was due mainly to aggregate net pension obligation increasing by \$22,476,588; the general obligation bonds and lease revenue bonds decreasing by \$7,461,362; and the net OPB liability increasing by \$1,596,408. 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. At June 30, 2018, the District recorded \$1,081,662,933 in long term obligations, of which \$11,249,126 is due within one year.



PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

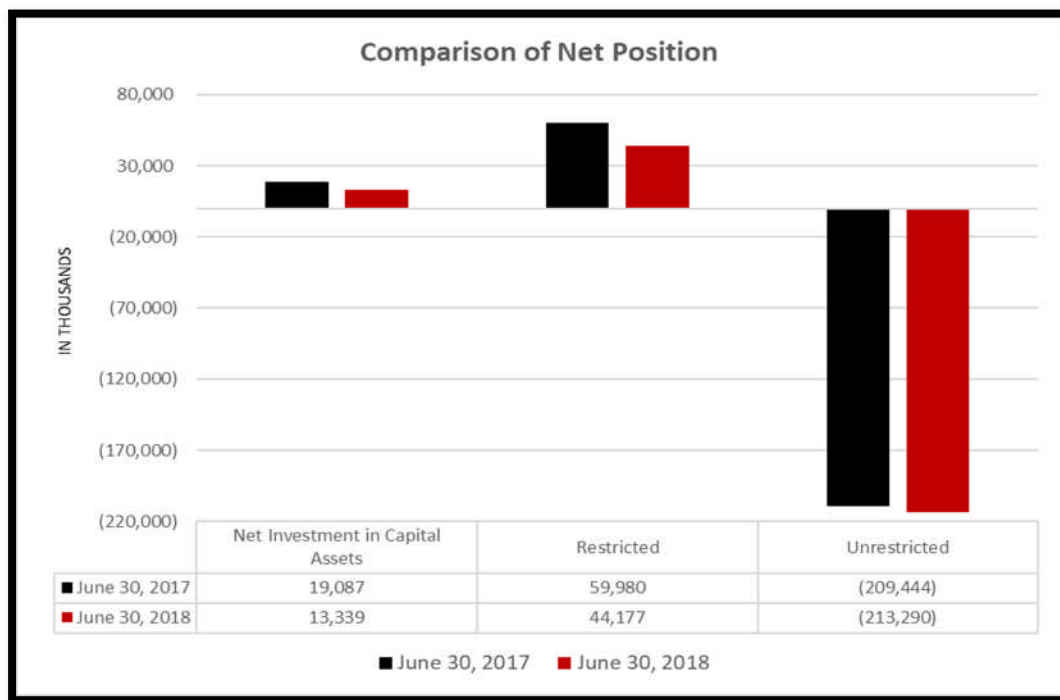
JUNE 30, 2018

Changes in Deferred Inflows of Resources

Deferred inflows of resources represent pension costs, resulting from net change in proportionate share of net pension liability, the difference between projected and actual earnings on the pension plan investments, differences between expected and actual experience in the measurement of the total pension liability and changes of assumptions related to pension liability. This amount is deferred and amortized over five to seven years. Deferred inflows decreased by \$2,152,836.

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 \$25,397,243, decreasing from \$(130,377,096) to \$(155,774,339) million. The net position is categorized between net investment in capital assets, restricted net assets, and unrestricted net assets:



PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 \$13,338,679 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 \$44,176,962 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 decreased by \$(3,845,588), decreasing from \$(209,444,392) to \$(213,289,980) 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

STATEMENT OF NET POSITION FOR FISCAL YEARS 2018 AND 2017

A summarized comparison of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2018 and 2017, is presented below:

THE DISTRICT AS A WHOLE

Net Position

| | 2018 | (as restated) 2017 | Change |
|--|------------------|-----------------------|-----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | \$ 407,156,850 | \$ 520,846,880 | \$(113,690,030) |
| Accounts receivable (net) | 12,172,784 | 13,802,189 | (1,629,405) |
| Due from fiduciary funds | - | 3,055 | (3,055) |
| Prepaid expenses | 777,883 | 773,168 | 4,715 |
| Total Current Assets | 420,107,517 | 535,425,292 | (115,317,775) |
| Capital Assets (net) | 500,084,616 | 418,952,505 | 81,132,111 |
| Total Assets | 920,192,133 | 954,377,797 | (34,185,664) |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred charges on refunding | 8,845,941 | 9,401,707 | (555,766) |
| Deferred outflows of resources related to pensions | 40,590,879 | 23,935,037 | 16,655,842 |
| Deferred outflows of resources related to OPEB | 5,772,751 | - | 5,772,751 |
| Total Deferred Outflows of Resources | 55,209,571 | 33,336,744 | 21,872,827 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 24,178,988 | 25,295,590 | (1,116,602) |
| Unearned revenue | 12,403,325 | 11,523,384 | 879,941 |
| Current portion of long-term debt | 11,249,126 | 13,724,126 | (2,475,000) |
| Total Current Liabilities | 47,831,439 | 50,543,100 | (2,711,661) |
| Long-Term Obligations | 1,070,413,807 | 1,052,464,904 | 17,948,903 |
| Total Liabilities | 1,118,245,246 | 1,103,008,004 | 15,237,242 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows of resources related to pensions | 12,930,797 | 15,083,633 | (2,152,836) |
| NET POSITION | | | |
| Net investment in capital assets | 13,338,679 | 19,087,011 | (5,748,332) |
| Restricted | 44,176,962 | 59,980,285 | (15,803,323) |
| Unrestricted | (213,289,980) | (209,444,392) | (3,845,588) |
| Total Net Position | \$ (155,774,339) | \$ (130,377,096) | \$ (25,397,243) |

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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, 2018 and 2017, 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, nonoperating, and other, are reported by natural and functional classification. Revenues for the year totaled \$185,161,857 and expenditures totaled \$210,559,100, resulting in an overall decrease in net position by \$25,397,243.

Revenues

The two sources of operating revenues are tuition and fees, grants and contracts, 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 decreased by \$603,685 in 2018 due mainly to the full year effect of an increase in the number of students in the California College Promise programs (formerly known as the BOG Fee Waiver). 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 \$158,282,156.

State apportionments increased in 2017-2018 by \$4,660,307 from 2016-2017 due to the restoration of 1,093 FTES and increase in categorical funding. Local property taxes increased by \$8,990,568 as the taxable assessed value of properties within the District boundaries increased from \$108.5 billion in 2016-2017 to an all-time high of \$114.7 billion in 2017-2018; 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

Operating Expenditures increased a net \$18,862,140 from the prior year. The vast majority of operating expenses are for the salaries and benefits of academic, classified, and administrative personnel, comprising of \$129,640,131 or 61.6 percent of the total operating expenses from a government-wide full accrual perspective. The \$2,274,100 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 2018 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 increase in student financial aid of \$2,949,930 is attributable to the 5.4% increase in the number of students receiving grants. The \$593,811 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

A summarized comparison of the District's revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017, is presented below:

Operating Results for Fiscal Years 2018 and 2017

| | 2018 | 2017 | Change |
|---|------------------------|------------------------|-----------------------|
| Operating Revenues | | | |
| Tuition and fees, net | \$ 15,251,589 | \$ 15,855,274 | \$ (603,685) |
| Grants and contracts, noncapital | 36,955,257 | 30,509,761 | 6,445,496 |
| Other operating revenues | 70,098 | 83,644 | (13,546) |
| Total Operating Revenues | <u>52,276,944</u> | <u>46,448,679</u> | <u>5,828,265</u> |
| Operating Expenses | | | |
| Salaries and benefits | 129,640,131 | 127,366,031 | 2,274,100 |
| Supplies, maintenance, and equipment | 51,757,218 | 38,712,919 | 13,044,299 |
| Student financial aid | 21,280,264 | 18,330,334 | 2,949,930 |
| Depreciation | 7,881,487 | 7,287,676 | 593,811 |
| Total Operating Expenses | <u>210,559,100</u> | <u>191,696,960</u> | <u>18,862,140</u> |
| Loss on Operations | <u>(158,282,156)</u> | <u>(145,248,281)</u> | <u>(13,033,875)</u> |
| Nonoperating Revenues (Expenses) | | | |
| State apportionments, noncapital | 25,050,086 | 20,389,779 | 4,660,307 |
| Property taxes | 103,573,303 | 94,582,735 | 8,990,568 |
| Financial aid grants, noncapital | 19,691,764 | 14,379,389 | 5,312,375 |
| State taxes and other revenues | 6,043,289 | 3,836,882 | 2,206,407 |
| Interest expense on capital related debt | (31,580,106) | (20,241,470) | (11,338,636) |
| Investment income | 4,763,175 | 2,979,087 | 1,784,088 |
| Other nonoperating revenues (expenses), net | 593,437 | 4,360,196 | (3,766,759) |
| Total Nonoperating Revenue (Expenses) | <u>128,134,948</u> | <u>120,286,598</u> | <u>7,848,350</u> |
| Other Revenues (Losses) | | | |
| State and local capital income | 4,749,965 | 5,877,558 | (1,127,593) |
| Loss on disposal of assets | - | (27,974) | 27,974 |
| Total Other Revenue (Losses) | <u>4,749,965</u> | <u>5,849,584</u> | <u>(1,099,619)</u> |
| Net Change in Net Position | <u>\$ (25,397,243)</u> | <u>\$ (19,112,099)</u> | <u>\$ (6,285,144)</u> |

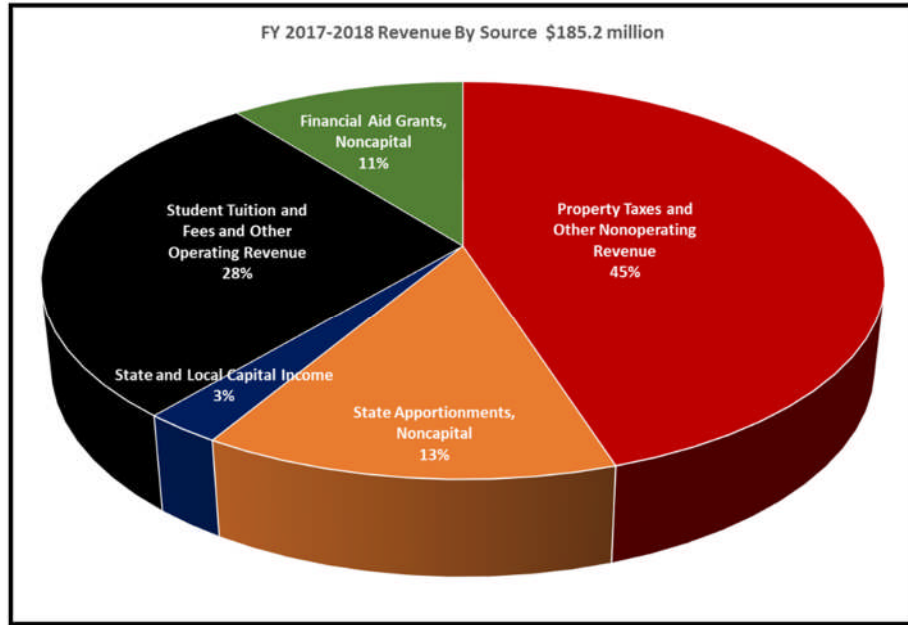
PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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 2018 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 | \$ 41,989,838 | \$16,434,497 | \$ 2,873,089 | \$ 175,217 | \$ - | \$ - | \$ 61,472,641 |
| Academic support | 15,274,120 | 6,684,286 | 6,426,426 | 292,370 | - | - | 28,677,202 |
| Student services | 14,262,524 | 5,013,551 | 3,208,818 | 86,291 | 123,220 | - | 22,694,404 |
| Plant operations and maintenance | 4,082,464 | 2,184,596 | 4,487,932 | 431,506 | - | - | 11,186,498 |
| Instructional support services | 11,198,483 | 7,697,028 | 5,531,918 | 196,396 | - | - | 24,623,825 |
| Community services and economic development | 204,554 | 75,882 | 4,263 | - | - | - | 284,699 |
| Ancillary services and auxiliary operations | 3,367,978 | 1,170,330 | 651,317 | 4,801 | - | - | 5,194,426 |
| Student aid | - | - | - | - | 21,157,044 | - | 21,157,044 |
| Physical property and related acquisitions | - | - | 7,291,521 | 20,095,353 | - | - | 27,386,874 |
| Unallocated depreciation | - | - | - | - | - | 7,881,487 | 7,881,487 |
| Total | \$ 90,379,961 | \$39,260,170 | \$30,475,284 | \$21,281,934 | \$21,280,264 | \$7,881,487 | \$210,559,100 |

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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, 2018 and 2017, is presented below:

| | 2018 | 2017 | Change |
|---------------------------------|-----------------------|-----------------------|-------------------------|
| Cash Provided by (Used in) | | | |
| Operating activities | \$ (151,776,023) | \$ (116,509,013) | \$ (35,267,010) |
| Noncapital financing activities | 130,032,832 | 100,699,761 | 29,333,071 |
| Capital financing activities | (96,710,014) | 92,846,677 | (189,556,691) |
| Investing activities | 8,487,994 | 2,979,087 | 5,508,907 |
| Net Increase (Decrease) in Cash | (109,965,211) | 80,016,512 | (189,981,723) |
| Cash, Beginning of Year | 411,357,345 | 331,340,833 | 80,016,512 |
| Cash, End of Year | <u>\$ 301,392,134</u> | <u>\$ 411,357,345</u> | <u>\$ (109,965,211)</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District had in place \$500,084,616 invested in net capital assets, net of accumulated depreciation of \$76,507,651. 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 2017-2018:



Library and Learning Resource Center



Parking Structure and College Police



Maintenance and Operations Complex



Rancho Bernardo Education Center



Fallbrook Education Center (Interim Village)

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

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:

| | Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 |
|-----------------------------------|-------------------------|----------------------|-------------|--------------------------|
| Land and construction in progress | \$ 184,557,029 | \$ 87,449,903 | \$ - | \$ 272,006,932 |
| Buildings and improvements | 282,398,908 | - | 594,660 | 281,804,248 |
| Furniture and equipment | 21,373,420 | 1,563,695 | 156,028 | 22,781,087 |
| Subtotal | 488,329,357 | 89,013,598 | 750,688 | 576,592,267 |
| Accumulated depreciation | (69,376,852) | (7,881,487) | (750,688) | (76,507,651) |
| | <u>\$ 418,952,505</u> | <u>\$ 81,132,111</u> | <u>\$ -</u> | <u>\$ 500,084,616</u> |

Obligations

As of June 30, 2018, the District had \$1,081,662,933 in debt primarily made up of general obligation and lease revenue bonds, aggregate pension obligation and OPEB liability. Note 10 to the financial statements provides additional information on long-term obligations. A summary of long-term obligations is presented below:

| | (as restated) Balance July 1, 2017 | Additions | Deletions | Balance June 30, 2018 |
|--|--|----------------------|----------------------|--------------------------|
| General obligation and lease revenue bonds | \$ 854,658,678 | \$ 8,458,224 | \$ 15,919,586 | \$ 847,197,316 |
| Aggregate net pension obligation | 109,288,135 | 22,476,588 | - | 131,764,723 |
| Net OPEB liability | 94,782,382 | 1,596,408 | - | 96,378,790 |
| Other obligations | 7,459,835 | 131,395 | 1,269,126 | 6,322,104 |
| Total Long-Term Obligations | <u>\$ 1,066,189,030</u> | <u>\$ 32,662,615</u> | <u>\$ 17,188,712</u> | <u>\$ 1,081,662,933</u> |
| Amount due within one year | | | | <u>\$ 11,249,126</u> |

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

2018-2019 BUDGET HIGHLIGHTS

The Budget Act of 2018 was approved and signed into law by Governor Brown on June 27, 2018. The bill includes appropriations and other changes to statutes for support of the state government for the 2018-19 fiscal year. It is estimated that the State would enter the fiscal year with a General Fund balance of \$8.4 billion, with total resources available in 2018-19 projected at \$141.8 billion, and total expenditures estimated to be \$138.6 billion. The remaining funds are held in various reserves, with full funding of the Budget Stabilization Account created by Proposition 2.

Major components of the 2018-2019 State Budget with respect to community colleges include:

- The enacted budget establishes the new Student-Centered Funding Formula (SCFF) for general purpose apportionments to further accelerate improvements in student success. In recognition for the need to provide additional support for low-income students and reward colleges' progress on improving student success metrics, the formula includes factors focused on: Access, Equity, and Success. The 2018-2019 budget package includes \$175 million ongoing and \$35 million one-time, as well as several hold harmless provisions easing transition to new formula. Based on the Chancellor's Office budget simulations, the District is entitled to receive in 2018-2019 the Total Computational Revenue received in 2017-2018, adjusted by the cost-of-living adjustment (COLA) of 2.71 percent.
- The Budget Act of 2018 includes \$1.2 billion in Proposition 98 augmentations for community colleges across the three-year period (2016-17 through 2018-19). Of the \$1.2 billion, \$797 million (67%) is ongoing and \$398 million (33%) is one time. In addition to the Proposition 98 increase, the Budget includes \$64 million in bond authority for community college facility projects.
- The budget consolidates the Basic Skills Initiative (BSI), Student Equity (SE), and Student Success and Support Program (SSSP) with the intent of supporting Guided Pathways and the system-wide goals to eliminate achievement gaps.
- Additional categories of renewed funding include Scheduled Maintenance funding, Extended Opportunities Programs and Services, Disabled Students Programs and Services, Strong Workforce Initiatives, and CalWORKS.
- The District's budget allocations for 2018-2019 were determined with the context of multi-year modeling of its revenues and expenditures. The modeling approach assumed revenue and expenditure assumptions developed using external sources (for instance, Chancellor's Office Student Centered Funding Formula simulations), known commitments and obligations with collective bargaining agreements, short term goals (using strategic planning process), and anticipated increases in ongoing expenditures. For 2018-2019, the District's Adopted Budget for all funds is \$529,931,858. The General Fund totals \$196,359,210, which reflects a 2.4% increase from fiscal year 2017-2018.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

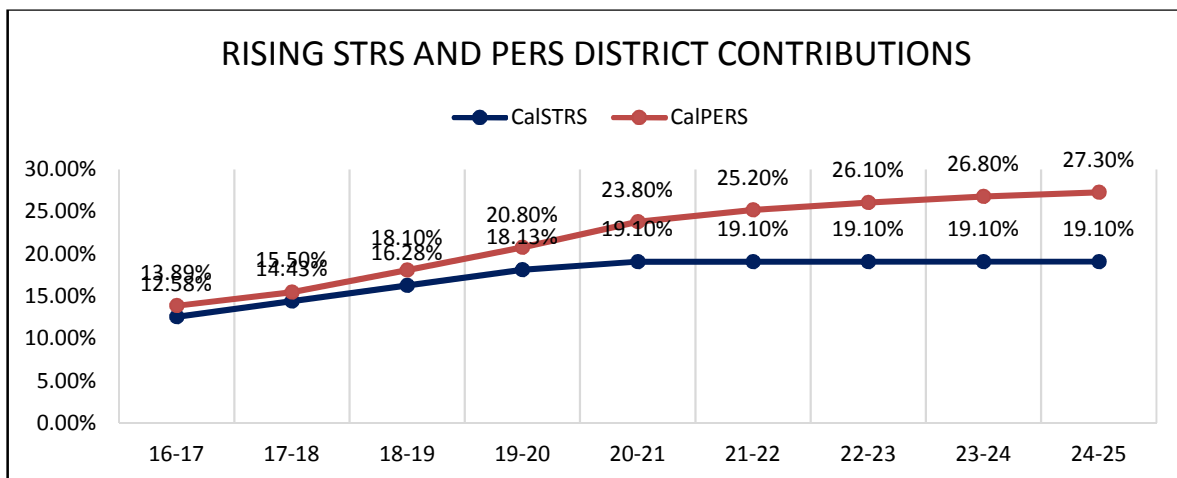
JUNE 30, 2018

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, which represents 14% of the U.S. economy, has continued to improve. Home prices in the State have doubled from the lows of 2011 and finally surpassed their pre-recession highs in 2017. California's outlook is bright with economic and job growth both expected to be strong over the next five year. The State's 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 new Student Centered Funding Formula established by the Budget Act of 2018.

Whereas Proposition 98 sets an overall funding level, the District engages in an annual budget development process that involves all levels of the institution. 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, implement institution-wide approach to student success through our Guided Pathways programs, and improve student outcomes 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).



PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

The District will continue Measure M construction activities through calendar year 2022. Over the next 12 months, Measure M construction projects will include the next phase of the Fallbrook Education Center project, anticipated to be completed in 2020. 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

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

Carmen M. Coniglio

Carmen M. Coniglio
Senior Director, Fiscal Services

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT JUNE 30, 2018

ASSETS

Current Assets

| | |
|-------------------------------|--------------|
| Cash and cash equivalents | \$ 1,136,945 |
| Investments - unrestricted | 153,248,304 |
| Investments - restricted | 252,771,601 |
| Accounts receivable | 7,150,307 |
| Student loans receivable, net | 5,022,477 |
| Prepaid expenses | 777,883 |

Total Current Assets

420,107,517

Noncurrent Assets

| | |
|---|-------------|
| Nondepreciable capital assets | 272,006,932 |
| Depreciable capital assets, net of depreciation | 228,077,684 |

Total Noncurrent Assets

500,084,616

TOTAL ASSETS

920,192,133

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--|------------|
| Deferred charges on refunding | 8,845,941 |
| Deferred outflows of resources related to pensions | 40,590,879 |
| Deferred outflows of resources related to OPEB | 5,772,751 |

Total Deferred Outflows of Resources

55,209,571

LIABILITIES

Current Liabilities

| | |
|--|------------|
| Accounts payable | 12,305,148 |
| Accrued interest payable | 11,873,840 |
| Unearned revenue | 12,403,325 |
| Current portion of long-term obligations other than pensions | 11,249,126 |

Total Current Liabilities

47,831,439

Noncurrent Liabilities

| | |
|---|-------------|
| Noncurrent portion of long-term obligations other than pensions | 842,270,294 |
| Net other postemployment benefits (OPEB) liability | 96,378,790 |
| Aggregate net pension obligation | 131,764,723 |

Total Noncurrent Liabilities

1,070,413,807

TOTAL LIABILITIES

1,118,245,246

DEFERRED INFLOWS OF RESOURCES

| | |
|---|------------|
| Deferred inflows of resources related to pensions | 12,930,797 |
|---|------------|

NET POSITION

| | |
|---|---------------|
| Net investment in capital assets, net of related debt | 13,338,679 |
| Restricted for: | |
| Debt service | 20,219,107 |
| Capital projects | 19,433,441 |
| Educational programs | 4,524,414 |
| Unrestricted | (213,289,980) |

TOTAL NET POSITION

\$ (155,774,339)

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, 2018

OPERATING REVENUES

| | |
|--|--------------------------|
| Student Tuition and Fees | \$ 25,783,151 |
| Less: Scholarship discount and allowance | (10,531,562) |
| Net tuition and fees | <u>15,251,589</u> |
| Grants and Contracts, Noncapital | |
| Federal | 9,002,160 |
| State | 23,593,794 |
| Local | <u>4,359,303</u> |
| Total grants and contracts, noncapital | <u>36,955,257</u> |
| Other Operating Revenues | <u>70,098</u> |
| TOTAL OPERATING REVENUES | <u><u>52,276,944</u></u> |

OPERATING EXPENSES

| | |
|--|---------------------------|
| Salaries | 90,379,961 |
| Employee benefits | 39,260,170 |
| Supplies, materials, and other operating expenses and services | 30,475,284 |
| Student financial aid | 21,280,264 |
| Equipment, maintenance, and repairs | 21,281,934 |
| Depreciation | <u>7,881,487</u> |
| TOTAL OPERATING EXPENSES | <u><u>210,559,100</u></u> |

OPERATING LOSS

(158,282,156)

NONOPERATING REVENUES (EXPENSES)

| | |
|---|----------------|
| State apportionments, noncapital | 25,050,086 |
| Local property taxes, levied for general purposes | 76,700,966 |
| Taxes levied for other specific purposes | 26,872,337 |
| Federal financial aid grants, noncapital | 17,907,234 |
| State financial aid grants, noncapital | 1,784,530 |
| State taxes and other revenues | 6,043,289 |
| Investment income | 4,763,175 |
| Interest expense on capital related debt | (31,580,106) |
| Investment expense on capital asset-related debt | (155,818) |
| Transfer from fiduciary funds | 193,666 |
| Transfer to fiduciary funds | (30,000) |
| Other nonoperating revenue | <u>585,589</u> |

TOTAL NONOPERATING REVENUES (EXPENSES)

128,134,948

LOSS BEFORE OTHER REVENUES

(30,147,208)

OTHER REVENUES

| | |
|-----------------------------|-------------------------|
| State revenues, capital | 621,823 |
| Local revenues, capital | <u>4,128,142</u> |
| TOTAL OTHER REVENUES | <u><u>4,749,965</u></u> |

CHANGE IN NET POSITION

(25,397,243)

NET POSITION, BEGINNING OF YEAR, AS RESTATED

(130,377,096)

NET POSITION, END OF YEAR

\$ (155,774,339)

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------------|
| Tuition and fees | \$ 15,007,581 |
| Federal and state grants and contracts | 37,325,954 |
| Other operating receipts | 70,098 |
| Payments to or on behalf of employees | (131,225,095) |
| Payments to vendors for supplies and services | (51,674,297) |
| Payments to students for scholarships and grants | (21,280,264) |
| Net Cash Flows From Operating Activities | (151,776,023) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------------|
| State apportionments | 24,461,846 |
| Federal and State financial aid grants | 19,691,764 |
| Property taxes - nondebt related | 76,700,966 |
| State taxes and other revenues | 6,043,289 |
| Other nonoperating | 3,134,967 |
| Net Cash Flows From Noncapital Financing Activities | 130,032,832 |

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

| | |
|---|---------------------|
| Purchase of capital assets | (91,695,311) |
| State revenue, capital projects | 621,823 |
| Local revenue, capital projects | 4,128,142 |
| Property taxes - related to capital debt | 26,872,337 |
| Accretion on capital debt | 8,458,224 |
| Principal paid on capital debt | (15,919,586) |
| Interest paid on capital debt | (29,175,643) |
| Net Cash Flows From Capital Financing Activities | (96,710,014) |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------------|
| Proceeds from sales and maturities of investments | 3,724,819 |
| Interest received from investments | 4,763,175 |
| Net Cash Flows From Investing Activities | 8,487,994 |

NET CHANGE IN CASH AND CASH EQUIVALENTS (109,965,211)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 411,357,345

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 301,392,134

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

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|--------------------------------|
| Operating Loss | <u>\$ (158,282,156)</u> |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities | |
| Depreciation | 7,881,487 |
| Changes in Assets, Deferred Outflows, Liabilities, and Deferred Inflows | |
| Receivables, net | (1,196,925) |
| Prepaid expenses | (4,715) |
| Accounts payable and accrued liabilities | 148,836 |
| Unearned revenue | 1,323,614 |
| Deferred outflows of resources related to OPEB | (5,772,751) |
| Deferred outflows of resources related to pensions | (16,655,842) |
| Aggregate net pension obligation | 22,476,588 |
| Net OPEB liability | 1,596,408 |
| PARS supplemental early retirement obligation | (1,269,126) |
| Load banking | 16,555 |
| Compensated absences | 114,840 |
| Deferred inflows of resources related to pensions | <u>(2,152,836)</u> |
| Total Adjustments | <u>6,506,133</u> |
| Net Cash Flows From Operating Activities | <u><u>\$ (151,776,023)</u></u> |

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

| | |
|--|------------------------------|
| Cash in banks | \$ 1,136,945 |
| Cash in county treasury | <u>300,255,189</u> |
| Total Cash and Cash Equivalents | <u><u>\$ 301,392,134</u></u> |

NONCASH TRANSACTIONS

| | |
|---------------------------------|----------------------------|
| On behalf payments for benefits | <u><u>\$ 3,621,784</u></u> |
|---------------------------------|----------------------------|

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

PALOMAR COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

| | Retiree OPEB Trust | Other Trust Funds |
|---|-----------------------------------|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ - | \$ 150,599 |
| Investments | 4,787,954 | 1,771,510 |
| Accounts receivable | - | 8,079 |
| Student loans receivable | - | 68,084 |
| Total Assets | 4,787,954 | 1,998,272 |
| LIABILITIES | | |
| Accounts payable | - | 2,096 |
| Unearned revenue | - | 100,389 |
| Total Liabilities | - | 102,485 |
| NET POSITION | | |
| Restricted for postemployment benefits other than pensions | 4,787,954 | - |
| Unrestricted | - | 1,895,787 |
| Total Net Position | \$ 4,787,954 | \$ 1,895,787 |

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

PALOMAR COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

| | Retiree OPEB Trust | Other Trust Funds |
|---|-----------------------------------|------------------------------|
| ADDITIONS | | |
| Local revenues | <u>\$ 312,249</u> | <u>\$ 1,017,555</u> |
| DEDUCTIONS | | |
| Classified salaries | - | 1,405 |
| Books and supplies | - | 21,193 |
| Services and operating expenditures | <u>500</u> | <u>78,491</u> |
| Total Deductions | <u>500</u> | <u>101,089</u> |
| OTHER FINANCING SOURCES (USES) | | |
| Transfer from primary government | - | 30,000 |
| Transfer to primary government | - | (193,666) |
| Other uses | <u>-</u> | <u>(684,092)</u> |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>(847,758)</u> |
| CHANGE IN NET POSITION | 311,749 | 68,708 |
| NET POSITION, BEGINNING OF YEAR | <u>4,476,205</u> | <u>1,827,079</u> |
| NET POSITION, END OF YEAR | <u><u>\$ 4,787,954</u></u> | <u><u>\$ 1,895,787</u></u> |

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

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 - ORGANIZATION

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. This presentation provides a comprehensive government-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 and noncapital grants and contracts.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, Federal and State financial aid grants, entitlements, and donations. 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. Revenue from Federal and State financial aid grants are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements may include time and/or purpose requirements.

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.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2018, 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 \$1,937,557 for the year ended June 30, 2018.

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 Premiums

Debt premiums are amortized over the life of the bonds using the straight-line method.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Deferred Charges on Refunding

Deferred charges on refunding is amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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, for pension related items, and for OPEB 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Noncurrent Liabilities

Noncurrent liabilities include general obligation and lease revenue bonds, compensated absences, load banking, PARS supplemental early retirement, net OPEB liability, 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 government-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.

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 government-wide financial statements report \$44,176,962 of restricted net position.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and No. 35. Classifications are as follows:

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

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as State apportionments, property taxes, investment income, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and No. 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year. 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, Supplemental Educational Opportunity Grants (SEOG), 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement replaces the requirements of 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. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

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; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

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 District has implemented the provisions of this Statement as of June 30, 2018.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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 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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, consist of the following:

| | |
|--------------------------------|-----------------------|
| Primary government | \$ 407,156,850 |
| Fiduciary funds | 6,710,063 |
| Total Deposits and Investments | <u>\$ 413,866,913</u> |
| Cash on hand and in banks | \$ 1,266,505 |
| Cash in revolving | 21,039 |
| Cash in County Treasury | 302,026,699 |
| Investments | 110,552,670 |
| Total Deposits and Investments | <u>\$ 413,866,913</u> |

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 a 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 | Reported Value | Weighted Average to Maturity |
|-------------------------------------|-----------------------|------------------------------|
| County of San Diego Investment Pool | \$ 302,026,699 | 345 |
| US Treasury Bonds | 105,764,716 | 739 |
| Master Trust | 4,787,954 | N/A |
| | <u>\$ 412,579,369</u> | |

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 yearend, the County of San Diego Investment Pool and US Treasury Bonds reflected an AAf/S1 and Aaa ratings by Fitch and Moody's, respectively. The District's investment in the Master Trust is not required to be rated, nor has it been rated.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, the District's bank balance totaled \$1,526,727 of which \$827,110 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. The balance of \$1,526,727 consisted of \$1,155,087 in District funds and \$371,640 in fiduciary funds.

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The District's fair value measurements are as follows at June 30, 2018:

| Investment Type | Fair Value | Fair Value Measurements Using | | Uncategorized |
|-------------------------------------|-----------------------|-------------------------------|---------------------|-----------------------|
| | | Level 1 Inputs | Level 3 Inputs | |
| County of San Diego Investment Pool | \$ 300,073,673 | \$ - | \$ - | \$ 300,073,673 |
| US Treasury Bonds | 105,764,716 | 105,764,716 | - | - |
| Master Trust | 4,787,954 | - | 4,787,954 | - |
| Total | <u>\$ 410,626,343</u> | <u>\$ 105,764,716</u> | <u>\$ 4,787,954</u> | <u>\$ 300,073,673</u> |

| | | Level 3 Inputs |
|-----------------------------------|---------------------|-------------------|
| Investments at Fair Value | | |
| Balance at July 1, 2017 | \$ 4,476,205 | |
| Interest and investment income | 97,758 | |
| Net realized and unrealized Gains | 214,491 | |
| Administrative fees | (500) | |
| Balance at June 30, 2018 | <u>\$ 4,787,954</u> | |

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

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

| | Primary Government | Fiduciary Funds |
|---------------------------------------|-----------------------|--------------------|
| Federal Government | | |
| Categorical aid | \$ 1,836,586 | \$ - |
| State Government | | |
| Categorical aid | 2,321,209 | - |
| Lottery | 790,368 | - |
| Other State sources | 13,232 | - |
| Local Sources | | |
| Property taxes | 297,204 | - |
| Interest | 1,301,881 | 8,079 |
| Other local sources | 589,827 | - |
| Total | <u>\$ 7,150,307</u> | <u>\$ 8,079</u> |
| Student receivables | \$ 6,960,034 | \$ 68,084 |
| Less: Allowance for doubtful accounts | (1,937,557) | - |
| Total | <u>\$ 5,022,477</u> | <u>\$ 68,084</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2018, was as follows:

| | Balance July 1, 2017 | Additions | Deductions | Balance June 30, 2018 |
|---|-------------------------|---------------|------------|--------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 63,014,087 | \$ - | \$ - | \$ 63,014,087 |
| Construction in progress | 121,463,892 | 87,449,903 | - | 208,913,795 |
| Works of art | 79,050 | - | - | 79,050 |
| Total Capital Assets Not Being Depreciated | 184,557,029 | 87,449,903 | - | 272,006,932 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 37,446,702 | - | - | 37,446,702 |
| Buildings and improvements | 244,952,206 | - | 594,660 | 244,357,546 |
| Furniture and equipment | 21,373,420 | 1,563,695 | 156,028 | 22,781,087 |
| Total Capital Assets Being Depreciated | 303,772,328 | 1,563,695 | 750,688 | 304,585,335 |
| Total Capital Assets | 488,329,357 | 89,013,598 | 750,688 | 576,592,267 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 14,654,459 | 1,772,811 | - | 16,427,270 |
| Buildings and improvements | 37,116,248 | 4,949,165 | 594,660 | 41,470,753 |
| Furniture and equipment | 17,606,145 | 1,159,511 | 156,028 | 18,609,628 |
| Total Accumulated Depreciation | 69,376,852 | 7,881,487 | 750,688 | 76,507,651 |
| Net Capital Assets | \$ 418,952,505 | \$ 81,132,111 | \$ - | \$ 500,084,616 |

Depreciation expense for the year was \$7,881,487.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

| | Primary Government | Fiduciary Funds |
|-----------------|-----------------------|--------------------|
| Accrued payroll | \$ 3,405,003 | \$ - |
| Apportionment | 722,791 | - |
| Construction | 5,312,275 | - |
| Other | 2,865,079 | 2,096 |
| Total | <u>\$ 12,305,148</u> | <u>\$ 2,096</u> |

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

| | Primary Government | Fiduciary Funds |
|-----------------------|-----------------------|--------------------|
| State categorical aid | \$ 6,234,363 | \$ - |
| Enrollment fees | 6,168,962 | 100,389 |
| Total | <u>\$ 12,403,325</u> | <u>\$ 100,389</u> |

NOTE 9 - INTERFUND TRANSACTIONS

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 2018 fiscal year, the amount transferred to the primary government from the fiduciary fund amounted to \$193,666, and the amount transferred to the fiduciary funds from the primary government amounted to \$30,000.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2018 fiscal year consisted of the following:

| | (as restated) | | | | |
|---|------------------|---------------|---------------|------------------|---------------|
| | Balance | | | Balance | Due in |
| | July 1, 2017 | Additions | Deductions | June 30, 2018 | One Year |
| Bonds Payable | | | | | |
| General obligation bonds | \$ 851,378,678 | \$ 8,458,224 | \$ 15,359,586 | \$ 844,477,316 | \$ 9,400,000 |
| Lease revenue bonds | 3,280,000 | - | 560,000 | 2,720,000 | 580,000 |
| Total Bonds | 854,658,678 | 8,458,224 | 15,919,586 | 847,197,316 | 9,980,000 |
| Other Obligations | | | | | |
| Compensated absences | 3,156,460 | 114,840 | - | 3,271,300 | - |
| Load banking | 495,997 | 16,555 | - | 512,552 | - |
| PARS supplemental early retirement obligation | 3,807,378 | - | 1,269,126 | 2,538,252 | 1,269,126 |
| Net OPEB liability | 94,782,382 | 1,596,408 | - | 96,378,790 | - |
| Aggregate net pension obligation | 109,288,135 | 22,476,588 | - | 131,764,723 | - |
| Total Other Obligations | 211,530,352 | 24,204,391 | 1,269,126 | 234,465,617 | 1,269,126 |
| Total Long-Term Obligations | \$ 1,066,189,030 | \$ 32,662,615 | \$ 17,188,712 | \$ 1,081,662,933 | \$ 11,249,126 |

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. Payments related to the net OPEB liability 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, was \$141,323,321.

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, 2018, 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, 2018, was \$110,190,000.

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, 2018, was 206,465,000.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Obligation Bonds, Election 2006, Series D

On April 27, 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, 2018, was \$139,000,000.

2017 General Obligation Refunding (Crossover) Bonds

On April 27, 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. The outstanding principal balance of these bonds at June 30, 2018, was \$101,770,000. As of June 30, 2018, the amount that remains in the escrow account to satisfy the obligations on the crossover date of August 1, 2020, was \$105,764,716.

Debt Maturity

General Obligation Bonds

| Series | Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding | | Issued | Accretion | Redeemed | Bonds Outstanding | |
|---------------------------------------|------------|---------------|---------------|----------------|-------------------|---------------|--------|-------------|--------------|-------------------|--|
| | | | | | July 1, 2017 | | | | | June 30, 2018 | |
| 2006 B | 10/28/2010 | 8/1/2045 | 2.36%-6.72% | \$ 91,498,901 | \$ 133,745,097 | | \$ - | \$8,458,224 | \$ 880,000 | \$141,323,321 | |
| 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 | 213,570,000 | | - | - | 7,105,000 | 206,465,000 | |
| 2006 D | 4/27/2017 | 8/1/2046 | 3.25%-5.00% | 139,000,000 | 139,000,000 | | - | - | - | 139,000,000 | |
| Subtotal Election 2006 | | | | | 569,815,097 | | - | 8,458,224 | 7,985,000 | 570,288,321 | |
| 2015 Refunding | 1/13/2015 | 5/1/2032 | 2.00%-5.00% | 115,675,000 | 114,100,000 | | - | - | 3,910,000 | 110,190,000 | |
| 2017 Refunding | 4/27/2017 | 8/1/2045 | 5.00% | 101,770,000 | 101,770,000 | | - | - | - | 101,770,000 | |
| | | | | | Premium on Debt | 65,693,581 | - | - | 3,464,586 | 62,228,995 | |
| Total General Obligation Bonds | | | | | | \$851,378,678 | \$ - | \$8,458,224 | \$15,359,586 | \$844,477,316 | |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 |
|-------------|---|-----------------------|------------------------------------|-----------------------|
| 2019 | \$ 1,153,427 | \$ 21,573 | \$ - | \$ 1,175,000 |
| 2020 | 1,480,878 | 94,122 | - | 1,575,000 |
| 2021 | 1,590,626 | 189,374 | - | 1,780,000 |
| 2022 | 2,398,230 | 601,770 | - | 3,000,000 |
| 2023 | 2,729,527 | 910,473 | - | 3,640,000 |
| 2024-2028 | 11,235,675 | 6,174,325 | 12,116,040 | 29,526,040 |
| 2029-2033 | 5,982,342 | 6,387,658 | 40,108,875 | 52,478,875 |
| 2034-2038 | 46,229,750 | 45,250,250 | 52,655,258 | 144,135,258 |
| 2039-2043 | 59,999,214 | 48,370,786 | 25,777,276 | 134,147,276 |
| 2044-2046 | 8,523,652 | 9,576,348 | 1,954,256 | 20,054,256 |
| Total | <u>\$ 141,323,321</u> | <u>\$ 117,576,679</u> | <u>\$ 132,611,705</u> | <u>\$ 391,511,705</u> |

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

| Fiscal Year | Principal | Current Interest to Maturity | Total |
|-------------|----------------------|------------------------------------|-----------------------|
| 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 | - | 6,006,990 | 6,006,990 |
| 2024-2028 | - | 30,034,950 | 30,034,950 |
| 2029-2033 | - | 30,034,950 | 30,034,950 |
| 2034-2038 | - | 30,034,950 | 30,034,950 |
| 2039-2043 | - | 30,034,950 | 30,034,950 |
| 2044-2046 | 83,500,000 | 12,121,890 | 95,621,890 |
| Total | <u>\$ 83,500,000</u> | <u>\$ 162,296,640</u> | <u>\$ 245,796,640</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|-----------------------|---|-----------------------|
| 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 | 660,000 | 9,436,300 | 10,096,300 |
| 2024-2028 | 7,230,000 | 46,288,000 | 53,518,000 |
| 2029-2033 | 15,270,000 | 43,538,250 | 58,808,250 |
| 2034-2038 | 30,155,000 | 38,916,500 | 69,071,500 |
| 2039-2043 | 98,780,000 | 27,057,475 | 125,837,475 |
| 2044-2045 | 51,985,000 | 2,633,375 | 54,618,375 |
| Total | <u>\$ 206,465,000</u> | <u>\$ 205,853,050</u> | <u>\$ 412,318,050</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|-----------------------|---|-----------------------|
| 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 | 6,170,000 | 4,519,500 | 10,689,500 |
| 2024-2028 | 39,675,000 | 17,401,500 | 57,076,500 |
| 2029-2032 | 44,545,000 | 5,770,000 | 50,315,000 |
| Total | <u>\$ 110,190,000</u> | <u>\$ 48,359,250</u> | <u>\$ 158,549,250</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|-----------------------|---|-----------------------|
| 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 | 380,000 | 6,033,675 | 6,413,675 |
| 2024-2028 | 5,445,000 | 29,663,375 | 35,108,375 |
| 2029-2033 | 12,790,000 | 27,593,875 | 40,383,875 |
| 2034-2038 | - | 25,514,625 | 25,514,625 |
| 2039-2043 | - | 25,514,625 | 25,514,625 |
| 2044-2047 | 115,420,000 | 17,932,388 | 133,352,388 |
| Total | <u>\$ 139,000,000</u> | <u>\$ 156,668,463</u> | <u>\$ 295,668,463</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Current Interest to Maturity</u> | <u>Total</u> |
|--------------------|-----------------------|---|-----------------------|
| 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 | - | 4,437,600 | 4,437,600 |
| 2024-2028 | - | 22,188,000 | 22,188,000 |
| 2029-2033 | - | 22,188,000 | 22,188,000 |
| 2034-2038 | 36,680,000 | 16,563,750 | 53,243,750 |
| 2039-2043 | - | 13,018,000 | 13,018,000 |
| 2044-2046 | 65,090,000 | 5,553,400 | 70,643,400 |
| Total | <u>\$ 101,770,000</u> | <u>\$ 101,699,150</u> | <u>\$ 203,469,150</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 | Current Interest to Maturity | Total |
|-------------|---------------------|------------------------------------|---------------------|
| 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 | 130,000 | 76,600 | 206,600 |
| 2024-2028 | 755,000 | 266,519 | 1,021,519 |
| 2029-2032 | 555,000 | 57,913 | 612,913 |
| Total | <u>\$ 1,890,000</u> | <u>\$ 767,932</u> | <u>\$ 2,657,932</u> |

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 | Current Interest to Maturity | Total |
|-------------|-------------------|------------------------------------|-------------------|
| 2019 | \$ 475,000 | \$ 17,775 | \$ 492,775 |
| 2020 | 355,000 | 5,325 | 360,325 |
| Total | <u>\$ 830,000</u> | <u>\$ 23,100</u> | <u>\$ 853,100</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 a five year periods per the agreement. Future payments are due as follows:

| <u>Fiscal Year</u> | <u>Payment</u> |
|--------------------|---------------------|
| 2019 | \$ 1,269,126 |
| 2020 | 1,269,126 |
| Total | <u>\$ 2,538,252</u> |

Compensated Absences

The compensated absences liability outstanding at June 30, 2018, was \$3,271,300.

Load Banking

The load banking liability outstanding at June 30, 2018, was \$512,552.

Net OPEB Liability

The net OPEB liability outstanding at June 30, 2018, was \$96,378,790. See Note 11 for additional information regarding the aggregate net pension obligation.

Aggregate Net Pension Obligation

The aggregate net pension obligation outstanding at June 30, 2018, was \$131,764,723. See Note 13 for additional information regarding the aggregate net pension obligation.

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

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred outflows of resources, and OPEB expense of \$96,378,790, \$5,772,751, and \$1,596,408, respectively.

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Management of the plan is vested in the District management. Management of the trustee assets is vested with the Retiree Health Benefit Program Trust.

Plan Membership

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

| | |
|---|-------|
| Inactive employees or beneficiaries currently receiving benefits payments | 512 |
| Active employees | 672 |
| | <hr/> |
| | 1,184 |
| | <hr/> |

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.

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. 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 District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District and the District's bargaining units. For fiscal year 2016-2017, the District contributed \$5,588,742 to the Plan, all of which was used for current premiums.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Investment

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the District to pursue an investment strategy that reduces risks through the prudent diversification for 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 allocation over short time spans. The following was the governing board's adopted asset allocation policy as of June 30, 2017:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|-----------------------------|--------------------------|
| U.S. Large Cap | 60% |
| U.S. Small Cap | 15% |
| Long-Term Corporate Bonds | 20% |
| Short-Term Government Fixed | 5% |

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 Liability of the District

The District's net OPEB liability of \$96,378,790 was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at June 30, 2017, were as follows:

| | |
|---|-----------------------------|
| Total OPEB liability | \$ 100,854,995 |
| Plan fiduciary net position | <u>4,476,205</u> |
| District's net OPEB liability | <u><u>\$ 96,378,790</u></u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | <u><u>4.44%</u></u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Assumptions

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

| | |
|------------------------------|--------------|
| Inflation | 2.75 percent |
| Salary increases | 2.75 percent |
| Discount rate | 5.80 percent |
| Health care cost trend rates | 4.00 percent |

The discount rate was based on historic 30 year real rates of return for each asset class along with assumed long-term inflation assumption to set the discount rate. The expected investment rate of return was offset by 17 basis points for investment expenses.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an earlier valuation report is based on an earlier GASB Statement No. 45 valuation as of July 1, 2016. A standard actuarial "roll-forward" methodology was utilized to estimate the Total OPEB Liability (TOL) as of the measurement date. The Fiduciary Net Position (FNP) is based on the actual FNP at June 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using rolling periods of time for all asset classes in combination to appropriately reflect correlation between asset classes. As such, the average returns for any asset class do not necessarily reflect the averages over time individually, but reflect the return for the asset class for the portfolio average using geometric means. Best estimates of geometric rates of return for each major asset class included in the target asset allocation as of June 30, 2017, (see the discussion of the Plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return |
|-----------------------------|--|
| U.S. Large Cap | 7.8% |
| U.S. Small Cap | 7.8% |
| Long-Term Corporate Bonds | 5.3% |
| Short-Term Government Fixed | 3.3% |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 the 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 OPEB payments for current active and inactive employees. 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.

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|------------------------------------|-------------------------|--------------------------------|-----------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
| | (a) | (b) | (a) - (b) |
| Balance at June 30, 2016 | \$ 98,880,070 | \$ 4,097,688 | \$ 94,782,382 |
| Service cost | 1,934,593 | - | 1,934,593 |
| Interest | 5,629,074 | - | 5,629,074 |
| Contributions - employer | - | 5,588,742 | (5,588,742) |
| Net investment income | - | 379,017 | (379,017) |
| Benefit payments | (5,588,742) | (5,588,742) | - |
| Administrative expense | - | (500) | 500 |
| Net change in total OPEB liability | 1,974,925 | 378,517 | 1,596,408 |
| Balance at June 30, 2017 | <u>\$ 100,854,995</u> | <u>\$ 4,476,205</u> | <u>\$ 96,378,790</u> |

There were no changes in benefit terms or assumptions and other inputs utilized since the previous valuation.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

| Discount Rate | Net OPEB Liability |
|-------------------------------|-----------------------|
| 1% decrease (4.80%) | \$ 104,996,114 |
| Current discount rate (5.80%) | 96,378,790 |
| 1% increase (6.80%) | 85,479,075 |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using health care cost trend rates that are one percent lower or higher than the current health care costs trend rates:

| <u>Health Care Cost Trend Rates</u> | <u>Net OPEB Liability</u> |
|---|-------------------------------|
| 1% decrease (3.00%) | \$ 85,425,782 |
| Current health care cost trend rate (4.00%) | 96,378,790 |
| 1% increase (5.00%) | 104,800,915 |

OPEB Expense and Deferred Outflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,596,408. At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$5,772,751.

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, 2018, 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Workers' Compensation

For fiscal year 2017-2018, 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, 2018, 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 | \$ 75,282,780 | \$ 21,556,822 | \$ 8,939,402 | \$ 6,852,325 |
| CalPERS | 56,481,943 | 19,034,057 | 3,991,395 | 8,583,448 |
| Total | <u>\$ 131,764,723</u> | <u>\$ 40,590,879</u> | <u>\$ 12,930,797</u> | <u>\$ 15,435,773</u> |

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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, 2018, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | | |
| 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 | 14.43% | 14.43% |
| Required State contribution rate | 9.328% | 9.328% |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, are presented above, and the District's total contributions were \$6,728,152.

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

At June 30, 2018, 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 | \$ 75,282,780 |
| State's proportionate share of net pension liability associated with the District | 44,536,657 |
| Total | <u><u>\$ 119,819,437</u></u> |

The net pension liability was measured as of June 30, 2017. 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, 2017, and June 30, 2016, was 0.0814 percent and 0.0809 percent, respectively, resulting in a net increase in the proportionate share of 0.0005 percent.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$6,852,325. In addition, the District recognized pension expense and revenue of \$4,483,042 for support provided by the State. At June 30, 2018, 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 | \$ 6,728,152 | \$ - |
| Net change in proportionate share of net pension liability | 603,253 | 5,621,359 |
| Differences between projected and actual earnings on the pension plan investments | - | 2,004,990 |
| Differences between expected and actual experience in the measurement of the total pension liability | 278,403 | 1,313,053 |
| Changes of assumptions | 13,947,014 | - |
| Total | <u>\$ 21,556,822</u> | <u>\$ 8,939,402</u> |

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 |
|------------------------|--|
| 2019 | \$ (1,666,823) |
| 2020 | 1,261,293 |
| 2021 | 181,870 |
| 2022 | (1,781,330) |
| Total | <u>\$ (2,004,990)</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions 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 |
|------------------------|--|
| 2019 | \$ 1,075,670 |
| 2020 | 1,075,670 |
| 2021 | 1,075,670 |
| 2022 | 1,075,669 |
| 2023 | 1,163,403 |
| Thereafter | 2,428,176 |
| Total | <u>\$ 7,894,258</u> |

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2016 |
| Measurement date | June 30, 2017 |
| Experience study | July 1, 2010 through June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.10% |
| Investment rate of return | 7.10% |
| Consumer price inflation | 2.75% |
| Wage growth | 3.50% |

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, 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 7.10 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 (7.10 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 (6.10%) | \$ 110,539,022 |
| Current discount rate (7.10%) | 75,282,780 |
| 1% increase (8.10%) | 46,669,951 |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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, 2018, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| 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% | 6.50% |
| Required employer contribution rate | 15.531% | 15.531% |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018, are presented above, and the total District contributions were \$5,039,711.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$56,481,943. The net pension liability was measured as of June 30, 2017. 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, 2017 and June 30, 2016, was 0.2366 percent and 0.2221 percent, respectively, resulting in a net increase in the proportionate share of 0.0145 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$8,583,448. At June 30, 2018, 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 | \$ 5,039,711 | \$ - |
| Net change in proportionate share of net pension liability | 1,766,865 | 3,326,390 |
| Differences between projected and actual earnings on the pension plan investments | 1,953,889 | - |
| Differences between expected and actual experience in the measurement of the total pension liability | 2,023,516 | - |
| Changes of assumptions | 8,250,076 | 665,005 |
| Total | <u>\$ 19,034,057</u> | <u>\$ 3,991,395</u> |

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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 |
|------------------------|--|
| 2019 | \$ (52,943) |
| 2020 | 2,254,364 |
| 2021 | 822,417 |
| 2022 | (1,069,949) |
| Total | <u>\$ 1,953,889</u> |

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 EARSLS of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSLS 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 |
|------------------------|--|
| 2019 | \$ 1,944,007 |
| 2020 | 2,703,454 |
| 2021 | 3,401,601 |
| Total | <u>\$ 8,049,062</u> |

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, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2016 |
| Measurement date | June 30, 2017 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.15% |
| Investment rate of return | 7.15% |
| Consumer price inflation | 2.75% |
| Wage growth | Varies by entry age and services |

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. 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 | 47% | 5.38% |
| Global debt securities | 19% | 2.27% |
| Inflation assets | 6% | 1.39% |
| Private equity | 12% | 6.63% |
| Real estate | 11% | 5.21% |
| Infrastructure and Forestland | 3% | 5.36% |
| Liquidity | 2% | -0.90% |

Discount Rate

The discount rate used to measure the total pension liability was 7.15 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 (6.15%) | \$ 83,103,038 |
| Current discount rate (7.15%) | 56,481,943 |
| 1% increase (8.15%) | 34,397,516 |

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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, 2018, which amounted to \$3,621,784 (9.328 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, 2018. 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 operating 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 in 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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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, 2018.

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, 2018.

Operating Leases

The District has entered into various operating leases for building space, and equipment with lease terms in excess of one year for various locations within the District boundaries. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payment |
|-------------------------|---------------------|
| 2019 | \$ 1,379,432 |
| 2020 | 843,673 |
| 2021 | 842,530 |
| 2022 | 193,550 |
| 2023 | 191,338 |
| Total | <u>\$ 3,450,523</u> |

Current year expenditures for operating leases is approximately \$530,000.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects:

| Capital Project | Remaining Construction Commitment | Expected Date of Completion |
|-------------------------------|---|-----------------------------------|
| T-Building Remodel | \$ 64,301 | August 2018 |
| Parking Improvements | 364,695 | November 2018 |
| Landscape Improvements | 428,609 | December 2018 |
| South Education Center | 5,313,524 | December 2018 |
| Maintenance and Operations | 1,954,406 | January 2019 |
| Library/LRC | 5,005,677 | February 2019 |
| Arboretum | 46,721 | June 2019 |
| North Education Center | 3,605,219 | June 2019 |
| Kinesiology/Athletics Complex | 1,174,945 | February 2022 |
| | <u>\$ 17,958,097</u> | |

NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

| Primary Government | |
|--|-------------------------|
| Net Position - Beginning of Year | \$ (40,153,720) |
| Inclusion of net OPEB liability from the adoption of GASB Statement No. 75 | <u>(90,223,376)</u> |
| Net Position - Beginning of Year, as Restated | <u>\$ (130,377,096)</u> |

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, 2018

| | 2018 |
|--|-----------------------|
| Total Net OPEB Liability | |
| Service costs | \$ 1,934,593 |
| Interest | 5,629,074 |
| Benefits payments | (5,588,742) |
| Net changes in total OPEB liability | 1,974,925 |
| Total Net OPEB Liability - beginning | 98,880,070 |
| Total Net OPEB Liability - ending (a) | <u>\$ 100,854,995</u> |
| Plan Fiduciary Net Position | |
| Contributions - employer | \$ 5,588,742 |
| Net investment income | 379,017 |
| Administrative expense | (500) |
| Benefits payments | (5,588,742) |
| Net changes in fiduciary net position | 378,517 |
| Plan fiduciary net position - beginning | 4,097,688 |
| Plan fiduciary net position - ending (b) | <u>\$ 4,476,205</u> |
| District's net OPEB liability - ending (a) - (b) | <u>\$ 96,378,790</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 4.44% |
| Covered-employee payroll | <u>\$ 79,075,506</u> |
| District's net OPEB liability as a percentage of covered-employee payroll | <u>121.88%</u> |

Note : In the future, as data becomes 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, 2018

| | |
|---|--------------|
| | 2018 |
| Annual money-weighted rate of return, net of investment expense | <u>9.20%</u> |

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

See accompanying note to required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

| | 2018 | 2017 | 2016 |
|---|-----------------------|-----------------------|----------------------|
| CalSTRS | | | |
| District's proportion of the net pension liability | 0.0814% | 0.0809% | 0.0915% |
| District's proportionate share of the net pension liability | \$ 75,282,780 | \$ 65,416,466 | \$ 61,617,589 |
| State's proportionate share of the net pension liability associated with the District | 44,536,657 | 37,240,427 | 32,588,912 |
| Total | <u>\$ 119,819,437</u> | <u>\$ 102,656,893</u> | <u>\$ 94,206,501</u> |
| District's covered-employee payroll | <u>\$ 45,243,148</u> | <u>\$ 41,606,198</u> | <u>\$ 38,026,419</u> |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 166.40% | 157.23% | 162.04% |
| Plan fiduciary net position as a percentage of the total pension liability | 69% | 70% | 74% |
| CalPERS | | | |
| District's proportion of the net pension liability | 0.2366% | 0.2221% | 0.2588% |
| District's proportionate share of the net pension liability | \$ 56,481,943 | \$ 43,871,669 | \$ 38,144,438 |
| District's covered-employee payroll | <u>\$ 28,819,657</u> | <u>\$ 26,587,887</u> | <u>\$ 31,818,546</u> |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 195.98% | 165.01% | 119.88% |
| Plan fiduciary net position as a percentage of the total pension liability | 72% | 74% | 79% |

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

See accompanying note to required supplementary information.

2015

0.0909%

\$ 53,119,316

32,075,736

\$ 85,195,052

\$ 40,938,175

129.75%

77%

0.2756%

\$ 31,291,747

\$ 28,936,290

108.14%

83%

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS FOR THE YEAR ENDED JUNE 30, 2018

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|----------------------|
| CalSTRS | | | |
| Contractually required contribution | \$ 6,728,152 | \$ 5,691,588 | \$ 4,464,345 |
| Contributions in relation to the contractually required contribution | <u>(6,728,152)</u> | <u>(5,691,588)</u> | <u>(4,464,345)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | <u>\$ 46,626,140</u> | <u>\$ 45,243,148</u> | <u>\$ 41,606,198</u> |
| Contributions as a percentage of covered-employee payroll | <u>14.43%</u> | <u>12.58%</u> | <u>10.73%</u> |
| CalPERS | | | |
| Contractually required contribution | \$ 5,039,711 | \$ 4,002,474 | \$ 3,149,867 |
| Contributions in relation to the contractually required contribution | <u>(5,039,711)</u> | <u>(4,002,474)</u> | <u>(3,149,867)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | <u>\$ 32,449,366</u> | <u>\$ 28,819,657</u> | <u>\$ 26,587,887</u> |
| Contributions as a percentage of covered-employee payroll | <u>15.531%</u> | <u>13.888%</u> | <u>11.847%</u> |

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

See accompanying note to required supplementary information.

2015

\$ 3,376,746

(3,376,746)

\$ -

\$ 38,026,419

8.88%

\$ 3,745,361

(3,745,361)

\$ -

\$ 31,818,546

11.771%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuation.

Changes of Assumptions - There were no changes of assumptions since the previous valuation.

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 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 of Assumptions - The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

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

PALOMAR COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION JUNE 30, 2018

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

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|-----------------------|-----------------|---------------------|
| Paul P. McNamara | President | 2018 |
| John J. Halcón, Ph.D. | Vice President | 2020 |
| Mark R. Evilsizer | Secretary | 2018 |
| Nina Deerfield | Trustee | 2020 |
| Nancy Ann Hensch | Trustee | 2020 |
| Chris Hopps | Student Trustee | 2018 |

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 |
| Lisa Norma, Ed.D., J.D. | Assistant Superintendent/ Vice President, Human Resources |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| 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 | | \$ 16,549,252 | \$ - |
| Federal Pell Grant Program Administrative Allowance | 84.063 | | 8,109 | - |
| Federal Work Study Program | 84.033 | | 365,323 | - |
| Federal Work Study Program Administrative Allowance | 84.033 | | 15,093 | - |
| Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 | | 621,900 | - |
| FSEOG Administrative Allowance | 84.007 | | 44,636 | - |
| Federal Direct Student Loans | 84.268 | | 783,019 | - |
| Total Student Financial Assistance Cluster | | | <u>18,387,332</u> | <u>-</u> |
| TRIO Cluster | | | | |
| Palomar College North County Educational Opportunity Centers | 84.066A | | 280,122 | - |
| Student Support Services - San Marcos | 84.042A | | 280,191 | - |
| Student Support Services - Escondido | 84.042A | | 252,497 | - |
| Upward Bound | 84.047A | | 95,893 | - |
| Upward Bound Rural | 84.047A | | 81,117 | - |
| Talent Search - Escondido | 84.044A | | 263,130 | - |
| Talent Search - Vista | 84.044A | | 255,269 | - |
| Total TRIO Cluster | | | <u>1,508,219</u> | <u>-</u> |
| Increasing Higher Learning Institution Student Participation, Persistence, and Completion in STEM Education | 84.031S | | 563,868 | 185,535 |
| Gear-Up Partnership in Escondido and San Marcos | 84.334A | | 2,351,795 | - |
| Gear-Up Rural Reservation Collaborative in Pauma, Vista, and Fallbrook | 84.334A | | 1,174,070 | - |
| Passed through from the California Community Colleges Chancellor's Office (CCCCO) | | | | |
| Career and Technical Education Act, Perkins, IV | 84.048 | 17-C01-039 | 633,415 | - |
| Career and Technical Education, Transitions | 84.048A | 17-C01-039 | 41,592 | - |
| Total U.S. Department of Education | | | <u>24,660,291</u> | <u>185,535</u> |
| U.S. DEPARTMENT OF VETERANS AFFAIRS | | | | |
| Veterans Educational Assistance | 64.028 | | 5,802 | - |
| Total U.S. Department of Veterans Affairs | | | <u>5,802</u> | <u>-</u> |

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

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018, 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 | \$ 57,928 | \$ - |
| Total U.S. Department of Agriculture | | | <u>57,928</u> | <u>-</u> |
| NATIONAL SCIENCE FOUNDATION | | | | |
| Research and Development Cluster | | | | |
| Passed through Jefferson Community College and Technical College | | | | |
| Geospatial Technology Center of Excellence: | | | | |
| Growing the Workforce | 47.076 | DUE-1700496 | 9,566 | - |
| Unmanned Aircraft System Operations Technician | | | | |
| Education Program (UASTEP) | 47.076 | | 185,528 | 32,450 |
| Total Research and Development Cluster | | | <u>195,094</u> | <u>32,450</u> |
| Total National Science Foundation | | | <u>195,094</u> | <u>32,450</u> |
| 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] | 56,096 | - |
| Passed through Yosemite Community College District | | | | |
| Child Development Training Consortium | 93.575 | 17-18-4489 | 23,546 | - |
| Total U.S. Department of Health and Human Services | | | <u>79,642</u> | <u>-</u> |
| Total Federal Expenditures | | | <u>\$ 24,998,757</u> | <u>\$ 217,985</u> |

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

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2018

| Program | Program Entitlements | | |
|---|----------------------|---------------------|----------------------|
| | Current Year | Prior Year | Total Entitlement |
| Board Financial Assistance Program | \$ 632,248 | \$ - | \$ 632,248 |
| CalWorks | 301,716 | - | 301,716 |
| Full-Time Student Success Grant | 663,000 | - | 663,000 |
| Full-Time Student Success Grant Prior Years | - | 117,630 | 117,630 |
| Community College Completion Grant | 247,500 | - | 247,500 |
| CalWorks Regional Efforts | 7,000 | - | 7,000 |
| Disabled Students Programs and Services (DSPS) | 1,027,206 | 8,967 | 1,036,173 |
| Deaf and Hard of Hearing (DHH) | 122,246 | - | 122,246 |
| Access to Print | 11,652 | - | 11,652 |
| Cooperative Agencies Resources for Education (CARE) | 120,812 | - | 120,812 |
| Extended Opportunities, Programs, and Services (EOPS) | 1,211,301 | - | 1,211,301 |
| Pre-Apprenticeship Grant | 394,170 | - | 394,170 |
| Student Success and Support Program | 3,140,394 | - | 3,140,394 |
| Student Success and Support Program (Non-Credit) | 231,710 | - | 231,710 |
| Student Success and Support Program Prior Year | - | 848,584 | 848,584 |
| Student Success Equity | 1,779,327 | - | 1,779,327 |
| Student Success Equity Prior Year | - | 1,088,066 | 1,088,066 |
| Hunger Free Campus Support | 36,044 | - | 36,044 |
| Strong Workforce FY1617 | - | 1,385,700 | 1,385,700 |
| Strong Workforce FY1718 | 2,185,161 | - | 2,185,161 |
| 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 Prior Year | - | 692,340 | 692,340 |
| Basic Skills FY1617 | - | 96,945 | 96,945 |
| Basic Skills FY1718 | 593,554 | - | 593,554 |
| Guided Pathway | 379,106 | - | 379,106 |
| Youth Empowerment Strategies for Success (YESS) | 22,500 | - | 22,500 |
| Innovation in Higher Education | 1,987,258 | - | 1,987,258 |
| 17-18 Dreamer Emergency Grant | 86,427 | - | 86,427 |
| Veteran Resource Center | 159,600 | - | 159,600 |
| Total State Categorical Programs | <u>\$ 19,491,361</u> | <u>\$ 4,238,232</u> | <u>\$ 23,729,593</u> |

See accompanying note to supplementary information.

| Program Revenues | | | | |
|----------------------|---------------------|---------------------|----------------------|----------------------|
| Cash | Accounts | Unearned | Total | Program |
| Received | Receivable | Revenue | Revenue | Expenditures |
| | (Payables) | | | |
| \$ 632,248 | \$ - | \$ - | \$ 632,248 | \$ 632,248 |
| 295,984 | - | - | 295,984 | 295,984 |
| 663,000 | - | 479 | 662,521 | 662,521 |
| 117,630 | - | - | 117,630 | 117,630 |
| 247,500 | - | 117,772 | 129,728 | 129,728 |
| - | 7,000 | - | 7,000 | 7,000 |
| 1,036,173 | - | - | 1,036,173 | 1,036,173 |
| 122,246 | - | - | 122,246 | 122,246 |
| 11,652 | - | - | 11,652 | 11,652 |
| 120,812 | - | - | 120,812 | 120,812 |
| 1,211,301 | - | - | 1,211,301 | 1,211,301 |
| 157,668 | - | 46,663 | 111,005 | 111,005 |
| 2,532,939 | - | - | 2,532,939 | 2,532,939 |
| 231,710 | - | - | 231,710 | 231,710 |
| 1,456,039 | - | 607,455 | 848,584 | 848,584 |
| 1,133,323 | - | - | 1,133,323 | 1,133,323 |
| 1,734,071 | - | 646,005 | 1,088,066 | 1,088,066 |
| 36,044 | - | 36,044 | - | - |
| 1,385,700 | - | 484,131 | 901,569 | 901,569 |
| 2,185,161 | - | 1,513,797 | 671,364 | 671,364 |
| - | 165,400 | - | 165,400 | 165,400 |
| - | 57,000 | - | 57,000 | 57,000 |
| 1,450,828 | 2,069,309 | - | 3,520,137 | 3,520,137 |
| 692,340 | - | - | 692,340 | 692,340 |
| 96,945 | - | - | 96,945 | 96,945 |
| 593,554 | - | 440,247 | 153,307 | 153,307 |
| 379,106 | - | 379,106 | - | - |
| - | 22,500 | - | 22,500 | 22,500 |
| 1,987,258 | - | 1,826,330 | 160,928 | 160,928 |
| 86,427 | - | 3,827 | 82,600 | 82,600 |
| 159,600 | - | 132,507 | 27,093 | 27,093 |
| <u>\$ 20,757,259</u> | <u>\$ 2,321,209</u> | <u>\$ 6,234,363</u> | <u>\$ 16,844,105</u> | <u>\$ 16,844,105</u> |

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

| | *(Revised) Reported Data | Audit Adjustments | Audited Data |
|---|--------------------------------|----------------------|------------------|
| CATEGORIES | | | |
| A. Summer Intersession (Summer 2017 only) | | | |
| 1. Noncredit** | 87.32 | - | 87.32 |
| 2. Credit | 1,436.73 | - | 1,436.73 |
| B. Summer Intersession (Summer 2018 - Prior to July 1, 2018) | | | |
| 1. Noncredit** | 8.29 | - | 8.29 |
| 2. Credit | 1,349.54 | - | 1,349.54 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 10,427.03 | - | 10,427.03 |
| (b) Daily Census Contact Hours | 704.24 | - | 704.24 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit** | 603.49 | - | 603.49 |
| (b) Credit | 695.73 | - | 695.73 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 2,816.29 | - | 2,816.29 |
| (b) Daily Census Contact Hours | 1,020.28 | - | 1,020.28 |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| D. Total FTES | <u>19,148.94</u> | <u>-</u> | <u>19,148.94</u> |
| SUPPLEMENTAL INFORMATION (Subset of Above Information) | | | |
| E. In-Service Training Courses (FTES) | 132.70 | - | 132.70 |
| H. Basic Skills Courses and Immigrant Education | | | |
| 1. Noncredit** | 646.39 | - | 646.39 |
| 2. Credit | 411.58 | - | 411.58 |
| <u>CCFS-320 Addendum</u> | | | |
| CDCP Noncredit FTES | 422.24 | - | 422.24 |
| Centers FTES | | | |
| 1. Noncredit** | 1,403.02 | - | 1,403.02 |
| 2. Credit | 214.84 | - | 214.84 |

* Annual report revised as of November 1, 2018.

** 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, 2018**

| | | 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 |
| <u>Academic Salaries</u> | | | | | | | | |
| Instructional Salaries | | | | | | | | |
| Contract or Regular | 1100 | \$ 22,447,797 | \$ - | \$ 22,447,797 | \$ 22,447,797 | \$ - | \$ 22,447,797 | |
| Other | 1300 | 17,017,435 | - | 17,017,435 | 17,017,435 | - | 17,017,435 | |
| Total Instructional Salaries | | 39,465,232 | - | 39,465,232 | 39,465,232 | - | 39,465,232 | |
| Noninstructional Salaries | | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 8,901,145 | - | 8,901,145 | |
| Other | 1400 | - | - | - | 825,095 | - | 825,095 | |
| Total Noninstructional Salaries | | - | - | - | 9,726,240 | - | 9,726,240 | |
| Total Academic Salaries | | 39,465,232 | - | 39,465,232 | 49,191,472 | - | 49,191,472 | |
| <u>Classified Salaries</u> | | | | | | | | |
| Noninstructional Salaries | | | | | | | | |
| Regular Status | 2100 | - | - | - | 21,152,836 | - | 21,152,836 | |
| Other | 2300 | - | - | - | 1,475,495 | - | 1,475,495 | |
| Total Noninstructional Salaries | | - | - | - | 22,628,331 | - | 22,628,331 | |
| Instructional Aides | | | | | | | | |
| Regular Status | 2200 | 1,566,429 | - | 1,566,429 | 1,566,429 | - | 1,566,429 | |
| Other | 2400 | 483,903 | - | 483,903 | 483,903 | - | 483,903 | |
| Total Instructional Aides | | 2,050,332 | - | 2,050,332 | 2,050,332 | - | 2,050,332 | |
| Total Classified Salaries | | 2,050,332 | - | 2,050,332 | 24,678,663 | - | 24,678,663 | |
| Employee Benefits | 3000 | 15,837,797 | - | 15,837,797 | 34,186,243 | - | 34,186,243 | |
| Supplies and Material | 4000 | - | - | - | 624,549 | - | 624,549 | |
| Other Operating Expenses | 5000 | - | - | - | 8,533,539 | - | 8,533,539 | |
| Equipment Replacement | 6420 | - | - | - | 3,528 | - | 3,528 | |
| Total Expenditures Prior to Exclusions | | 57,353,361 | - | 57,353,361 | 117,217,994 | - | 117,217,994 | |

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, 2018**

| | | 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 |
| <u>Exclusions</u> | | | | | | | | |
| 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 | - | - | - | 418,426 | - | 418,426 |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | | 6740 | - | - | - | - | - | - |
| Objects to Exclude | | | | | | | | |
| Rents and Leases | | 5060 | - | - | - | 56,263 | - | 56,263 |
| 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, 2018**

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---------------------|--|----------------------|-----------------|--|----------------------|-----------------|
| | | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | \$ - | \$ - | \$ - | \$ 2,586,067 | \$ - | \$ 2,586,067 |
| 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 | 3,522,338 | - | 3,522,338 |
| Total for ECS 84362, 50 Percent Law | | \$ 56,891,779 | \$ - | \$ 56,891,779 | \$ 113,695,656 | \$ - | \$ 113,695,656 |
| Percent of CEE (Instructional Salary Cost/Total CEE) | | 50.04% | | 50.04% | 100.00% | | 100.00% |
| 50% of Current Expense of Education | | | | | \$ 56,847,828 | | \$ 56,847,828 |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the audited financial statements for the year ended June 30, 2018:

| | Bond Interest and Redemption Fund | Other Debt Service Fund | Internal Service Fund | Retiree OPEB Trust Fund |
|------------------------------------|---|-------------------------------|--------------------------|-------------------------------|
| FUND BALANCE | | | | |
| Balance, June 30, 2018, (CCFS-311) | \$ 26,839,523 | \$ 592,120 | \$ 23,288,503 | \$ - |
| Increase in: | | | | |
| Cash in County | 249 | - | - | - |
| Investment | - | 105,764,716 | - | 4,787,954 |
| Decrease in: | | | | |
| Investment | - | - | (4,787,954) | - |
| Accounts receivable | (210,649) | - | - | - |
| Balance, June 30, 2018, Audited | <u>\$ 26,629,123</u> | <u>\$ 106,356,836</u> | <u>\$ 18,500,549</u> | <u>\$ 4,787,954</u> |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACCOUNT (EPA)
EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

| Activity Classification | Object Code | | | Unrestricted | |
|-----------------------------------|---------------|--|---------------------------------------|------------------------------|---------------|
| EPA Proceeds: | 8630 | | | | \$ 14,860,864 |
| Activity Classification | Activity Code | Salaries and Benefits (Obj 1000-3000) | Operating Expenses (Obj 4000-5000) | Capital Outlay (Obj 6000) | Total |
| Instructional Activities | 1000-5900 | \$ 14,860,864 | - | - | \$ 14,860,864 |
| 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, 2018

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance:

| | | |
|---------------------------|---------------|-----------------------|
| General Funds | \$ 25,951,152 | |
| Special Revenue Funds | 463,732 | |
| Capital Project Funds | 217,493,865 | |
| Debt Service Funds | 132,985,959 | |
| Internal Service Funds | 18,500,549 | |
| Fiduciary Funds | <u>3,787</u> | |
| Total Fund Balance | | \$ 395,399,044 |

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 | 576,592,267 | |
| Accumulated depreciation is | <u>(76,507,651)</u> | 500,084,616 |

Deferred charges on refunding (the difference between the reacquisition price and net carrying amount of refunded debt) are capitalized and amortized over the remaining life of the new or old debt (whichever is shorter) and are included with governmental activities.

8,845,941

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.

(11,873,840)

Deferred outflows of resources related to OPEB represents a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date

5,772,751

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 | 11,767,863 | |
| Net change in proportionate share of net pension liability | 2,370,118 | |
| Difference between projected and actual earnings on pension plan investments | 1,953,889 | |
| Differences between expected and actual experience in the measurement of the total net pension liability | 2,301,919 | |
| Changes of assumptions | <u>22,197,090</u> | |
| Total Deferred Outflows of Resources Related to Pensions | | 40,590,879 |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION, CONTINUED JUNE 30, 2018

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 | \$ (8,947,749) | |
| Difference between projected and actual earnings on pension plan investments | (2,004,990) | |
| Differences between expected and actual experience in the measurement of the total pension liability | (1,313,053) | |
| Changes of assumptions | <u>(665,005)</u> | |
| Total Deferred Inflows of Resources Related to Pensions | | \$ (12,930,797) |

Long-term obligations at year end consist of:

| | | |
|---|-------------------|--------------------------------|
| General obligation bonds | 787,825,314 | |
| Lease revenue bonds | 2,720,000 | |
| Net OPEB liability | 96,378,790 | |
| PARS supplemental early retirement obligation | 2,538,252 | |
| Compensated absences | 3,271,300 | |
| Load banking | 512,552 | |
| Aggregate net pension obligation | 131,764,723 | |
| In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the general obligation bonds to date is: | <u>56,652,002</u> | <u>(1,081,662,933)</u> |
| Total Net Position | | <u><u>\$ (155,774,339)</u></u> |

See accompanying note to supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

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: | | 26,909,394 |
| Federal Pell Grant Program Administrative Allowance | 84.063 | (17,156) |
| Federal Work Study Program | 84.033 | 16,524 |
| Federal Supplemental Educational Opportunity Grants (FSEOG) | 84.007 | 46,937 |
| FSEOG Administrative Allowance | 84.007 | 11,636 |
| Veterans Educational Assistance | 64.028 | (4,393) |
| Child Development Training Consortium | 93.575 | (3,654) |
| Build America Bonds | N/A | (1,960,531) |
| Total Expenditures of Federal Awards | | <u>\$ 24,998,757</u> |

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

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

FTES is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

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

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

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

Proposition 30 Education Protection Account (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 government-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITOR'S REPORTS



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

VALUE THE *difference*

**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, 2018, 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 7, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 2 and Note 16 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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*.

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.

Vavinek Tume Day & Co. LLP

San Diego, California
December 7, 2018



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

VALUE THE *difference*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT 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, 2018. 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 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.

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, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Vavineck Tume Day & Co. LLP

San Diego, California
December 7, 2018



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

VALUE THE *difference*

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Palomar Community College District
San Marcos, California

Report on State Compliance

We have audited Palomar Community College District's (the District) compliance with the types of compliance requirements as identified in the 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual* that could have a direct and material effect on each of the District's State programs as noted below for the year ended June 30, 2018.

Management's Responsibility

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

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 2017-2018 California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. 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 State programs noted below that were audited for the year ended June 30, 2018.

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 (CCAP and Non-CCAP) |
| Section 428 | Student Equity |
| Section 429 | Student Success and Support Program (SSSP) Funds |
| Section 430 | Scheduled Maintenance Program |
| Section 431 | Gann Limit Calculation |
| Section 435 | Open Enrollment |
| Section 439 | Proposition 39 Clean Energy Fund |
| Section 440 | Intersession Extension Programs |
| Section 444 | Apprenticeship Related and Supplemental Instruction (RSI) Funds |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged Hours (TBA) |
| Section 490 | Proposition 1D and 51 State Bond Funded Projects |
| Section 491 | Education Protection Account Funds |

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

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

The District reports no To Be Arranged Hours (TBA) for Apportionment Funding; therefore, the compliance tests within this section were not applicable.

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

Vavinek Tume Day & Co LLP

San Diego, California
December 7, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| 84.063, 84.007, 84.033, and <u>84.268</u> | <u>Student Financial Assistance Cluster</u> |

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

STATE AWARDS

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

PALOMAR COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

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

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.

PALOMAR COMMUNITY COLLEGE DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Cause

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

Repeat Finding: No

Recommendation

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

Current Status

Implemented.